

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER MAY 2018

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING II

COURSE CODE : ACF212/AC212 (M) MAY 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 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

Java stores is a retail enterprise at Mbabane with a branch in Manzini. The following trial balances were extracted from the books of accounts at 31 December 2017:

	Mbabane		Manzini	
	Dr	Cr	Dr	Cr
	E '000	E'000	E'000	E'000
Fixed assets	3150		900	
Accumulated depreciation		1260		270
Current accounts	1575			1080
Goods sent to branch		3420	3375	
Inventory	72		180	
Capital		2106		
Purchases/sales	8226	7650		3933
Provision for unrealized profit		36		
Provision for doubtful debts		45		18
Distribution expenses	720		45	
Administrative expenses	180		144	
Receivable/Payables	540	450	540	
Drawings	360			
Bank	144		177	
	<u>14967</u>	<u>14967</u>	<u>5301</u>	<u>5301</u>

Additional Information:

- All goods are purchased by Mbabane. Those goods sent to Manzini are invoiced at cost plus 25%.
- Stocks were valued at 31 December 2017: Mbabane E225, 000; Manzini E135, 000 at invoice price.
- Depreciation is to be provided for the year on fixed assets at a rate of 10% on cost.
- The provision for doubtful debts is to be maintained at a rate of 5%.
- As at the 31 December 2017, there was E450, 000 cash in transit from Manzini to Mbabane. Goods invoiced at E45, 000 were in transit from Mbabane to Manzini.

**Required:**

- Prepare in adjacent columns the head office and the branch income statements for the year ended 31 December 2017. (15 marks)  
**Note:** a combined income statement is not required.
- Prepare a combined balance sheet as at 31 December 2017 for the Head office and the branch. (10 marks)

## QUESTION 2

- a. On 1 January 2015, Zipho bought a computer (cash price E1046) from Doc Ltd on hire purchase. Zipho was to make an immediate payment of E300 on 1 January 2015 and three annual payments of E300 on 31 December 2015, 2016 and 2017 respectively. The rate of interest chargeable was 10% per year on the balance outstanding at the start of each year. The computer is depreciated at 20% reducing balance each year.

**Required:** Write up the following ledger accounts in the books of Zipho for each of the three years:

- i. Machinery account (1 mark)
- ii. Accumulated depreciation on machine account (3 marks)
- iii. Interest payable account. (3 marks)
- iv. Hire purchase supplier account (6 marks)
- v. Show how the computer would appear in the statement of financial position as at 31 December 2015 (3 marks)

- b. Compare and contrast Hire Purchase and Leasing as a mode of acquiring an asset. (9 marks)

## QUESTION 3

- a. The following is the statement Financial Position of A&B limited and X&Y limited as at 31 December 2017.

### A&B Limited

Statement of Financial Position as at 31 December 2017.

	A&B E.000	X&Y E.000
<b>Assets</b>		
Cash	35000	22000
Accounts receivable (net)	40000	30000
Inventory	100000	40000
Intangible assets	85000	308000
Property, plant and equipment (net)	<u>140000</u>	<u>400000</u>
	<b><u>400000</u></b>	<b><u>800000</u></b>
<b>Liabilities and Equity</b>		
Accounts payable	100000	50000
Long-term debt (15%)	60000	70000
Share capital (par E.10)	150000	500000
Share premium	30000	110000
Retained Earnings	<u>60000</u>	<u>70000</u>
	<b><u>400000</u></b>	<b><u>800000</u></b>

**A&B Limited****Statement of Financial performance**

	A&B	X&Y
	E.000	E.000
Sales revenue (1/4 on credit)	450000	810000
Cost of goods sold	-245000	-405000
Expenses (including interest and tax)	<u>-160000</u>	<u>-315000</u>
Net income	<u>45000</u>	<u>90000</u>

**Additional information for the year 2016**

	A&B	X&Y
	E.000	E.000
Accounts receivable (net)	20000	38000
Inventory	92000	45000
Long-term debt	60000	70000

**Other data**

	A&B	X&Y
Per share price at end of 2017	E.18	E.15
Average income tax rate	30%	30%
Dividends paid in 2017	36,000,000	15,000,000

**Required:**

Calculate the following ratios for the year 2017.

- Current ratio for company A&B Ltd (2marks)
  - Return on total assets ratio for A&B and X&Y and comment on the results. (4marks)
  - Average collection period ratio for X&Y Ltd (3marks)
  - Average payment period for A&B and X&Y and comment (4marks)
  - Debt to total assets ratio for X&Y Ltd (3marks)
  - Interest cover ratio for A&B (4marks)
- b. Discuss the reasons why financial statements should be analysed on regular basis. (5 marks)

**QUESTION 4**

- a. Inyatsi Construction Company purchased an automatic brick making machine to be used at its project site. The following costs were incurred:

	E.000
Purchase price of the machine	4000
Delivery cost	400
Installation cost	500
Trade discount given	200
Cost of site preparation	800
Architect's fees	60

Administration expenses	600
Test run	300

The test run was to ensure that the asset was installed and working correctly without causing environmental damage. During the test run bricks worth E.60000 were made. The company has been granted a license to operate the asset on the condition that the company will remove the asset at end of the project and return the site to its former condition. The company has recognised a liability of E1, 000,000 in respect of expected clearance cost.

**Required:**

Calculate the cost of machine in accordance with the provisions of IAS 16 on property plant and equipment. (8marks)

b. IAS 38 – Intangible Assets – was primarily issued in order to identify the criteria that need to be present before expenditure on intangible items can be recognised as an asset. Explain the criteria that need to be satisfied before expenditure on intangible items can be recognised in the statement of financial position as intangible assets. (5:marks)

c. Discuss six main uses of business plans. (12marks)

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