UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER NOVEMBER 2018

TITLE OF PAPER	:	INTERMEDIATE FINANCIAL ACCOUNTING I
COURSE CODE	:	ACF 211/AC 211 (M) 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.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

Question 1

Thwala, Tfwala and Phinda have been trading for several years and prepare their financial statements annually to 31 March. They have never had a partnership agreement.

Required

a. State four provisions which would apply in the absence of a partnership agreement. (4 Marks)

Additional Information

The statement of the financial position for the partnership at 31 March 2018 was as follows:

Thwala, Tfwala and Phinda
Statement of Financial Position at 31 March 2018

	E
Assets	
Non-current Assets	
Freehold premises	109000
Fixtures and Fittings	64900
	173900
Current assets	
Trade receivables	14500
Bank account	5600
	20100
Total assets	194000
Capital and Liabilities	
Capital accounts	
Thwala	40000
Tfwala	40000
Phinda	40000
	120000
Current accounts	
Thwala	27600
Tfwala	18500
Phinda	22200
	68300
Current liabilities	
Trade payables	5100
Other Payables	600
	5700
Total capital and liabilities	194000

On 1 April 2018 Thwala retired from the partnership and the following was agreed:

1. Goodwill was valued at E42000. A goodwill account is not to be maintained in the books of account.

2. Assets were revalued at the following amounts:

Freehold premises	E120, 000
Fixtures and fittings	E62, 200
Trade receivables	E13, 700

3. Thwala received E15, 000 from the partnership bank account. The remaining balance owed to him was left as an interest-free loan to the partnership to be repaid by 31 March 2023.
4. Tfwala and Phinda agreed to continue in partnership and to share profits and losses equally.

Required

b. Prepare the partners'capital accounts to record the retirement of Thwala from the partnership. (13 Marks)

c. Thwala has recently advised the partners that he is having financial difficulties. He has asked Tfwala and Phinda for the payment of the balance on his loan account as soon as possible. Advise Tfwala and Phinda whether or not they should agree to Thwala's request. Justify your answer. (8 Marks)

Question 2

The following is an extract from the statement of financial position of X Limited at 31 December 2016.

		E
Equity:	Share capital (E1 ordinary shares)	400000
	Share premium	20000
	Retained Earnings	190000
Total Equity		610000
Non-current Liabilities		
	8% Debentures (2019-20)	80000
Current Liabilities		
	Trade and other payables	20000
	Cash and cash equivalents	60000
		80000
Total Liabilities		160000
Total Equity and Liabilities		770000

During the year ended 31 December 2017 the following transactions took place.

1 January 2017 Issue of 80000 ordinary shares at E1.25 each.

30 June 2017 Rights issue of 3 ordinary shares for every 8 shares held on this date at an issue price of E1.30. This was fully subscribed.

30 September 2017 Bonus issue of 1 ordinary share for every 6 shares held on this date.

Required:

i. Prepare journal entries to record each of these transactions in the books of account. Dates and narratives are not required. (9 Marks)

ii. Prepare a statement to show the effect that the transactions had on the total equity. (4 Marks)

iii. Explain 3 uses of a share premium account. (6 Marks)

iv. Elaborate three reasons why a company may make a bonus issue of shares. (6 Marks)

Question 3

Mamba and Maseko enter into a joint venture to share profits and losses equally. Both take an active role in the business which sells bicycles. Each records his own transactions. There is no joint bank account.

During May 2018 the following transactions took place.

May 1 Mamba purchased 12 bicycles for E900 and also paid carriage of E90.

2 Mamba paid E160 for repairs to the bicycles.

4 Maseko paid garage rental of E100 and advertising costs of E70.

10 Mamba sold all the bicycles he purchased for E1850.

14 Mamba paid Maseko E500.

15 Maseko purchased 4 bicycles for E200 and also paid carriage of E50.

20 Mamba paid E120 for repairs to the bicycles which Maseko had purchased.

26 Maseko kept one bicycle for his daughter. This bicycle was valued at E60. The rest of the bicycles were sold by Mamba for E340.

30 The amounts due from one party to the other were paid in full. The joint venture was then dissolved.

Required:

a. Prepare a statement to calculate the profit or loss from the venture. (6 Marks)

b. Prepare the:

i. Joint venture account with Maseko in Mamba's books of account (5Marks)

ii. Joint venture account with Mamba in Maseko's books of account. (7Marks)

c. State one benefit to both Mamba and Maseko of setting up a joint venture. (2Marks)

Additional information
Maseko is interested in working with Mamba again but is proposing that they form a partnership, sharing profits and losses equally. Mamba is unsure whether he should take this action.

d. Advise Mamba whether or not he should enter into a partnership with Maseko. Justify your advice and support your answer with calculations, where appropriate. (5 Marks)

Question 4

a. In accordance with the conceptual framework for financial reporting published by the International Accounting Standards Board (IASB):

i. Define an asset and a liability; and (2 Marks)

ii. Explain, with reasons, whether a motor vehicle and a bank loan obtained to purchase a motor vehicle conforms to the definition of an asset and liability respectively. (8 Marks)

b. The following are defined in IAS 10 – *Events after the Reporting Period*: Describe what is meant by the following:

i. Events after the reporting period. (2 Marks)
ii. Adjusting events. (2 Marks)
iii. Non-Adjusting events (2 Marks)

c. The management of a company completed draft financial statements for the year-ended 31 December 2017 on 15 January 2018. On the 19 January 2018, the board of directors reviewed the financial statements. The board had no issues with the financial statements and directed the management of the company to allow the financial statements to be issued to relevant and interested parties. The company announced its results on 20 January 2018. The financial statements were made available to shareholders and others on 1 February 2018. The shareholders approved the financial statements at the company's annual meeting on 15 February 2018. The approved financial statements were then filed with the companies' registration office on 1 March 2018.

i. Outline and explain which date the financial statements are authorised for issue. (3 Marks)

ii. In relation to the information provided in part (c), management of the company decided to declare a dividend on 17 January 2018. Should the company record the dividend in the financial statements for the year-ended 31 December 2017? Justify your answer. (3 Marks)

d. On 10 January 2018, Ding Dong Limited sold some inventory for E80, 000. This inventory had been included in the year-end (31 December 2017) inventory count at cost of E100, 000. Outline the proper accounting treatment so as to ensure that the financial statements are prepared in accordance with IAS 2. (3 Marks)

END