UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2013

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING 1V
COURSE CODE	:	AC501 (M) MAY 2013 (Full-time) IDE AC501 (M) MAY 2013 (PART-TIME)
TIME ALLOWED	:	THREE (3) HOURS
TOTAL MARKS	:	100 MARKS

INSTRUCTIONS

1 There are four (4) questions on this paper.
2 Answer all four (4) questions.
2 Begin the solution to each question on a new page.
3 The marks awarded for a question are indicated at the end of each question.
4 Show the necessary working.
5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

SPECIAL REQUIREMENTS: CALCULATOR

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

QUESTION 1

The Statement of financial position of Anstone Co, Yals Co and Zoo Co at 31 March 2012 are summarized as follows.

	Anstone Co	Yals Co	Zoo Co
	E	E	E
Non current assets			
Freehold property	100,000	100,000	-
Plant and machinery	210,000	80,000	3,000
	310,000	180,000	3,000
Investment in subsidiaries			
Shares, at cost	110,000	6,200	-
Loan account	-	3,800	-
Current accounts	10,000	12,200	-
	120,000	22,200	
Current assets			
Inventories	170,000	20,500	15,000
Receivables	140,000	50,000	1,000
Cash at bank	60,000	16,500	4,000
	370,000	87,000	20,000
	800,000	289,200	23,000
Equity and liabilities			
Equity			
Ordinary share capital	200,000	100,000	10,000
Retained earnings	379,600	129,200	-1,000
	579,600	229,200	9,000
Current liabilities			
Trade payables	160,400	40,200	800
Due to Anstone	-	12,800	600
Due to Yals Co	-	-	12,600
Taxation	60,000	7,000	
	220,400	60,000	14,000
	800,000	289,200	23,000

Additional information:

a) Anstone Co acquired 75% of the shares of Yals Co in 2010 when the credit balance on the retained earnings of that company was E40,000. No dividends have been paid since that date.

b) Yals Co acquired 80% of the shares in Zoo Co in 2011 when there was a debit balance on the retained earnings of that company of E3,000.

c) During the year to 31 March 2012 Yals Co purchased inventory from Anstone Co for E20,000 which included a profit mark-up of E4,000 for Anstone Co. At 31 March 2012 one half of this amount was still held in the inventories of Yals Co. Group accounting policies are to make full allowance for unrealized intra-group profits.

d) It is the group's policy to measure the non-controlling interest at its proportionate share of the fair value of the subsidiary's net assets.

Required:

i. Prepare Anstone Co's group consolidated statement of financial position at 31 March 2012. (Assume no impairment of goodwill). (13 Marks)
ii. Prepare minority interest working ($2^1/_2$ Marks)
iii. Calculate the goodwill relating to the above transactions ($5^1/_2$ Marks)
iv. Calculate the group retained earnings (4 Marks)

Total: (25 Marks)

QUESTION 2

On 1 January 2009 Malthus Co, a manufacturing entity, bought a machine from Roselyn (Pty) Limited under a finance lease that had a cash price of E7,710 by paying an immediate deposit of E2,000. The balance was settled by Malthus in four equal annual instalments commencing on 31 December 2009. Interest on this lease was calculated using the actuarial method at the interest rate of 15% per annum on the capital balance outstanding at the beginning of each year. The machine is to be depreciated at the rate of 25% on a straight line basis assuming a residual value of nil. The spirit of the lease agreement is that ownership is intended to be passed to Malthus on the payment of the last instalment.

Required:

Prepare the relevant ledger accounts as indicated below in respect of the lease for each of the years ended 31 December 2009, 2010, 2011, and 2012 in the books of Malthus Co.

a) Machine account. ($1^1/_2$ Mark)
b) Roselyn Co loan account. (8 Marks)
c) Provision for depreciation account of the machine. ($4^1/_2$ Marks)
d) Income statement extract. (4 Marks)
e) Statement of financial position extract of Malthus Co showing the correct classification for the non-current and current liabilities for the lease. (7 Marks)

Total: (25 Marks)

QUESTION 3

a) The following information relates to Carpati Co:

i. The net book value of property, plant and equipment at 30 June 2011 in the statement of financial position of Carpati Co is E1,185,000.

ii. The tax written down value of property, plant and equipment at 1 July 2010 was E405,000.

iii. During the year ended 30 June 2011, the company bought plant and equipment for E290,000, which is eligible for a full year's wear and tear allowance.

iv. Carpati Co bought its freehold property in 1 August 2010 for E600,000. It was revalued in the 2011 accounts to E1,500,000. Ignore depreciation on buildings. No tax allowances were available to Carpati Co on the buildings.

Required:
Draft the note for the statement of financial position at 30 June 2011 omitting comparatives, in respect of deferred tax. The applicable tax rate for Carpati Co is the current income tax rate for companies in Swaziland of 30%. Wear and tear allowance is at the rate of 25% per annum on a reducing balance basis. **Note:** Your answer must be supported by your workings. (15 Marks)

b) Discuss the importance of recognizing deferred taxation in the financial statements? (5 Marks)

c) An entity has a tax overprovision relating to the prior year of E3,000. Taxable temporary differences increased by E6,000 and profit for the year is E150,000. Tax is at 30% . What is the tax charge to profit or loss? (2 Marks)

d) Suppose that Tyron Co begins trading on 1 January 2012. In its first year it makes profits of E5 million, the depreciation charge is E1 million and the tax allowances on those assets is E1.5 million. Corporation tax is 30%.

i. What is the tax charge to profit and loss for the year? (2 Marks)

ii. What is the effective tax rate and how is it calculated? (1 Mark)

Total: (25 Marks)

QUESTION 4

Betty Co has carried on business for a number of years as a retailer of a wide variety of consumer products. The entity operates from a number of stores around the country. In recent years the entity has found it necessary to provide credit facilities to its customers in order to maintain growth in revenue. As a result of this decision the liability to its bankers has increased substantially. The statutory financial statements for the year ended 30 June 2012 have recently been published and extracts are provided below, together with comparatives figures for the previous two years.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE

	2010	2011	2012
	Em	Em	Em
Revenue	1,850	2,200	2,500
Cost of sales	(1,250)	(1,500)	(1,750)
Gross profit	600	700	750
Other operating costs	(550)	(640)	(700)
Operating profit	50	60	50
Interest from credit sales	45	60	90
Operating profit before interest	95	120	140
Interest payable	(25)	(60)	(110)
Profit before taxation	70	60	30
Tax charge	(23)	(20)	(10)
Profit for the year	47	40	20

STATEMENT OF FINANCIAL POSITION AT 30 JUNE			
	2010	**2011**	**2012**
Non current assets	**Em**	**Em**	**Em**
Property, plant and equipment	278	290	322
Current assets			
Inventories	400	540	620
Trade receivables	492	550	633
Cash	12	12	15
	904	1,102	1,268
Total assets	1,182	1,392	1,590
Equity and reserves			
Share capital	90	90	90
Retained earnings	282	292	282
	372	382	372
Long term liabilities			
Bank loans	320	520	610
Other interest bearings borrowings	200	200	320
	520	720	930
Current liabilities			
Trade payables	270	270	280
Tax payable	20	20	8
	290	290	288
Total liabilities	1,182	1,392	1,590

Other information

a) Depreciation charged for the three years in question was as follows:

	2010	**2011**	**2012**
	Em	Em	Em
Year ended 30 June	55	60	70

b) The other interest bearing borrowings are secured by a floating charge over the assets of Betty Co. Their repayment is due on 30 June 2012.

c) Dividends of E30 million were paid in 2010 and 2011. A dividend of E20 million has been proposed.

d) The bank loans are unsecured. The maximum lending facility the bank will provide is E630 million.

e) Over the past three years the level of credit sales has been:

2010	2011	2012
Em	Em	Em
300	400	600

The entity offers extended credit terms for certain products to maintain market share in a highly competitive environment.

Given the steady increase in the level of bank loans which has taken place in recent years, the entity has recently written to its bankers to request in the lending facility. The request was received by the bank on 15 October 2012, two weeks after the financial statements were published. The bank is concerned at the steep escalation in the level of the loans and has asked for a report on the financial performance of Betty Co for the last three years.

Required:

i. Calculate the following ratios of Betty Co for the period covered by 2010, 2011 and 2012:
   a) Profit margin (3 Marks)
   b) Inventory turnover (3 Marks)
   c) Accounts receivable days (3 Marks)
   d) Inventory turnover (3 Marks)
   e) Interest cover (3 Marks)
   f) Gearing (3 Marks)
   g) Return on capital employed (3 Marks)

ii. Compute the cash generated from operations (4 Marks)

Total: (25 Marks)