UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2014

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM IV, B.COM V & B.COM LEVEL 6
TITLE OF PAPER	:	ADVANCED FINANCIAL ACCOUNTING II FINANCIAL ACCOUNTING IV
COURSE CODE	:	AC427/ AC504/ AC501 (S) JULY 2014 (Full-time) IDE AC501 (S) JULY 2014 (PART-TIME)
TIME ALLOWED	:	THREE (3) HOURS
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 INVILATOR OR SUPERVISOR.

QUESTION 1

On 1 April 2005, Mic limited bought 80% of the ordinary share capital of CJ Limited. On 1 April 2008, Mic Limited was itself taken over by Susan Limited who purchased 75% of the ordinary shares in Mic Limited.

The statement of financial position of the three companies at 31 October 2010 prepared for internal use showed the following positions:

	Susan Limited		Mic Limited		CJ Limited	
	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		194,000		132,400
Investments						
Shares in Mic at cost		120,000				
Shares in CJ 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 CJ Limited are 50 Cents each fully paid.

c) All creditors are payable within one year.

d) Items purchased by Mic Limited from CJ Limited and remaining in stock at 31 October 2010 amounted to E25,000. The profit element is 20% of selling price for CJ 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 CJ Ltd is a machine purchased from the manufacturers, Mic Ltd, on 1 January 2009 for E10,000. Mic 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:

Susan Ltd	Creditors – Mic Ltd	E45,600
	- CJ Ltd	E28,900
Mic Ltd	Debtors – Susan Ltd	E56,900
CJ Ltd	Debtors – Susan Ltd	E28,900

i) A cheque drawn by Susan Ltd for E11,300 on 28 October 2010 was received by Mic Ltd on 3 November 2010.

j) At 1 April 2005, reserves in Mic Limited were E28,000 and in CJ Ltd E20,000. At 1 April 2008 the figures were E40,000 and E60,000 respectively.

Required

Prepare a group statement of financial position at 31 October 2010 for Susan Ltd and its subsidiaries complying, so far as the information will allow, with the accounting requirements of the International Financial Reporting Standards (IFRS) (15 Marks).

NB: Marks will be awarded for the following workings:

1. Cost of control ($3^1/_2$ Marks)
2. Minority interest (4 Marks)
3. profit and loss account ($5^1/_2$ Marks)
4. Debtors (2 Marks)

Total: (30 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) State the formula and compute the instalment. ($2^1/_2$ Mark)
b) Machine account. ($^1/_2$ Mark)
c) Roselyn Co loan account. (8 Marks)
d) Provision for depreciation account of the machine. ($4^1/_2$ Marks)
e) Income statement extract. (4 Marks)
f) Statement of financial position extract of Malthus Co showing the correct classification for the non-current and current liabilities for the lease. ($5^1/_2$ 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. (8 Marks)

(b) In 2010, Noty Co had taxable profits of E120,000. In the previous year (2009) income tax on 2009 profits had been estimated as E30,000.

Required:
Calculate tax payable and the charge for 2010 assuming a tax rate of 30% and further that if the tax due on 2009 profits was subsequently agreed with the tax authorities as:

1. E35,000; or ($4^1/_2$ Marks)
2. E25,000. ($4^1/_2$ Marks)

Any under or over payments are not settled until the following year's tax payment is due.

(C) For the year ended 30 June 2009 Nadine Co made taxable trading profits of E1,200,000 on which income tax is payable at 30%.

1. A transfer of E20,000 will be made to the deffered tax account. The balance on this account was E100,000 before making any adjustments for items listed in this paragraph.
2. The estimated tax on profits for the year ended 30 June 2008 was E80,000, but now tax has been agreed at E84,000 and fully paid.
3. Tax on profits for the year to 30 June 2009 is payable on 1 May 2010.
4. In the year to 30 June 2009 the company made a capital gain of E60,000 on the sale of some property . This gain is taxable at a rate of 30%.

Required:

i. Calculate the tax charge for the year to 30 June 2009 to be reflected on the statement of comprehensive income and marks will be awarded for working (6 Marks)

ii. Calculate the tax liabilities in the statement of financial position of Nadex Co as at 30 June 2009. (3 Marks)

Total: (25 Marks)

QUESTION 4

a) Distinguish between a Finance lease and an operating lease and discuss the disclosure requirements as outlined in IAS 17 for each type of lease. (4 Marks)

b) Discuss the arguments in favour of capitalization of leases and the arguments against the capitalization of leases? (8 Marks)

c) Define impairment loss in accordance with IAS 36 and discuss the circumstances that may indicate that an asset could be impaired? (5 Marks).

d) Define a contingent liability in line with IAS 37 and discuss its disclosure requirements? (3 Marks)

Total: (20 Marks)