UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY	:	B. COM 11/ DIPLOMA IN COMMERCE 111
TITLE OF PAPER	:	INTERMEDIATE FINANCIAL ACCOUNTING II
COURSE CODE	:	AC212/ IDE AC 212/ IDE AC312 (S) JULY 2014
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are four (4) 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

Mukelo store has its head office in Siteki and a branch store in Manzini. All goods are purchased by the head office. Goods are invoiced to the branch at costs price plus a profit loading of 20%. The following trial balances have been extracted from the books of account of both the head office and the branch as at 31 December 2013.

Details	Head office books		Branch books	
	E'000	E'000	E'000	E'000
Administrative expenses	380		30	
Distribution costs	157		172	
Capital (At 01 January 2013)		550		
Cash and bank	25		2	
Accounts payable and accruals		176		20
Current accounts	255			180
Accounts receivable and prepayments	130		76	
Motor vehicles at cost	470		230	
Accumulated depreciation @ 31 December 2013		280		120
Plant and equipment @ cost	250		80	
Accumulated depreciation @ 31 December 2013		120		30
Drawings during the year	64			
Provision for unrealised branch inventory at 01 January 2013		5		
Purchases	880			
Sales		1,200		570
Inventory at cost/invoiced amount at 01 January 2013	80		30	
Transfer of goods to the branch/from the head office		360	300	
	2,691	2,691	920	920

Additional information

1. The inventories in hand at 31 December 2013 were estimated as follows:

	E'000
At head office (at cost)	100
At the branch (at invoiced price)	48

In addition, E 60 000 of inventory at invoiced price had been dispatched to the branch on 28 December 2013. These goods had not been received by the branch until 05 January 2014 and so they had not been included in the branch books of account.

2. On 31 December 2012, the branch had transferred E 15 000 of cash to the head office bank, but this was not received by Siteki until 02 January 2014.

Required:

(a) Prepare in adjacent columns: i) the head office and ii) the branch statement of profit or loss and other comprehensive income for the year ended 31 December 2013. (Note: A combined statement is not required)

(b) Prepare in vertical format, Mukelo store's statement of financial position as at 31 December 2013 (Note: separate statements of financial position are not required).

Total: 30 Marks

Question 2

PROPERTY, PLANT & EQUIPMENT

The register of property, plant and equipment (PPE) of Dlakama Limited is presented below. As the accountant you are required to prepare all the entries and calculations, and satisfy all numerical disclosure requirements relating only to PPE in the financial statements of the company for the financial year ended 30 June 2013.

A summary of the register of PPE at 01 July 2012 is as follows:

Details	Emalangeni
Furniture	
Cost	22,000
Accumulated depreciation	8,000
Motor vehicles	
Cost	60,000
Accumulated depreciation	31,000
Machinery	
Cost	96,000
Machine A	15,000
Machine B	63,000
Machine C	18,000
Accumulated depreciation	10,000
Machine A	7,000
Machine B	-
Machine C	3,000
Land	150,000

Additional information

1. The following rates and methods of depreciation are applicable:
   - Property, plant and equipment is accounted for on the cost model
   - Land- no depreciation

- Furniture- 10% straight line
- Motor vehicles- 20% straight line
- Machinery- 20% diminishing balance
- The assets have no residual value

2. On 31 December 2012 a delivery vehicle with an original cost of E 18 000 was sold for E 7 500 and this amount was credited to the motor vehicle account. On O1 July 2012, the accumulated depreciation of the vehicle amounted to E 11 000. Assume that the asset was not classified as held for sale.
3. Machine B was obtained and put out into operation on 30 June 2012 and is held in terms of a hire purchase arrangement.
4. Land consists of stand no. 65, Coates valley and was purchased in 2008. The board estimated the current market value of the property to be E 200 000 at 30 June 2013.
5. The current market values of the other assets do not differ materially from their carrying amounts.
6. No other transactions relating to PPE took place during the year.

Required:

a) Prepare all the journal entries necessary for the financial year ended 30 June 2013 regarding PPE in compliance with requirements of International Accounting Standard 16.

b) Prepare the disclosure for PPE in the statement of financial position and the notes **(Quantitative disclosures only!!)** of Dlakama Limited for the year ended 30 June 2013 so as to comply with the requirements of IAS 16.

Total: 30 Marks

Question 3

RATIO ANALYSIS

The directors of Asakhe Limited appointed a new sales manager towards the end of 2012. This manager devised a plan to increase revenue and profit by means of a reduction in selling prices and extended credit terms to customers. This involved considerable investment in new machinery early in 2013 in order to meet the demand which the change in sales policy has created.

The financial statements for the year ended 31 December 2012 and 2013 are shown below. The sales manager has argued that the new policy has been a resounding success because revenue and more importantly, profits have increased dramatically.

Income Statement

	Dec-13	Dec-12
	E'000	E'000
Revenue	2,800	900
Cost of sales	(1,680)	(360)
Gross profit	1,120	540
Selling expenses	(270)	(150)
Bad debts	(140)	(18)
Depreciation	(208)	(58)
Interest	(192)	(12)
Net profit	310	302

Balance sheet

		Dec-13		Dec-12
Non current assets				
	E'000	E'000	E'000	E'000
Factory		441		450
Machinery		1,791		490
		2,232		940
Current assets				
Inventory	238		30	
Accounts recievable	583		83	
Bank	-		12	
		821		125
Total assets		3,053		1,065
Equity and liabilities				
Share capital		328		300
Retained earnings		939		629
		1,267		929
Non current liabilities				
Borrowings		1,600		100
Current liabilities				
Accounts payable	175		36	
Bank	11		-	
		186		36

Required:

a) Explain whether you believe the performance for the year ended 31 December 2013 and the financial position at that date has improved as a result of the new policies adopted by the company. Support your answer with appropriate ratios.

30 Marks

QUESTION 4

PROVISIONS, CONTIGENT LIABILITIES AND CONTIGENT ASSETS

The following provisions have been included in the financial statements of provider limited at 31 December 2013.

Details	**E**
Provision for expected losses to be incurred in trade show scheduled for August 2014	35,000
Provision for severance pay for employees in discontinued operation	50,000

Required:

State, with reasons, in each of the above cases, whether a provision must be recognised at 31 December 2013 so as to comply with the requirements of International Accounting Standard 37. Assume all amounts are material.

Total: **10 Marks**