UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2015

DEGREE/ DIPLOMA AND YEAR OF STUDY: B. COM III/ B.COM LEVEL 5

TITLE OF PAPER	:	FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	AC323/ AC412 (PART TIME) (S) JULY 2015
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 Nolwazi Co for the year ended 31 December 2014 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 2014 the issued share capital of Nolwazi 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 2014 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 2014. (7 Marks)

(b) On the basis that the company made a rights issue of E1 ordinary shares on 1 October 2014 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. (12 Marks)

(c) On the basis that the company made no new issue of shares during the year ended 31 December 2014 but on that date it had in issue E1,500,000 10% convertible loan stock 2018 – 2021. This is loan stock will be convertible into ordinary E1 shares as follows:

2018 90 E1 shares for E100 nominal value loan stock.
2019 85 E1 shares for E100 nominal value loan stock.
2020 80 E1 shares for E100 nominal value loan stock.
2021 75 E1 shares for E100 nominal value loan stock. (6 Marks)

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

Total (25 Marks)

QUESTION 2

On 1 April 2014 Nozizwe Limited commenced work on a contract which was to be completed by 30 June 2015 at an agreed price of E1,040,000.

Nozizwe Ltd's financial year ended on 31 December 2014, 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
Head office charges	18,000
	526,000

Cash totaling E390,000 had been received by 31 December 2014 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 E18,000 had been obtained on the sale of materials that had cost E16,000. At 31 December 2014 final stock of materials on site had cost E20,000 and the plant was valued at E40,000.

To complete the contract by 30 June 2015 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 residual value of all plant used on the contract at 30 June 2015 would be E30,000.

d) Head office charges to the contract would be at the same annual rate plus 10%.

It was estimated that the contract would be completed on time but that a contingency provision of E30,000 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 2014, that proportion of the total profit relating to the work actually certified to that date.

Required:
Prepare the contract account for the year ended 31 December 2014 for Nozizwe Ltd clearly showing the calculation of profit to be credited to profit and loss for the year.

Total (25 Marks)

QUESTION 3

During the year to 30 September 2014, Kenny plc made a new offer of shares. The details of the offer were as follows:

1. 100,000 ordinary shares of E1 each were issued payable in instalments as follows:

	Per share
	E
On application at 1 November 2013	0.65
On allotment (including the share premium of E0.50 per share) on 1 December 2013	0.55
On first and final call on 1 June 2014	0.30
	E1.50

2. Applications for 200,000 shares were received, and it was decided to deal with them as follows:
   a) To return cheques for 75,000 shares;
   b) To accept in full applications for 25,000; and
   c) To allot the remaining shares on the basis of three shares for every four shares applied for.
3. On the first and final call, one applicant who had been allotted 5,000 shares failed to pay the due amount, and his shares were duly declared forfeited. They were then reissued to Amos Dlamini on 1 September 2014 at a price of E0.80 per share fully paid.

   Note: Kenny's issued share capital on 1 October 2013 consisted of 500,000 ordinary shares of E1 each.

Required:
Prepare the appropriate ledger accounts to record the above transactions.

Total (25 Marks)

QUESTION 4

Study the following financial statements for two very similar privately owned department stores which each comprise one store in the city centre of a major City in Swaziland and then answer the questions which follow:

Statement of comprehensive income for the year ended 31 December 2014

	Aisle	Betty
	E000	E000
Revenue	1800	2700
Less: Cost of goods sold		
Opening inventory	240	300
Purchases	1300	2250
	1540	2550
Closing inventory	(140)	(260)
Cost of goods sold	1400	2290
Gross profit	400	410
Depreciation	22	40
Other expenses	318	280
	340	320
Net profit	60	90

Statement of financial position as at 31 December 2014

	Aisle	Betty
Non current assets	E000	E000
Buildings at cost	300	440
Depreciation to date	(255)	(220)
Equipment at cost	140	180
Depreciation to date	(119)	(90)
	66	310
Current assets		
Inventory	140	260
Accounts receivable	265	120
Bank	4	2
	409	382
	475	692
Current liabilities		
Accounts payable	(245)	(252)
	230	440
Financed by:		
Capital accounts		
Balance at start	240	430
Net profit	60	90
	300	520
Drawings	(70)	(80)
	230	440

Required:

i. Calculate the following ratios:
   a) Gross profit as a percentage of revenue (1 Mark)
   b) Net profit as a percentage of revenue (1 Mark)
   c) Inventory turnover (1 Mark)
   d) Rate of return of net profit on capital employed (use the average of the capital account for this purpose); (2 Mark)
   e) Current ratio (1 Mark)
   f) Acid test ratio (1 Mark)
   g) Debtors' days (1 Mark)
   h) Accounts payable days (1 Mark)

ii. Drawing upon all your knowledge of accounting, comment upon the differences and similarities of the accounting ratios for Aisle (Pty) Limited and Betty (Pty) Limited (16 Marks).

Total (25 Marks)