

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM II/ DIPLOMA IN COMMERCE III

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING II

COURSE CODE : AC212/ IDE AC 212/ IDE AC312 (M) MAY 2014

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS
- 1 There are **five (5)** questions. Answer all.
 - 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.

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

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1**BRANCH ACCOUNTS**

Gifted liquor harvest is the only registered importer of Heineken in Swaziland. The company has a head office in Mbabane and a branch in Nhlangano. The following information has been extracted from the Head office books of account for the period ended 31 March 2013:

INFORMATION RELATING TO THE BRANCH			
	Opening E'000	Transactions E'000	Closing E'000
Balances			
Bank balance	3		12
Branch accounts receivable	66		81
Branch inventory (At transfer price)	75		90
Transactions during the year			
Bad debts written off		15	
Branch general expenses (paid from branch bank account)		42	
Cash received from credit customers and banked		390	
Cash sales banked		120	
Cash transferred from branch to head office bank account		459	
Credit sales		437	
Discount allowed to credit customers		9	
Goods returned from branch (at transfer price)		8	
Goods returned from branch (at transfer price from head office)			30
Goods sent to branch (At transfer price from head office)			600
INFORMATION RELATING TO THE HEAD OFFICE			
Balances			
Inventory	216		264
Transactions during the year			
Bad debts written off		24	
Cash sales		1,500	
Credit sales		2,000	
Discount allowed to credit customers		29	
General expenses		410	
Goods returned by credit customers		40	
Purchases		3,336	

Additional information:

1. The head office maintains all accounting records.
2. All purchases are made by the head office.
3. The head office applies a uniform mark-up for internal and external customers.
4. The price of Heineken is determined by the Government of Swaziland and the maximum markup allowed is 25%
5. The demand for Heineken is perfectly elastic.

Required;

- i) Prepare all relevant ledger account that relate to branch transactions and transactions between the head office and the branch.
- ii) Prepare the statement of comprehensive income for the business as a whole for the year ended 31 March 2013

Total:

[25 Marks]

Question 2

Mqiniseli Limited manufactures soccer products. During the year (**Ended 30 April 2014**) the company acquired four items of property, plant and equipment by means of exchange transactions.

Machine Barca

This machine with a fair value of E 25 200 was acquired on 31 March 2014 for the exchange of a vehicle. The fair value of the vehicle was E 25 000. The vehicle had a cost of E 30 000 and accumulated depreciation of E 8 750 at the time of the exchange transaction. The fair value of both these assets was clearly evident, as there is an active second hand market for these assets. Installation costs amounted to E 1 000 and the machine is expected to last for a period of 10 years at the date of the exchange. The carrying amount of the vehicle at 01 May 2013 was E 24 000 & its estimated useful life at acquisition was 10 years.

Machine Anfield Faithful

This machine was acquired on 01 November 2013 for the exchange of a similar machine with a fair value of E 35 000. The machine given up had a cost of E 40 000 and accumulated depreciation of E 8 000 at the time of the exchange transaction. The machine received was used in a similar soccer product business and this machine will be used for the same purpose as the machine given up. The only reason for the exchange transaction is that the factory manager prefers the colour of the machine received. The useful life of both machines is 5 years & they had been utilised for a similar period.

Machine Super Gunners

This machine was acquired on 31 October 2013 for the exchange of machine Old Trafford. Machine Old Trafford had a carrying amount of E 22 000 (Cost E 33 000 and accumulated depreciation of E 11 000) at the time of the exchange transaction. The fair

value of both machines is not reliably measurable. The useful life of both machines is three years & they had been utilised for a similar period.

Delivery vehicle

A delivery vehicle was acquired on 30 April 2014 for the exchange of specialized equipment. The fair value of the delivery vehicle is E 35 000 and there is an active second hand market for delivery vehicles. The carrying amount of the specialized equipment given up was E 24 000 (Cost E 36 000 and accumulated depreciation of E 12 000). There is no active market for this specialized equipment However the accountant used valuation techniques to estimate the fair value of the equipment at E 33 000. The specialized equipment had a useful life of 15 years. The estimated useful life of the delivery vehicle is 5 years at the date of the exchange.

Required:

- i) Show the journal entries required for the transactions above, to comply with the requirements of International Accounting Standard 16.

[22 marks]

- ii) Prepare the note **(numerical part only)** to PPE as required by IAS 16 to reflect the effect of the transactions above. **(Please note: Disclosures on the accounting policy and all other qualitative discussions are not required!!)**

[13 Marks]

Total:

[35 Marks]

Question 3

- i) Discuss the identifiability requirement that must be met before recognition of an intangible asset. **[7.5 Marks]**
- ii) The provisions in the table below have been included in the financial statements of Temaswati Limited at 31 December 2013. State with reasons whether a provision should have been recognised as at 31 December 2013 to comply with the requirements of International Accounting Standard 37.

[7.5 Marks]

Event	Description	Amount (E)
A	Provision for repair costs for sales under warranty	250,000
B	Provision for repair and maintainace of Plant & Machinery	75,000

Total:**[15 Marks]**

Question 4

The following details relate to machinery acquired by **Siphesihle limited** in terms of a hire purchase agreement:

- Date of commencement of agreement 01 July 2010
- Cash Price- E 150 000 which is the same as fair value
- Lease period- 3 years
- Interest rate: 23.5468% per annum
- Payments of E 36 250 payable half yearly in arrears.

The machine was available and put into use on 01 July 2010. Depreciation is written off at 20% per annum on cost. Ownership passes to Siphesihle after the payment of the final hire purchase installment.

Required:

- i) Prepare an amortisation table
- ii) Journalise all relevant transactions for the lease period. Journal narrations are not required.

Total:**[15 Marks]**

Question 5

Briefly explain with illustrations, the purpose of the ratios listed below:

- i) Current ratio
- ii) Asset turnover

Total:

[10 Marks]