UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER MAY 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) (M) MAY 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

i.

Bettina Co has carried on business for a number of years as a retailer of a wide variety of consumer products. The entity operates from a number of stores around the country. In recent years the entity has found it necessary to provide credit facilities to its customers in order to maintain growth in revenue. As a result of this decision the liability to its bankers has increased substantially. The statutory financial statements for the year ended 30 June 2014 have recently been published and extracts are provided below, together with comparatives figures for the previous two years.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE

	2012	2013	2014
	Em	Em	Em
Revenue	1,850	2,200	2,500
Cost of sales	(1,250)	(1,500)	(1,750)
Gross profit	600	700	750
Other operating costs	(550)	(640)	(700)
Operating profit	50	60	50
Other income	45	60	90
Operating profit before interest	95	120	140
Interest payable	(25)	(60)	(110)
Profit before taxation	70	60	30
Tax charge	(23)	(20)	(10)
Profit for the year	47	40	20

STATEMENT OF FINANCIAL POSITION AT 30 JUNE

	2012	2013	2014
Non-current assets	**Em**	**Em**	**Em**
Property, plant and equipment	278	290	322
Current assets			
Inventories	400	540	620
Trade receivables	492	550	633
Cash	12	12	15
	904	1,102	1,268
Total assets	1,182	1,392	1,590
Equity and reserves			
Share capital	90	90	90
Retained earnings	282	292	282
	372	382	372
Long term liabilities			
Bank loans	320	520	610
Other interest bearings borrowings	200	200	320
	520	720	930
Current liabilities			
Trade payables	270	270	280
Tax payable	20	20	8
	290	290	288
Total liabilities	1,182	1,392	1,590

Other information

a) Depreciation charged for the three years in question was as follows:

	2012	2013	2014
	Em	Em	Em
Year ended 30 June	55	60	70

b) The other interest bearing borrowings are secured by a floating charge over the assets of Bettina Co. Their repayment is due on 30 June 2014.

c) Dividends of E30 million were paid in 2012 and 2013. A dividend of E20 million has been proposed.

d) The bank loans are unsecured. The maximum lending facility the bank will provide is E630 million.

e) Over the past three years the level of credit sales has been:

	2012	2013	2014
	Em	Em	Em
	300	400	600

The entity offers extended credit terms for certain products to maintain market share in a highly competitive environment.

Given the steady increase in the level of bank loans which has taken place in recent years, the entity has recently written to its bankers to request in the lending facility. The request was received by the bank on 15 October 2014, two weeks af.ter the financial statements were published. The bank is concerned at the steep escalation in the level of the loans and has asked for a report on the financial performance of Bettina Co for the last three years.

Required:
Calculate the following ratios of Bettina Co for the period covered by 2012, 2013 and 2014:

a) Gross profit margin (3 Marks)
b) Profit margin (3 Marks)
c) Inventory turnover (3 Marks)
d) Accounts receivable days (3 Marks)
e) Accounts payable days (3 Marks)
f) Interest cover (3 Marks)
g) Capital gearing ratio (3 Marks)
h) Return on capital employed (3 Marks)

ii. Discuss two limitations inherent with using accounting ratios? (1 Mark)

Total: (25 Marks)

QUESTION 2

Applications were received by the management of Greenberg Ltd for 150,000 of its E1 ordinary shares at E1.15 per share payable as follows:

	Per share
On application on 1 April 2014	E0.75
On allotment on 30 April 2014 (including the premium of E0.15 per share	E0.20
On first and final call on 31 May 2014	E0.20

Applications were received for 180,000 shares and it was decided to deal with these as follows:

i. To refuse allotments to applicants for E8,000 shares.
ii. To give full allotments to applicants for 22,000 shares.
iii. To allot the remainder of the available shares pro rata among the other applicants.
iv. To utilize the surplus received on application in part payment of amounts due on allotment.

An applicant, to whom 400 shares had been allotted, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 May 2014. These shares were reissued on 3 September 2014 as fully paid at E0.90 per share.

Required:
Show how the transactions would be recorded in the company's books.

Total: (25 Marks)

QUESTION 3

a) Sonya Ltd had the same 10 million ordinary shares in issue on both 1 January 2014 and 31 December 2014. On 1 January 2014 the company issued 1,200,000 E1 units of 5% convertible loan stock. Each unit of stock is convertible into 4 ordinary shares on 1 January 2020 at the option of the holder. The following is an extract from Sonya's income statement for the year ended 31 December 2014:

	E'000
Profit before interest and tax	980
Interest payable on 5% convertible loan stock	(60)
Profit before tax	920
Tax charge	(276)
Profit for the year	E644

Required:
What was the basic and diluted earnings per share for the year ended 31 December 2014. (10 Marks)

b) Bolter Co had 100,000 shares in issue, but then makes a 1 for 5 rights issue on 1 October 2014 at a price of E1. The market value on the last day of quotation with rights was E1.60.
Calculate the EPS for 2014 and the corresponding figure for 2013 given total earnings of E50,000 in 2014 and E40,000 in 2013. (5 Marks)

c) Halter Co had the following loans in place at the beginning and end of 2014.

	1 January 2014	31 December 2014
10% Bank loan repayable 2016	E80m	E80m
15% Bank loan repayable by 2017	E90m	E80m
12% Bank loan repayable by 2018	E120m	E110m

The 10% bank loan repayable in 2016 was for the construction of a qualifying asset (a repackaging equipment), construction of which began on 1 October 2014. On 1 October 2014, Halter Co incurred expenditure on the repackaging equipment amounting to E10 million. At 31 December no further expenditure had been incurred for the repackaging material.

On 1 January 2014, Halter Co began construction of a qualifying asset, a power generation plant, using existing borrowings. Expenditure was incurred for the construction of the power generation plant was: E60 million on 1 January 2014 and E40 million on 1 July 2014.

Required:
Calculate where applicable the borrowing costs that can be capitalized for all the company's machines and indicate the costs of the assets in the statement of financial position as at 31 December 2014. (10 Marks)

QUESTION 4

a) Mr. Raymond Khumalo is an employee of the University of Swaziland. The following is the pay slip of Mr. Raymond for the month of June 2014:

	E
Gross Salary	20,000
Provident fund contributions	(1,500)
Medical aid fund contributions	(1,800)
Unemployment insurance contributions	(200)
Pay as you earn	(4,000)
Net salary paid over to Raymond	12,500

The University of Swaziland contributes the same amount as the employee to the provident fund, the unemployment insurance and the medical aid fund

Contributions by the University of Swaziland:	
Provident Fund contributions	E1,500
Medical aid fund contributions	E1,800
Unemployment insurance fund contributions	E 200

Required:
Write up the journal to account for the salary of Mr. Raymond Khumalo and the payment thereof? (16Marks).

b) Calculate the cost to employer for employing Mr. Raymond Khumalo? (5 Marks).

c) Mr. Raymond is entitled to 15 days vacation leave per annum and at the end of 31 December 2014, he was not able to take his leave. It is company policy that vacation leave days not taken in the current year may be carried forward to the next year and they are not forfeited. Given that a year has 250 working days and that Mr. Raymond's monthly salary remained the same in 2014, how should the leave be accounted for at year end? (4 Marks)

Total (25 Marks)