

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2015

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B. COM 11/ DIPLOMA IN COMMERCE 111
TITLE OF PAPER	:	INTERMEDIATE FINANCIAL ACCOUNTING 11
COURSE CODE	:	AC212/ IDE AC212/ IDE AC312 (M) MAY 2015
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 INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Nancy Co has a head office in Mbabane and a branch in Manzini. The following information has been extracted from the head office books of account as at 31 March 2014:

Information relating to the branch

	Opening	Closing
	E000	E000
Balance bank account (positive balance)	3	12
Branch accounts receivable	66	81
Branch inventory (at transfer price)	75	90
	E000	
Bad debts	15	
Branch general expenses (paid from Branch bank a/c)	42	
Cash received from credit customers and banked	390	
Cash sales banked	120	
Cash transferred from branch to head office bank a/c	459	
Credit sales	437	
Discount allowed to credit customers	9	
Goods returned by credit customers	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 head office

	Opening	Closing
	E000	E000
Balances		
Inventory	180	220
		E000
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		2,780

Additional information:

1. Most of the accounting records relating to the branch are kept by the head office in its own books of account.
2. All purchases are made by the head office, and goods are invoiced to the branch at selling price, that is, at cost price plus 50%.

Required:

- a) Write up the following ledger accounts for the year to 31 March 2014, being careful to bring down any balances as at that date:
- I. Branch inventory account; (4 Marks)
 - II. Goods sent to branch; (1½ Marks)
 - III. Branch inventory adjustment account; (3 Marks)
 - IV. Branch accounts receivable account; and (3 ½ Marks)
 - V. Branch bank account (3 Marks)
- b) Compile Nancy Co statement of comprehensive income for the year ending 31 March 2014 (Note: Separate statement of comprehensive income for the head office and the branch are Not required). (10 Marks)

Total: (25 Marks)

QUESTION 2

On 1 January 2012, Eliphaz Bought a machine costing E20,000 on hire purchase. He paid a deposit of E6,000 on 1 January 2012 and he also agreed to pay two annual instalments of E5,828 on 31 December in each year, and a final instalment of E5,831 on 31 December 2014.

The implied rate of interest in the agreement was 12%. This rate of interest is to be applied to the amount outstanding in the hire purchase loan account as at the beginning of the year.

The machine is to be depreciated on a straight line basis over five years on the assumption that the machine will have no residual value at the end of that time.

Required:

- a) Write up the following accounts for each of the three years to 31 December 2012, 2013 and 2014 respectively:
 - I. Machine at cost; (1 Mark)
 - II. Accumulated depreciation on the machine; (4 Marks)
 - III. Hire Purchase Loan a/c (12 Marks)

- b) Show the statement of financial position extracts for the year as at 31 December 2012, 2013, 2014 respectively for the following items:
 - I. Machine at cost; (1½ Marks)
 - II. Accumulated depreciation on the machine; (1½ Marks)
 - III. Non-current liabilities: obligations under hire purchase contract; and (2 Marks)
 - IV. Current liabilities: obligations under hire purchase contract; (3 Marks)

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. The values are shown in E000.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014:

	SOYA LIMITED		EMLY LTD
	E000	E000	E000
Sales		2,500	
Less: cost of goods sold			
Opening inventory	190		110
Add: Purchases	2,100		1,220
	<u>2,290</u>		<u>1,330</u>
Less closing inventory	<u>(220)</u>		<u>(160)</u>
		<u>2,070</u>	
Gross profit		430	
Less: Expenses			
Wages and salaries	180		130
Directors' remuneration	70		120
Other expenses	14		10
		<u>264</u>	
		166	
Dividend paid	140		112
Transfer to general reserve	<u>30</u>		<u>30</u>
		<u>170</u>	
		(4)	
Retained profits at start of year		<u>104</u>	
Retained profits at end of year		<u><u>100</u></u>	

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014:

	SOYA LIMITED		EMLY LTD	
	E000	E000	E000	E000
Non-current assets				
Equipment at cost	200		50	
Less: Depreciation to date	(80)		(20)	
		120		30
Vans	64		48	
Less: depreciation to date	(26)		(16)	
		38		32
		158		62
Current assets				
Inventory	220		160	
Accounts receivable	104		29	
Bank	75		10	
	399		199	
Less: Current liabilities				
Accounts payable	(189)		(38)	
Working capital		210		16
Net assets		368		22
Capital and reserves				
Issued share capital		200		10
General reserve		68		3
Retained profits		100		8
Total equity		368		22

Notes:

Soya Limited paid a dividend of E140,000 during the year and transferred E30,000 to a general reserve of the year end. Emly Ltd paid a dividend of E112,000 during the year and transferred E30,000 to a general reserve of the year end. The retained profits brought forward at the start of the year were: Soya Limited E104,000; Emly Ltd E60,000.

Required:

- a) Calculate the following ratios for both Soya Limited and Emly Ltd:
- Gross profit as a percentage of sales;
 - Net profit as a percentage of sales;
 - Inventory turnover;
 - Current ratio;
 - Acid test ratio;
 - Accounts receivable days;
 - Accounts payable days;
 - Return on shareholders' funds

8 marks (1 Mark each)

- b) Comment briefly on the comparison of each ratio as between the two companies. State which company appears to be the most efficient, giving what you consider to be possible reasons? (17 Marks)

Total: (25 Marks)

QUESTION 4

- a) Define a contingent asset and contingent liability? (4 Marks)
- b) What are the conditions for the recognition of a provision under IAS 37? (6 Marks)
- c) Discuss ten (10) components of a business plan? (15 marks)

Total: (25 Marks)