

UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER

JULY 2015

DEGREE / YEAR OF STUDY: BACHELOR OF COMMERCE YEAR IV /Level VI PART TIME

Title of Paper : Advanced Financial Accounting-II
Course Code : AC427/AC504/ IDE AC 504 (Part Time) JULY 2015
Total Marks : 100
Time Allowed : **THREE HOURS**

Instructions

- (i) There are **FOUR** Questions Answers to All
- (ii) Begin the solutions to each Question on a new page
- (iii) The marks awarded for each question are indicated at the end of the question
- (iv) Show all your workings
- (v) Calculations are to be made to zero decimal places of accuracy, unless otherwise Instructed.

RECOMMENDATION: Reading time should not exceed fifteen minutes

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) Define Restructuring in accordance with IAS37 and at least **three** examples of event, for a detailed formal plan for the Restructuring identifying at least **five** entities as highlighted in IAS37 **(Marks: 09)**
- (ii) On 1st January 2011 Supa company limited a manufacturing Entity, bought a machine From Aura company limited under a Finance lease that had a cash price E15,420 by paying an Immediate deposit of E4,000. The balance was settled by Supa company limited in Four equal Annual Instalments commencing on 31st December 2011. Interest on this lease was calculated Using the Actuarial method at the interest rate of 15% per Annum on the capital balance out Standing at the beginning of each year. The machine is to be depreciated at the rate of 25% On a straight line basis, Assuming a residual value of Nil. The spirit of the lease agreement is that ownership is intended to be passed to Supa company limited on the payment of the Last instalment.

Required.

Prepare the relevant ledger Accounts as indicated below in respect of the lease for each of the years ended 31st December 2011, 2012, 2013 and 2014 in the books of SUPA company Limited and state the formula and compute the instalment loan amount **(Mark: 01)**

- a. Machinery Account **(Mark: 01)**
b. SUPA company limited loan Account **(Marks: 08)**
c. Provision for depreciation Account of the Machinery **(Marks: 06)**

(Marks-25)

QUESTION 2

- (i) What is meant by a discontinued operation in accordance with IFRS 5 and discuss six points on the criteria for Non-current asset is expected to be recovered through held for sale if. **(Marks: 07)**
- (ii) In 2014 Bona company limited had taxable profits of E 1, 20,000. In the previous year (2013) Income tax on 2013 profits had been estimated as E 30,000 **(Mark: 04)**

Required.

Calculate tax payable and the charge for 2014. If the tax due on 2013 profits was subsequently agreed with the tax Authorities as (a) E 35,000 (b) E 25,000 Any under or over payments are not settled until the following years tax payment is due

- (iii) T.H. Shongwe company limited buys equipment for E 2,00,000 and depreciates it on a straight line basis over its expected useful life of five years. For tax purposes, the equipment is depreciated at 25% Per Annum on a Straight line basis. Tax losses may be

carried back against taxable profit of the previous five years. In the year 2010, the entities taxable Profit was E 50,000. The tax rate is 40%

Required

Assuming Nil Profits / losses after depreciation in years 2001 to 2005,

1. To show current tax profit of income statement and deferred tax profit of income statement impact in year 2001 – 2005 of the acquisition of the Equipment. **(Marks: 14)**

(Marks-25)

QUESTION 3

The statement of financial position of Aura company limited, Bona company limited and ceaza company limited at 30th Jun2015 are summarized as follows

Particulars	Aura company Limited E	Bona company limited E	Ceaza company Limited E
Non –current Assets			
Freehold property	2,00,000	2,00,000	-
Plant and machinery	4,20,000	1,60,000	6,000
	_____	_____	_____
	6,20,000	3,60,000	6,000
	_____	_____	_____
Investment in subsidiaries			
Shares at cost	2,20,000	12,400	-
Loan Account	-	7,600	-
Current Accounts	20,000	24,400	-
	_____	_____	_____
	2,40,000	44,400	--
	_____	_____	_____
Current Assets			
Inventories	3,40,000	41,000	30,000

AC 427/AC504/IDE AC 504 (Part Time) JULY 2015

Receivables	2,80,000	1,00,000	2,000
Cash at Bank	1,20,000	33,000	8,000
	<u>7,40,000</u>	<u>1,74,000</u>	<u>40,000</u>
Total Assets	16,00,000	5,78,400	46,000
Equity and liabilities			
Equity ordinary share			
Capital	4,00,000	2,00,000	20,000
Retained Earnings	7,59,200	2,58,4000	-2,000
	<u>11,59,200</u>	<u>4,58,400</u>	<u>18,000</u>
Current liabilities			
Trade payable	3,20,800	80,400	1,600
Due to Aura company	--	25,600	1,200
Due to Bona company	--	----	25,200
Taxation	1,20,000	14,000	-
	<u>4,40,800</u>	<u>1,20,000</u>	<u>28,000</u>
Total liabilities	16,00,000	5,78,400	46,000

Additional information :

- Aura company limited acquired 75% of the shares of Bona company limited in 2013. When the credit balance on the retained earnings of that company was E 80.000. No dividends have been paid since that date.
- Bona company limited acquired 80% of the shares in Ceaza company limited in 2014 when there was a debit balance on the retained earnings of that company of E6.000

- c. During the year to 30th Jun 2015 Bona company limited purchased inventory from Aura company limited for E 40.000 which included a profit mark up of E 8.000 for Aura company limited at 30th jun 2015 one Half of this amount was still held in the inventories of Bona company limited group Accounting Policies are to make full allowance for unrealized intra-group profits.
- d. it is the groups policy to measure the Non controlling interest at its proportionate share of the fair value of the subsidiary s Net Assets.

Required

1. Prepare Aura company limited group consolidated statement of financial position at 30th Jun 2015(Assume No Impairment test of goodwill) (Marks:13)
2. Prepare minority interest working (Marks: 2.5)
3. Calculate the goodwill relating to the above transactions (Marks: 5.5)
4. Calculate the group retained earnings. (Marks: 04)

(Marks-25)

QUESTION 4

- (i) In accordance with GAAP Principle and IAS 18 discuss **five** points on the which Criteria should satisfied for the Recognition of Revenue from the sale of goods (Marks: 05)
- (ii) In accordance with IAS 18 explain **three** points on the criteria for the recognition of Revenue from the use of Assets by third parties. (Marks: 06)
- (iii) An inventory item is sold E.1,20,000(excluding VAT) at 1st November 2004, sale Conditions stipulate that the consideration is payable at 30th jun2005, and interest is charged at 2 percent per annum on the out standing amount Based on the customers Credit rating, finance would be available at a rate of 12 percent . The company's financial Year-end is 31st December.

Required

To Calculate When a low interest rate is charged and find out interest on each instalment amount (Marks: 14)

(Marks-25)