

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2016

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM 11/ B.COM Level 3

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING 11

COURSE CODE : AC212/AC312 (M) MAY 2016

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 the necessary working.
 - 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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing. The values are shown in E000.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011:

	SOPHIE LIMITED		ELVIS LTD	
	E000	E000	E000	E000
Sales		2,500		1,600
Less: cost of goods sold				
Opening inventory	190		110	
Add: Purchases	2,100		1,220	
	<u>2,290</u>		<u>1,330</u>	
Less closing inventory	(220)		(160)	
		<u>2,070</u>		<u>1,170</u>
Gross profit		430		430
Less: Expenses				
Wages and salaries	180		130	
Directors' remuneration	70		120	
Other expenses	14		10	
		<u>264</u>		<u>260</u>
		166		170
Dividend paid	140		112	
Transfer to general reserve	30		30	
		<u>170</u>		<u>142</u>
		(4)		28
Retained profits at start of year		<u>104</u>		<u>60</u>
Retained profits at end of year		<u>100</u>		<u>88</u>

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011:

	SOPHIE LIMITED		ELVIS LTD	
	E000	E000	E000	E000
Non current assets				
Equipment at cost	200		50	
Less: Depreciation to date	<u>(80)</u>		<u>(20)</u>	
		120		30
Vans	64		48	
Less: depreciation to date	<u>(26)</u>		<u>(16)</u>	
		38		32
		<u>158</u>		<u>62</u>
Current assets				
Inventory	220		160	
Accounts receivable	104		29	
Bank	<u>75</u>		<u>10</u>	
	399		199	
Less: Current liabilities				
Accounts payable	<u>(189)</u>		<u>(38)</u>	
Working capital		210		161
Net assets		<u>368</u>		<u>223</u>
Capital and reserves				
Issued share capital		200		100
General reserve		68		35
Retained profits		<u>100</u>		<u>88</u>
Total equity		<u>368</u>		<u>223</u>

Notes:

Sophie Limited paid a dividend of E140,000 during the year and transferred E30,000 to a general reserve of the year end. Elvis Ltd paid a dividend of E112,000 during the year and transferred E30,000 to a general reserve of the year end. The retained profits brought forward at the start of the year were: Sophie Limited E104,000; Elvis Ltd E60,000.

Required:

Calculate the following ratios for both Sophie Limited and Elvis Ltd:

- i. Gross profit as a percentage of sales; (3 Marks)
- ii. Net profit as a percentage of sales; (3 Marks)
- iii. Inventory turnover; (3 Marks)
- iv. Current ratio; (3 Marks)
- v. Acid test ratio; (3 Marks)

- vi. Accounts receivable days; (3 Marks)
- vii. Accounts payable days: (3 Marks)
- viii. Return on shareholders' funds (4 Marks)

Total: (25 Marks)

QUESTION 2

On 31 March 2009, Kenneth Davies, who prepares his financial statements to 31 March, bought a lorry on hire purchase from Motor Fleet Ltd. The cash price of the lorry was E61,620. Under the terms of the hire purchase agreement, Kenneth Davies paid a deposit of E20,000 on 31 March 2009, and two annual instalments of E23,981 on 31 March 2010 and 2011. The hire purchase vendor charged interest at 10% per annum on the balance outstanding on 1 April each year. All payments were made on the due dates.

Kenneth Davies maintained the motor lorry account at cost and accumulated the annual provision for depreciation, at 40% on the reducing balance method, in a separate account. A full year's depreciation is charged in the year of purchase, irrespective of the date acquired.

Required

- (a) Prepare the following accounts as they would appear in the ledger of Kenneth Davies for the period of the contract:
- (i) Motor Lorry account. (1 Mark)
 - (ii) Motor Fleet Ltd Hire purchase loan account. (10 Marks)
 - (iii) Provision for depreciation of motor lorry. (6 Marks)
 - (iv) Hire purchase interest payable. (2 Marks)
- (b) Show how the above matters would appear in the statement of financial position extract of Kenneth Davies at 31 March 2009, 2010 and 2011. (6 Marks)

Total: (25 Marks)

QUESTION 3

Nicholson is a retail stock outlet operating from a head office in Mbabane and a branch in Manzini. The following trial balances have been extracted from the books of account as at 31 October 2012.

	Head office books		Branch books	
	Dr E	Cr E	Dr E	Cr E
Drawings	40,000			
Non current assets: at cost	350,000		100,000	
Accumulated depreciation - 1 Nov. 2011		(140,000)		(30,000)
Inventory (at 1 November 2011)	8,000		20,000	
Provision for unrealised profit		(4,000)		
Purchases	914,000			
Goods sent to branch at invoiced value		380,000		375,000
Sales		850,000		437,000
Allowance for doubtful debts		9,000		2,500
Head office/ branch current accounts	175,000			120,000
Distribution expenses	80,500		5,000	
Administrative expenses	200,000		16,500	
Trade accounts receivable	60,000		60,000	
Trade accounts payable		50,000		
Cash and bank balances	15,500		13,000	
Capitla		410,000		
	<u>1,843,000</u>	<u>1,555,000</u>	<u>214,500</u>	<u>904,500</u>

Additional information:

- All goods are purchased by the head office. Those goods are sent to the branch are invoiced at cost plus 25%.
- Inventories were valued at 31 October 2011 as being at head office, E12,000; and at the branch, E15,000 at their invoiced price.
- Depreciation is to be provided for the year on the non-current assets at a rate of 10% on the historic cost.
- The allowance for doubtful debts is to be maintained at a rate of 5% of outstanding trade debtors as at the end of the financial year.
- As at 31 October 2012, there was E50,000 cash in transit from the branch to the head office; this cash was received in Mbabane on 3 November 2012. There was also E5,000 of goods in transit at invoice price from the head office to the branch; the branch received these goods on 10 November 2012.

Required:

- i. Prepare in adjacent columns: The head office and the branch statement of comprehensive income for the year ending 31 October 2011; (14 Marks)
- ii. Prepare also a combined statement of financial position for Nicholson as at that date. (11 Marks)

Notes:

A combined statement of comprehensive income is not required; and separate statement of financial position for the head office and the branch are also not required.

QUESTION 4

- a) Discuss six (6) functions to be achieved through cash budgeting? (13 Marks)
- b) Discuss six (6) major components of a business plan? (12 Marks)