UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER DECEMBER 2014

DEGREE/ DIPLOMA AND YEAR OF STUDY: B.COM LEVEL 6

TITLE OF PAPER	:	INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	IDE AC412 (PART TIME) (M) DEC 2014
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 INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

A statement showing the retained profit of Pepsi Co for the year ended 31 December 2013 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 2013 the issued share capital of Pepsi 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 2013 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 2013. (7 Marks)

(b) On the basis that the company made a rights issue of E1 ordinary shares on 1 October 2013 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 2013 but on that date it had in issue E1,500,000 10% convertible loan stock 2017 – 2020. This is loan stock will be convertible into ordinary E1 shares as follows:

2017 90 E1 shares for E100 nominal value loan stock.
2018 85 E1 shares for E100 nominal value loan stock.
2019 80 E1 shares for E100 nominal value loan stock.
2020 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 2013 Nomathemba Limited commenced work on a contract which was to be completed by 30 June 2014 at an agreed price of E1,040,000.

Nomathemba Ltd's financial year ended on 31 December 2013, 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 2013 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 2013 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 2014 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 2014would 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 2013, 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 2013 for Nomathemba Ltd clearly showing the calculation of profit to be credited to profit and loss for the year.

Total (25 Marks)

QUESTION 3

The authorized and issued share capital of Ndosi Ltd was E75,000 divided into 75,000 ordinary shares of E1 each, fully paid. On 2 January 2013, the authorized share capital was increased by a further 85,000 ordinary shares of E1 each to E160,000. On the same date 40,000 ordinary shares of E1each were offered to the public at E1.25 per share payable as to E0.60 on application (including the premium), E0.35 on allotment and E0.30 on 6 April 2013.

The lists were closed on 10 January 2013. By that date, applications for 65,000 shares had been received. Applications for 5,000 shares received no allotment and the cash paid in respect of such shares was returned. All shares were then allocated to the remaining applicants pro rata to their original applications, the balance of the monies received on applications was applied to the amounts due on allotment.

The balance due on allotment were received on 31 January 2013, with the exception of one allottee of 500 shares and these were declared forfeited on 4 April 2013. These shares were reissued as fully paid on 2 May 2013, at E1.10 per share. The call due on 6 April 2013 was duly paid by the other shareholders.

Required:

Record the above mentioned transactions in the appropriate ledger accounts of Ndosi Ltd. (25 Marks)

Total (25 Marks)

QUESTION 4

The following information has been extracted from the recently published accounts of Phepsiwe Co.

EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME TO 30 APRIL 2014

	2014	2013
	E000	E000
Sales	11,200	9,750
Cost of sales	8,460	6,825
Gross profit	2,740	2,925
Expenses		
Depreciation	360	280
Audit fees	12	10
Other expenses	1,808	2,246
Total operating expenses	2,180	2,536
Operating profit before interest	560	389
Loan note interest	80	60
Interest on bank overdraft	15	9
	465	320

PHEPSIWE CO

STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL 2014

	2014	2013
	E000	E000
Non current assets		
Property, plant and equipment	1,850	1,430
Current assets		
Inventory	640	490
Accounts receivable	1,230	1,080
Bank	80	120
	1,950	1,690
Total assets	3,800	3,120
Equity and liabilities		
Equity		
Ordinary share capital	800	800
Retained earnings	1,310	930
	2,110	1,730
Non current liabilities		
10% Loan stock	800	600
Current liabilities		
Bank overdraft	110	80
Accounts payable	750	690
Taxation	30	20
	890	790
	3,800	3,120

The following ratios are those calculated for Phepsiwe Co, based on its published accounts for the previous year and also the latest industry average ratios:

	30-Apr-13	Industry Average
ROCE (Capital employed=equity and debentures)	16.30%	18.50%
Profit/sales	3.90%	4.73%
Asset turnover	4.18x	3.91x
Current ratio	2.10	1.90
Quick ratio	1.52	1.27
Gross profit margin	30%	35.23%
Accounts receivable collection period	40 days	52 days
Accounts payable payment period	37 days	49 days
Inventory turnover (times)	13.9x	18.30x
Gearing	25.75%	32.71%

Required:

(a) Calculate comparable ratios (to two decimal places where appropriate) for Phepsiwe Co for the year ended 30 April 2014. All calculations must be clearly shown. (10 Marks).

(b) Write a report to the Board of directors analyzing the performance of Phepsiwe Co, comparing the results against the previous year and against the industry average.

(15 Marks)

Total (25 Marks)