# UNIVERSITY OF SWAZILAND
## DEPARTMENT OF ACCOUNTING
## SUPPLEMENTARY EXAMINATION PAPER, JULY 2013

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

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

On 1 April 2008, Machinery limited bought 80% of the ordinary share capital of Components Limited. On 1 April 2010, Machinery Limited was itself taken over by Sales Limited who purchased 75% of the ordinary shares in Machinery Limited.

The statement of financial position of the three companies at 31 October 2012 prepared for internal use showed the following positions:

| | Sales Ltd | | Machinery Ltd | | Components | |
|---|---|---|---|---|---|---|
| | E | E | E | E | E | E |
| **Non current assets** | | | | | | |
| Freehold land at cost | | 89,000 | | 30,000 | | 65,000 |
| Buildings at cost | 100,000 | | 120,000 | | 40,000 | |
| Accumulated depreciation | (36,000) | | (40,000) | | (16,400) | |
| | | 64,000 | | 80,000 | | 23,600 |
| Plant and equipment at cost | 102,900 | | 170,000 | | 92,000 | |
| Accumulated depreciation | (69,900) | | (86,000) | | (48,200) | |
| | | 33,000 | | 84,000 | | 43,800 |
| | | 186,000 | | 186,000 | | 186,000 |
| **Investments** | | | | | | |
| Shares in Machinery at cost | | 120,000 | | | | |
| Shares in Components at cost | | | | 128,000 | | |
| **Current assets** | | | | | | |
| Stocks | 108,500 | | 75,500 | | 68,400 | |
| Debtors | 196,700 | | 124,800 | | 83,500 | |
| Cash at bank | 40,200 | | - | | 25,400 | |
| | | 345,400 | | 200,300 | | 177,300 |
| | | 651,400 | | 522,300 | | 309,700 |
| **Current liabilities** | | | | | | |
| Creditors | 240,000 | | 200,700 | | 71,200 | |
| Bank overdraft | - | | 69,400 | | - | |
| Corporation tax | 57,400 | | 47,200 | | 24,500 | |
| | | 297,400 | | 317,300 | | 95,700 |
| | | 354,000 | | 205,000 | | 214,000 |
| **Capital and reserves** | | | | | | |
| Ordinary shares | | 200,000 | | 120,000 | | 100,000 |
| 10% Preference shares | | - | | - | | 40,000 |
| Revenue reserves | | 154,000 | | 85,000 | | 74,000 |
| | | 354,000 | | 205,000 | | 214,000 |

**Additional Information:**

a) All ordinary shares are E1 each, fully paid,

b) Preference shares in Components Limited are 50 Cents each fully paid.

c) All creditors are payable within one year.

d) Items purchased by Machinery Limited from Components Limited and remaining in stock at 31 October 2012 amounted to E25,000. The profit element is 20% of selling price for Components Limited.

e) Depreciation policy of the group is to provide for:
   (i) Buildings at the rate of 2% on cost each year;
   (ii) Plant and equipment – at the rate of 10% on cost each year including full provision in the year of acquisition.

   These policies are applied by all members of the group.

   Included in the plant and equipment of Components Ltd is a machine purchased from the manufacturers, Machinery Ltd, on 1 January 2012 for E10,000. Machinery Ltd recorded a profit of E2,000 on the sale of the machine.

h) Intra-group balances are included in debtors and creditors respectively are as follows:

| | | |
|---|---|---|
| Sales Ltd | Creditors – Machinery Ltd | E45,600 |
| | Components Ltd | E28,900 |
| Machinery Ltd | Debtors – Sales Ltd | E56,900 |
| Components | Debtors – Sales Ltd | E28,900 |

i) A cheque drawn by Sales Ltd for E11,300 on 28 October 2012 was received by Machinery Ltd on 3 November 2012.

j) At 1 April 2008, reserves in Machinery Limited were E28,000 and in Components Ltd E20,000. At 1 April 20010 the figures were E40,000 and E60,000 respectively.

**Required**

Prepare a group statement of financial position at 31 October 2012 for Sales Ltd and its subsidiaries complying, so far as the information will allow, with the accounting requirements of the International Financial Reporting Standards (IFRS). Marks will be awarded for computation of cost of control, minority interest and consolidated profit and loss account.

**Total: (30 Marks)**

**QUESTION 2**

Bulwell Aggregates Co wish to expand their transport fleet and purchased three heavy lorries with a list price of E18,000 each. Robert Bulwell has negotiated lease finance to fund this expansion, and the company has entered into a finance lease agreement with Granby Garages Co on 1 January 2010. The agreement states that Bulwell Aggregates will pay a deposit of E9,000 on 1 January 2010, and two annual instalments of E24,000 on 31 December 2010, 2011 and a final instalment of E20,391 on 31 December 2012.

Interest is to be calculated at 25% on the balance outstanding on 1 January each year and paid on 31 December each year.

The depreciation policy of Bullwell Aggregates Co is to write off the vehicles over a four year period using the straight line method and assuming a scrap value of E1,333 for each vehicle at the end of its useful life .

**Required:**
Prepare the entries in the statement of comprehensive income and statement of financial position extract in the books of Bulwell Aggregates for the years 2010, 2011 and 2012. This is the only lease transaction undertaken by this company. Calculations to the nearest E. (25Marks).

**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 of 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%.

   a. What is the tax charge to profit and loss for the year? (2 Marks)
   b. What is the effective tax rate and how is it calculated? (1 Mark)

**Total: (25 Marks)**

**QUESTION 4**

a) State three conditions to be met for the recognition of a provision in financial statements in accordance with IAS 37? (3 Marks)

b) Identify and discuss two types of events after the reporting date and give examples of each? (5 Marks)

c) Discuss four points on the criteria for the recognition of revenue from the sale of goods as highlighted in IAS 18? (10 Marks)

d) Define impairment loss in accordance with IAS 36. (2 Mark)

**Total: (20 Marks)**