

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2016

DEGREE/ DIPLOMA AND YEAR OF STUDY : B. COM III/ B.COM LEVEL 4 &
B.COM LEVEL 5.

TITLE OF PAPER : FINANCIAL REPORTING ANALYSIS/
INTERNATIONAL ACCOUNTING STANDARDS

COURSE CODE : AC323/ AC412 (M) MAY 2016

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 Round off as you deem appropriate.

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

Applications were invited by the directors of Groovy Ltd for 150,000 of its E1 Ordinary shares at E1.15 per share payable as follows:

	Per share
On application on 1 April 2013	E0.75
On allotment on 30 April 2013 (including the premium of E0.15 per share)	E0.20
On first and final call on 31 May 2013	E0.20

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

1. To refuse allotment to applicants for 8,000 shares.
2. To give full allotment to applicants for 22,000 shares.
3. To allot the remainder of the available shares pro rata among the applicants.
4. To utilize the surplus received on application in part payment of amounts due on allotment.

An applicant, to whom 400 shares has been allotted, failed to pay the amount due on the first and final call and his shares were declared forfeit on 31 July 2013. These were reissued on 3 September 2012 as fully paid at E0.90 per share.

Required:

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

Total: (25 Marks)

QUESTION 2

Study the following financial statements of two companies and then answer the questions which follow. Both companies are stores selling clothing and shoes. Each company has a single store in the same 10 year old custom- built shopping complex located In the central City of Mbabane.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	Rita Ltd		Tedy Ltd	
	E000	E000	E000	E000
Sales		2,000		1,400
Less cost of goods sold				
Opening inventory	440		144	
Add:				
Purchases	1,550		996	
	<u>1,990</u>		<u>1,140</u>	
Less: closing inventory	<u>(490)</u>		<u>(240)</u>	
		<u>1,500</u>		<u>900</u>
		500		500
Less: Expenses				
Depreciation	27		14	
Wages and salaries	180		160	
Directors' remuneration	210		210	
Other expenses	23		16	
	<u>440</u>		<u>400</u>	
Net profit		<u>60</u>		<u>100</u>

Note: The Statement of changes in Equity shows that retained profits at the start of the year were E60,000 (Rita Ltd) and E20,000 (Tedy Ltd); that dividends paid during the year were E50,000 (Rita Ltd) and E40,000 (Tedy Ltd); and that both companies made transfers from retained to general reserve at the end of the year: E20,000 (Rita Ltd) and E20,000 (Tedy Ltd).

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Rita Ltd E000	E000	Tedy Ltd E000	E000
Non-current assets				
Buildings at cost	300		100	
Less: depreciation to date	(150)		(50)	
		150		50
Equipment at cost	60		30	
Less: Depreciation to date	(40)		(20)	
		20		10
Motor vans	40		35	
Less: Depreciation to date	(16)		(14)	
		24		21
		194		81
Current assets				
Stock	490		240	
Accounts receivable	680		320	
Bank	80		127	
	1,250		687	
Less: Current liabilities				
Accounts payable	(324)		(90)	
Working capital		926		597
		1,120		678
Equity and reserves				
Issued share capital		1,000		500
Reserves				
	General reserve	70		120
	Retained profits	50		58
		1,120		678

Required:

- (a) Calculate the following ratios for each of Rita Ltd and Tedy Ltd:
- i. Gross profit as a percentage of sales; (1 Mark)
 - ii. Net profit as a percentage of sales; (1 Mark)
 - iii. Inventory turnover; (1 Mark)
 - iv. Return on capital employed (ROCE) (2 Mark)
 - v. Current ratio; (1 Mark)
 - vi. Acid test ratio; (1 Mark)
 - vii. Accounts receivable collection period; (1 Mark)
 - viii. Accounts payable days; (1 Mark)

- (b) Comment briefly on the comparison of each ratio as between the two companies. State which company appears to be the more efficient, giving what you consider to be possible reasons? (16 Marks)

Total: (25 Marks)

QUESTION 3

1. List three conditions to be met for the recognition of a provision for any entity under IAS 37 (6 Marks)
2. After a birthday party in 2014 ten people died, possibly as a result of food poisoning from products sold by Mefika Co. Legal proceedings are started seeking damages for E4 Million from Mefika Co but it disputes liabilities. Up to the date of approval of the financial statements for the year to 31 December 2014, Mefika's lawyers advise that it is probable that it will not be found liable. However, when Mefika Co prepares the financial statements for the year to 31 December 2015 its lawyers advise that, owing to developments in the case, it is probable that it will be found liable for E2 Million of the initial claim.

What is the required accounting treatment?

- a) At 31 December 2014. (3 Marks)
 - b) At 31 December 2015. (3 Marks)
3. What are the required disclosures for a contingent liability? (8 Marks)
 4. According to IAS 23, when do you cease to capitalise borrowing costs? (5 Marks)

Total: (25 Marks)

QUESTION 4

Nadine Limited has 50 employees, who are entitled to 10 working days' non vesting paid annual leave for each completed year of service. Unused paid annual leave may be carried forward for one calendar year. Paid annual leave is first taken out of the current year's entitlement (FIFO basis). At 31 December 2014, the average unused entitlement is 4 days per employee. Based on past experience, the entity expects that 41 employees will take 10 days' paid annual leave in 2015, and that the remaining 9 employees will each take an average of 14 days' paid leave each. Assume the daily pay rate per employee to be used in the calculation is E60, and that 10% of the 41 employees will resign during the next year before taking their leave.

Required:

- a) Using the FIFO utilization basis on the above scenario and assuming that 90% of the 41 employees and 100% of the 9 employees are expected to utilize the 4 days' entitlement per employee as at 31 December 2014, calculate the amount of the liability and write up a journal of such amount that is to be raised as a liability in 31 December 2014. (15 Marks)
- b) If the LIFO basis utilisation is used on their leave entitlement on the above scenario, calculate the amount of the liability involved and write up a journal of such amount in December 2014. (5 Marks)
- c) Assuming the unused leave pay can be carried forward indefinitely (a vesting benefit) what would be the amount of the liability be that is to be raised as at 31 December 2014 and write up a journal of such amount. (5 Marks)

Total: (25 Marks)