UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2016

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

| | | |
|---|---|---|
| TITLE OF PAPER | : | FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS |
| COURSE CODE | : | AC323/ AC412 (S) JULY 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**

Tayo 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 41employees 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 4December 2014 and write up a journal of such amount. (5 Marks)

**Total: (25 Marks)**

**QUESTION 2**

The authorized and issued share capital of Celsius Ltd was E75,000 divided into 75,000 ordinary shares of E1 each, fully paid. On 2 January 2013, the authorized 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 E1 each 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 for the first and final call.

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 balances 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:**
To record the above mentioned transactions in the appropriate ledger accounts.

**Total: (25 Marks)**

**QUESTION 3**

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 4**

On 1 January 2011 Malthus Co, wine merchants, buys a small bottling and labeling machine from Silence Co under a finance lease. The cash price of the machine was E7,710 while the amount to be paid was E10,000. The agreement required the immediate payment of a E2,000 deposit with the balance being settled in four equal annual installments commencing on 31 December 2011. The charge of E2,290 represents interest of 15% per annum, calculated on the remaining balance of the liability during each accounting period. Depreciation on the machine is to be provided for at the rate of 20% per annum on a straight line basis assuming a residual value of nil.

**Required:**

Prepare the following ledger accounts in the books of Malthus Co as well as an extract of the statement of comprehensive income and an extract of the statement of financial position for each of the years ending 31 December 2011, 2012, 2013 and 2014:

a) Machine account. (1 Mark)

b) Silence Co Loan account. (8 Marks)

c) Provision for depreciation account. (5 Marks)

d) An extract of the statement of comprehensive income. (4 Marks)

e) An extract of the statement of financial position. (7 Marks)

**Total: (25 Marks)**