
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

SUPPLEMENTARY EXAMINATION PAPER

JULY 2018

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|------------------------------|---|---|
| DEGREE/YEAR OF STUDY: | | BACHELOR OF COMMERCE YEAR IV/ IDE LEVEL V & VII |
| TITLE OF PAPER | : | ADVANCED FINANCIAL ACCOUNTING II |
| COURSE CODE | : | AC 427/ IDE AC 427/504 (S) JULY 2018 |
| 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 each question are indicated at the end of the question. |
| | 4 | Show all your workings. |
| | 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 language together with the layout and presentation of your final answer.

SPECIAL REQUIREMENTS: CALCULATOR

This paper is not to be opened until permission has been granted by the invigilator

QUESTION 1

The following balances were taken from the books of B (Pty) Ltd on-31 December 2016:

| | Accumulated depreciation | Cost price |
|--------------------|-------------------------------------|-------------------|
| Land | - | 185,000 |
| Furniture | 60,200 | 86,000 |
| Catering equipment | 36,840 | 128,400 |
| Motor vehicles | 25,400 | 134,000 |
| Office equipment | 8,800 | 45,300 |

Additional information:

1. Catering equipment to the amount of E 36 800 was purchased on 31 March 2017.
2. A delivery vehicle was sold on 31 August 2017 for E 54 000. The cost price and accumulated depreciation on 31 December 2016 were E 74 000 and E 12 800 respectively.
3. The company decided to buy an additional photocopy machine for the business. It was calculated that the machine would have a residual value of E 4 000. The cost price of the machine at 30 June 2017 was E 28 600.
4. Depreciation rates and methods
 - a) Furniture – Sum-of-the-digits method over 4 years
 - b) Catering equipment – 20% per annum straight-line method
 - c) Vehicles – 20% per annum reducing balance method
 - d) Office equipment – 10% per annum reducing balance method
5. All furniture was purchased on 02 January 2015
6. There were no other transactions relating to non-current assets during the year

Required: Prepare the reconciliation note for non-current assets for the 2017 financial year

Total:

[25 Marks]

QUESTION 2

Company A acquired a property on 1 January 2012 for E 1 400 000, of which E 400 000 related to the cost of the land. The building was a large warehouse. Ignore VAT.

At the acquisition date it was determined that the warehouse:

- ❖ Had an estimated useful life of 25 years,
- ❖ Would be used evenly over the period, and
- ❖ The residual value was estimated at E 800 000.

The estimated useful life, residual value and depreciation method were confirmed at each subsequent balance sheet date.

The market value (fair value) of the property was determined as follows:

| Date | Land | Warehouse | Total |
|----------------|---------|-----------|-----------|
| | E | E | E |
| 1 January 2015 | 963 000 | 1 537 000 | 2 500 000 |
| 1 January 2014 | 871 000 | 1 329 000 | 2 200 000 |
| 1 January 2013 | 664 000 | 1 136 000 | 1 800 000 |

YOU ARE REQUIRED TO:

(a) Prepare the journal entries to record all the transactions relating to the property for the financial years which ended on 31 December 2013, 2014 and 2015, for each of the following situations:

Situation 1:

Company A occupied the warehouse since the acquisition date. The company applies a policy of revaluing property every year, based on the depreciated replacement cost and accumulated depreciation is eliminated against the carrying value of the asset at each revaluation date.

Situation 2:

Company A signed a rental contract on 2 January 2012, the terms of which stipulated that the tenant would occupy the warehouse for at least 10 years at an escalating monthly rental charge of E 15 000. Company A has always applied the fair value model for rented property.

Total:

[25 Marks]

QUESTION 3

- i) Identify which of the following are financial instruments (i.e. a financial asset, financial liability, or equity instrument in another entity), within the scope of IFRS9s:

| Item | Financial instrument? Yes/No | Give short reason for your answer | Marks |
|-------------------------|------------------------------|-----------------------------------|---------|
| Provision for bonuses | | | 4 Marks |
| Lease liability payable | | | 4 Marks |
| Trade account payables | | | 4 Marks |
| Prepayments | | | 4 Marks |

[16 Marks]

- ii) Discuss the criteria that needs to be met for an asset to be classified as held for sale in accordance with the requirements of IFRS 5 [9 Marks]

Total:

[25 Marks]

QUESTION 4

PART A

On 1 July 2017 you were appointed Financial Accountant of Tacey Enterprises (Pty) Ltd, a manufacturer of gent's shoes. The Managing Director, Mr Simpson, has received a recommendation from the auditors, J Cochran & Co, advising that the accounting records relating to taxation be corrected and updated.

The financial year end of the company is 31 August of each year. On further investigation you discover the following facts:

1. The balance on the General Ledger account "SRA" as at 1 September 2015 is E 3 240 credit and none of the entries relating to taxation set out in items 2 to 8 below have been recorded.
2. The 1st and 2nd Provisional tax payments for the 2016 Income Tax year were E 13 500 and E 9 000 respectively. Net profit before tax for the 2016 financial year was E 85 000 and the tax calculation estimated taxable income at E 82 300.
4. On 28 February 2017 the company made a first provisional tax payment of E 13 500 for the 2017 year and the second provisional tax payment of E 8 000 was made on 31 August 2017.
5. The assessment for the 2016 Income Tax year arrived on 15 July 2017 reflecting Taxable Income to be E 77 500. The assessment reflected that the total amount that would be refunded on 29 July 2017 amounted to E 1 670. This cheque was received and banked on 29 July 2017.
6. The audit of the 2017 financial year is completed on 3 November 2017 and the company reflects Net Income before Tax of E 650. After completing the income tax calculation and taking into account additional tax allowances, you determine that the company is likely to have a computed tax loss for the year of E 2 540.
7. 3rd provisional tax payments have been made where appropriate.
8. The company tax rate is 30%.

Required: Prepare the general ledger account for the income tax payable –SRA account for Tacey Enterprises to give effect to all the transactions above **[16 Marks]**

PART B

Discuss the three methods that an entity can use to compute depreciation **[9 Marks]**

Total: **[25 Marks]**