UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2015

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B. COM 111/ B.COM Level 5
TITLE OF PAPER	:	Advanced financial accounting 1
COURSE CODE	:	AC320/ IDE AC411 (S) JULY 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 all the necessary workings.

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

Barcelona acquired 60% of Madrid's ordinary share capital on 1 October 2010 at a price of E1.06 per share. The balance of Madrid's retained earnings at that date was E104m and the general reserve stood at E11m.

Their respective statements of financial position as at 30 September 2014 are as follows:

	BARCELONA	Madrid
	Em	Em
Non current assets		
Property, plant and equipment	2,848	354
Patents	45	-
Investments in Madrid	159	-
	3,052	354
Current assets		
Inventories	895	225
Trade and other receivables	1,348	251
Cash and cash equivalents	212	34
	2,455	510
	5,507	864
Equity and liabilities		
Equity		
share capital (20c ordinary shares)	920	50
Retained earnings	2,086	394
General reserve	775	46
	3,781	490
Non current liabilities		
Long term borrowings	558	168
Current liabilities		
Trade and other payables	1,168	183
Current portion of long term borrowings	-	23
	1,168	206
	5,507	864

At the date of acquisition the fair values of some of Madrid's assets were greater than their carrying amounts. One line of Madrid's inventory had a fair value of E8m above its carrying amount. This inventory had all been sold by 30 September 2014. Madrid's land and buildings had a fair value E26m above their carrying amount. E20m of this is attributable to the buildings, which had a remaining useful life of 10 years at the date of acquisition.

It is group policy to value non-controlling interests at full (or fair) value. The fair value of the non-controlling interests at acquisition was E86m.

Annual impairment tests have revealed cumulative impairment losses relating to recognized goodwill of E20m to date.

Required
Produce the consolidated statement of financial position for the Barcelona Group as at 30 September 2014 (30 Marks).

Total (30 Marks)

QUESTION 2

The summarized accounts of Duncan Co for the year ended 31 March 2014 are as follows:

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	Em
Revenue	4,300
Cost of sales	(2,000)
Gross profit	2,300
Operating expenses	(1,000)
Finance costs	(250)
Profit before tax	1,050
Income tax expense	(450)
Profit/ Total comprehensive income for the year	600

Dividend paid in the year E300

STATEMENTS OF FINANCIAL POSITION AT 31 MARCH	2014	2013
	Em	Em
Non current assets		
Property, plant and equipment	4,200	3,700
Current assets		
Inventories	1,500	1,600
Trade receivables	2,200	1,800
	3,700	3,400
	7,900	7,100
Equity		
Share capital	1,200	1,200
Retained earnings	2,200	1,900
	3,400	3,100
Non current liabilities		
Deferred tax	1,070	850
Finance lease liabilities	1,300	1,200
	2,370	2,050
Current liabilities		
Trade payables	1,250	1,090
Current tax	225	205
Finance lease liabilities	500	450
Bank overdraft	155	205
	2,130	1,950
	7,900	7,100

Notes

(a) Depreciation charged for the year totaled E970 million. There were no disposals of property, plant and equipment.

(b) There was no accrual of interest at the beginning or at the end of the year.

(c) Duncan Co finances a number (but not all) of its property, plant and equipment purchases using finance leases. In the period, property, plant and equipment which would have cost E600 million to purchase outright was acquired under finance leases.

(d) Dividends paid in the period amounted to E300 million.

Required:

i. Prepare the statement of cash flows for Duncan Co for the year ended 31 March 2014 in accordance with IAS 7, using the indirect method. (18 Marks)

ii. Prepare the following ledger accounts for Duncan Co:
   1. Property, plant and equipment (2 Mark)
   2. Taxation payable account (2 Marks)
   3. Finance lease liabilities account (3 Marks)

Total (25 Marks)

QUESTION 3

Set out below are the draft accounts of Pepsi Co and its subsidiaries and of Associate Co. Pepsi Co acquired 40% of the equity capital of Associate Co three years ago when the latte's reserves stood at E40,000.

SUMMARISED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2014

	Pepsi Co & Subsidiaries	Associate Co
	E000	E000
Tangible non current assets	220	170
Investment in Asscociate at cost	60	-
Loan to Associate Co	20	-
Current assets	100	50
Loan from Parent Co	-	(20)
	400	200
Share capital (E1 shares)	250	100
Retained earnings	150	100
	400	200

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME FOR 31 DECEMBER 2014

	E000	E000
Profit before tax	95	80
Income tax expense	35	30
Net profit for the year	60	50

Notes

1. Assume that the associate's assets/ liabilities are stated at fair value.
2. Assume that there are no controlling interests in the subsidiary companies.

Required:
Prepare the summarized consolidated statement of comprehensive income of the group as at 31 December 2014 and a statement of financial position for the group as at the same date. (15 Marks)

QUESTION 4

The following trial balance has been extracted from the books of account of Great Plc as at 31 March 2014:

	DR	CR
	E000	E000
Administrative expenses	210	
Called up share capital (ordinary shares of E1 fully paid)		600
Accounts receivable	470	
Cash at bank and in hand	40	
Corporation tax (overprovision in 2013)		25
Deferred taxation (at 1 April 2013)		180
Distribution costs	420	
Gain on sale of non-current asset		60
Non current asset investment	560	
Investment income		72
Plant and machinery: at cost	750	
Accumulated depreciation at 31 march 2014		220
Retained profits as at 1 April 2013		182
Purchases	960	
Inventory as at 1 April 2013	140	
Trade accounts payable		261
Revenue		1950
	3550	3550

Additional information:

a) Inventory at 31 March 2014 was valued at E150,000.

b) The following items are already included in the balances listed in the above trial balance:

	Distribution costs	Administrative exp.
	E000	E000
Depreciation for the year to 31 Mar 2014	27	5
Hire of plant and machinery	20	15
Auditors' remuneration	-	30
Directors' remuneration	-	45

c) The following rates of taxation are to be assumed:

	%
Corporation tax	35
Income tax	27

d) The corporation tax charge based on the profits for the year is estimated to be E52,000.

e) A transfer of E16,000 is to be made to the credit of the deferred taxation account.

f) The gain made on the disposal of a non-current asset related to a factory in Belgium following the closure of the company's entire operations in that country.

g) The company's authorized share capital consists of 1,000,000 ordinary shares of E1 each.

h) A final ordinary payment of 50c per share is proposed.

i) There were no purchases or disposals of non-current assets during the year.

j) The market value of the non-current assets investments as at 31 March 2014 was E580,000. There were no purchases or sales of such investments during the year.

Required:
In so far as the information permits, prepare the company's published income statement for the year ending 31 March 2014 and a statement of financial position as at that date in accordance with the Companies Acts and with related accounting standards.

NB: Relevant notes and a statement of the company's policies are not required but detailed workings should accompany the income statement and statement of financial position.

Total (30 Marks)