UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 2014

DEGREE/ DIPLOMA AND YEAR OF STUDY : B. COM III/ B.COM LEVEL 4

TITLE OF PAPER	:	FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	AC323/ AC412 (PART TIME) (M) MAY 2014
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are 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 all the necessary workings.
	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

A statement showing the retained profit of Pius Co for the year ended 31 December 2012 is set out below:

	E	E
Profit before tax		2,530,000
Less: Income tax expense		(1,127,000)
		1,403,000
Transfer to reserves		(230,000)
Dividends:		
Paid preference interim dividdend	138,000	
Paid ordinary interim dividend	184,000	
Declared preference final dividend	138,000	
Declared ordinary final dividend	230,000	
		(690,000)
Retained		483,000

On 1 January 2012 the issued share capital of Pius Co was 4,600,000 6% preference shares of E1 each and 4,120,000 ordinary shares of E1 each.

Required:
Calculate the earnings per share (on basic and diluted basis) in respect of the year ended 31 December 2012 for each of the following circumstances. (Each of these circumstances (a) to (c) is to be dealt with separately):

(a) On the basis that there was no change in the issued share capital of the company during the year ended 31 December 2012.

(b) On the basis that the company made a rights issue of E1 ordinary shares on 1 October 2012 in the proportion of 1 for every 5 shares held, at a price of E1.20. The market price of the shares at close of trade on the last day of quotation cum rights was E1.78 per share.

(c) On the basis that the company made no new issue of shares during the year ended 31 December 2012 but on that date it had in issue E1,500,000 10% convertible loan stock 2016 – 2019. This is loan stock will be convertible into ordinary E1 shares as follows:

2016 90 E1 shares for E100 nominal value loan stock.
2017 85 E1 shares for E100 nominal value loan stock.
2018 80 E1 shares for E100 nominal value loan stock.
2019 75 E1 shares for E100 nominal value loan stock.

Assume where appropriate that the income tax rate is 30%.

Total: (25 Marks)

QUESTION 2

The authorized and issued share capital of Celsius Ltd was E75,000 divided into 75,000 ordinary shares of E1 each, fully paid. On 2 January 2013, the authorized capital was increased by a further 85,000 ordinary shares of E1 each to E160,000. On the same date 40,000 ordinary shares of E1 each were offered to the public at E1.25 per share payable as to E0.60 on application (including the premium), E0.35 on allotment and E0.30 on 6 April 2013.

The lists were closed on 10 January 2013. By that date, applications for E65,000 shares had been received. Applications for 5,000 shares received no allotment and the cash paid in respect of such shares was returned. All shares were then allocated tp the remaining applicants pro rata to their original applications, the balance of the monies received on applications was applied to the amounts due on allotment.

The balances due on allotment were received on 31 January 2013, with the exception of one allottee of 500 shares and these were declared forfeited on 4 April 2013. These shares were reissued as fully paid on 2 May 2013, at E1.10 per share. The call due on 6 April 2013 was duly paid by the other shareholders.

Required:
To record the above mentioned transactions in the appropriate ledger accounts.

Total: (25 Marks)

QUESTION 3

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing and shoes.Each company has a single store in the same 10 year old custom- built shopping complex located In the central City of Mbabane.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

		Rita Ltd		Tedy Ltd	
		E000s	**E000s**	**E000s**	**E000s**
Sales			2,000		1,400
Less cost of goods sold					
	Opening inventory	440		144	
	Add: Purchases	1,550		996	
		1,990		1,140	
	Less: closing inventory	(490)		(240)	
			1,500		900
			500		500
Less: Expenses					
	Depreciation	27		14	
	Wages and salaries	180		160	
	Directors' remuneration	210		210	
	Other expenses	23		16	
			440		400
Net profit			60		100

Note: The Statement of changes in Equity shows that retained profits at the start of the year were E60,000 (Rita Ltd) and E20,000 (Tedy Ltd); that dividends paid during the year were E50,000 (Rita Ltd) and E40,000 (Tedy Ltd); and that both companies made transfers from retained to general reserve at the end of the year: E20,000 (Rita Ltd) and E20,000 (Tedy Ltd).

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Rita Ltd		Tedy Ltd	
	E000s	E000s	E000s	E000s
Non-current assets				
Buildings at cost	300		100	
Less: depreciation to date	(150)		(50)	
		150		50
Equipment at cost	60		30	
Less: Depreciation to date	(40)		(20)	
		20		10
Motor vans	40		35	
Less: Depreciation to date	(16)		(14)	
		24		21
		194		81
Current assets				
Stock	490		240	
Accounts receivable	680		320	
Bank	80		127	
	1,250		687	
Less: Current liabilities				
Accounts payable	(324)		(90)	
Working capital		926		597
		1,120		678
Equity and reserves				
Issued share capital		1,000		500
Reserves				
General reserve		70		120
Retained profits		50		58
		1,120		678

Required:

(a) Calculate the following ratios for each of Rita Ltd and Tedy Ltd:

i. Gross profit as a percentage of sales; (1 Mark)
ii. Net profit as a percentage of sales; (1 Mark)
iii. Inventory turnover; (1 Mark)
iv. Return on capital employed (ROCE) (1 Mark)
v. Current ratio; (1 Mark)
vi. Acid test ratio; (1 Mark)
vii. Accounts receivable collection period; (1 Mark)
viii. Accounts payable days; (1 Mark)

(b) Comment briefly on the comparison of each ratio as between the two companies. State which company appears to be the more efficient, giving what you consider to be possible reasons? (10 Marks)

(c) When using accounting ratios, one should be aware of the limitations of using them. Discuss five (5) of these limitations. (7 Marks)

QUESTION 4

On 1 April 2013 Malthus Limited commenced work on a contract which was to be completed by 30 June 2014 at an agreed price of E1,040,000.

Malthus Ltd's financial year ended on 31 December 2013, and on that day expenditure on the contract amounted to E526,000 made up as under:

	E
Plant	60,000
Materials	248,000
Wages	190,000
Miscellaneous expenses	10,000
Other charges	18,000
	526,000

Cash totaling E390,000 had been received by 31 December 2013 representing 75% of the work certified as completed on that date, but in addition, work costing E60,000 had been completed but not certified.

A sum of E16,000 had been obtained on the sale of materials that had cost E16,000. At 31 December 2013 final stock of materials on site had cost E10,000 and the plant was valued at E40,000.

To complete the contract by 30 June 2014 it was estimated that:

a) The following additional expenditures would be incurred:

	E
Wages	128,000
Materials	148,800
Sundry expenses	18,000

b) Additional plant and machinery costing E50,000 would be required;
c) The plant and machinery at 30 June 2014 was sold for E30,000.

It was estimated that the contract would be completed on time but that a contingency provision of E20,000 should be made. From this estimate and the expenditure already incurred, it was decided to estimate the total profit that would be made on the contract and to take to profit and loss, for the year ending 31 December 2013, 40% of total profit.

Required:
Write up the contract account for the year ended 31 December 2013 for Malthus Ltd clearly showing the calculation of profit to be credited to profit and loss for the year.

Total (25 Marks)