

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
RESIT/SUPPLEMENTARY EXAMINATION PAPER JULY 2018

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING II

COURSE CODE : ACF212/AC212 (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 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

PS Ltd is a business with a head office and a branch. All goods are purchased by the head office and sent to the branch at a fixed selling price of 25% above cost. The following trial balance was extracted from the books of the head office at 31 December 2017.

	Head office		Branch	
	Dr	Cr	Dr	Cr
	E '000	E'000	E'000	E'000
Inventory	16		40	
Purchases/Revenue	1828	1700		884
Capital		600		
Administrative expenses	40		42	
Trade receivables/trade payables	120	100	120	
Drawings	80			
Non current assets	700		200	
Accumulated depreciation		280		60
Current accounts	350			240
Goods sent to branch		760	750	
Provision for unrealised profit		8		
Provision for doubtful debts		10		4
Distribution expenses	160		10	
Bank	164		26	
	<u>3458</u>	<u>3458</u>	<u>1188</u>	<u>1188</u>

Additional information:

- Inventories were valued at 31 December 2017: Head office E40, 000; Branch E30, 000 invoice price.
- Depreciation is to be provided for the year on non-current assets at a rate of 10% on cost.
- The provision for doubtful debts is to be maintained at a rate of 5%.
- As at 31 December 2017, there was E100, 000 cash in transit from branch to head office. Goods invoiced at E10, 000 were in transit from head office to branch.

Required:

- Prepare in adjacent columns: the head office and the branch income statements for the year ending 31 December 2017. (18 marks)
- A combined balance sheet for PS as at that 31 December 2017. (7 marks)

Notes:

- A combined income statement is not required; and
- Separate balance sheets for the head office and the branch are also not required.

QUESTION 2

The following is a summarised profit and loss accounts for the year ended 31 December 2017 and the balance sheets at that date for Hector Ltd and Berrelin Ltd:

Profit and loss accounts				
	Hector Ltd		Berrelin Ltd	
	E.000	E.000	E.000	E.000
Sales		200		180
Less cost of sales				
Inventory 1 January 2017	24		14	
Add Purchase	<u>160</u>		<u>162</u>	
	184		176	
Less stock at 31 Dec 2017	<u>26</u>	<u>158</u>	<u>15</u>	<u>161</u>
Gross profit		42		19
Expenses		<u>8</u>		<u>9</u>
Net profit		<u>34</u>		<u>10</u>
Balance sheets				
	Hector Ltd E'000		Berrelin Ltd E'000	
Issued share capital		70		50
General reserve		40		36
Profit and loss account		<u>46</u>		<u>22</u>
		<u>156</u>		<u>108</u>
Fixed assets		68		75
Current assets				
Inventory	26		15	
Debtors	36		31	
Cash	<u>68</u>		<u>31</u>	
	130		83	
Less payables	42		50	
Net current assets		<u>88</u>		<u>33</u>
		<u>156</u>		<u>108</u>

Required:

- a. Calculate the following ratios for the two companies:
 - i. Quick ratio (3marks)
 - ii. Creditors payment period (in months) (3 marks)
 - iii. Debtors collection period (in months) (3marks)
 - iv. Asset turnover (3marks)
 - v. Stock turn (times) (3 marks)
 - vi. Return on equity (3marks)
 - vii. Comment on the results (iii) and (vi) above (4 marks)

- b. Discuss problems and limitations of financial ratio analysis (4marks)

QUESTION 3

MTN Ltd acquired a motor vehicle on 1 January 2015 on hire purchase from CMC Motors. The cash price was E90000 and hire purchase price E129150. The hire purchase contract required a deposit of E30000 on delivery followed by three instalments on 31 December 2015, 2016 and 2017 of E33000, E33000 and E33150 respectively. The rate of interest was 30% per annum. CMC motors had purchased the motor vehicle for E60000. Depreciation is to be charged on the vehicle at 20% per annum using straight line method. Any profit on asset sold was earned in the year 2015.

Required:

- a. Make the following entries in the books of CMC motors
 - i. Hire purchase sales account (2 mark)
 - ii. Debtors account (MTN Ltd) (9marks)
 - iii. Hire purchase trading account (5 marks)
 - iv. Hire purchase interest account (3marks)
- b. Discuss the special features of hire purchase agreement. (6marks)

QUESTION 4

- a. What are the conditions for recognizing and measuring a provision as contingent liability? (10 Marks)
- b. Discuss any five components of a business plan. (15 marks)

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