

UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JANUARY 2019

TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING I

COURSE CODE : ACF211/AC 211 (S) 2019

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

Mamba and Magongo are in partnership. They did not have a formal partnership agreement. The following balances were extracted from the books of account for the year ended 30 April 2018:

	E	E
	Mamba	Magongo
Capital accounts at 30 April 2018	73800	58900
Current accounts at 1 May 2017	8865 Dr	7092 Cr
Drawings for the year	22000	18000
Partnes'loan account	8000

Drawings accrue evenly throughout the year. Mamba made the loan to the partnership in 2016. No repayments have been made on the loan account.

From 1 August 2017, Ngwenya was admitted into the partnership. Ngwenya introduced E25 000 in cash and a motor vehicle valued at E18 800.

No adjustment is to be made for goodwill and there will be no revaluation of assets.

A partnership agreement was prepared on the introduction of Ngwenya. The terms were as follows:

- i. Interest on capital accounts to be allowed at 4% per annum.
- ii. Interest on drawings to be charged at 3% per annum.
- iii. Interest on the loan account to be charged at 2% per annum and recorded in the current account.
- iv. Ngwenya to be paid an annual salary of E11 900.
- v. Ngwenya not to take any drawings during the year ending 30 April 2018.
- vi. Profits and losses to be split between Mamba, Magongo and Ngwenya in the proportion 40%, 35% and 25% respectively.

The draft profit for the year ended 30 April 2018 was E60 000 before interest was charged on Mamba's loan. Profits before interest accrue evenly throughout the year.

Required

- a. Prepare the partnership appropriation account for the 9 month period 1 August 2017 to 30 April 2018. (11 Marks)
- b. Prepare the current account for Green for the year ended 30 April 2018. (9 Marks)
- c. Explain the provisions of the Partnership Act in the absence of a partnership agreement. (5 Marks)

Question 2

The balance sheet of Bloom Ltd for the years ended 31 December, 2016 and 31 December 2017 were summarized and shown below:

	2017	2016
	E	E
Fixed assets (at written down values)		
Premises	10,000	10,000
Fixtures	17,000	11,000
Vehicles	12,500	8,000
Current assets		
Stock	17,000	14,000
Debtors	8,000	6,000
Bank and cash	<u>23,000</u>	<u>29,500</u>
	<u>87,500</u>	<u>78,500</u>
Ordinary shares of £1 per share	60,000	50,000
Reserves		
Profit and Loss	5,000	4,000
Creditors due in less than one year		
Trade creditors	4,000	2,500
Taxation	1,500	1,000
Proposed dividends	2,000	1,000
Creditors due in more than one year		
10% debentures	<u>15,000</u>	<u>20,000</u>
	<u>87,500</u>	<u>78,500</u>

Note: The 10% debentures were redeemed and cancelled on 31 December 2017

The profit and Loss account for the year ended 31 December 2017 was summarized thus:

	E	E
Turnover		36,250
Cost of sales		<u>(21,750)</u>
Gross profit		14,500
Profit on disposal of vehicles		<u>700</u>
		15,200
Less:		
Wages and salaries	1,600	
Other (cash) expenses	3,600	
Depreciation	3,500	
Debenture interest	<u>2,000</u>	
		<u>10,700</u>
Profit before tax		4,500
Less: Tax		<u>1,500</u>
Profit after tax		3,000
Less: Proposed dividends		<u>(2,000)</u>

Retained profit: for year	1,000
: Brought forward	<u>4,000</u>
: Carried forward	<u>5,000</u>

Separate bank and cash accounts for the year ended 31 December 2017 were summarized as shown below:

	Bank E	Cash E		Bank E	Cash E
Opening balance b/d	25,300	4,200	Payment to trade	23,250	-
Receipts from debtors	30,500	3,750	creditors	700	900
Receipts from fixed asset disposals – vehicles	1,200	500	Wages, salaries	2,400	1,200
Ordinary share issue	10,000	-	Other expenses	2,000	
Transfer from cash	4,650	-	Debtenture interest		
			Fixed assets	7,000	-
			fixtures	8,000	-
			vehicles	1,000	
			Tax paid	1,000	
			Dividends paid	5,000	
			10% debentures:		4,650
			redeemed	<u>21,300</u>	<u>1,700</u>
			Transfer to bank		
			Closing balances c/d	<u>71,650</u>	<u>8,450</u>
	<u>71,650</u>				
		<u>8,450</u>			
Opening balances b/d	21,300	1700			

Required

- Prepare a cash flow statement for the period ended 31 December 2017. (Use direct method). (14 Marks)
- Prepare the cash flows from operating activities using the indirect method for the year ended 31 December 2017. (8 Marks)
- Explain three limitations of cash flows. (3 marks)

Question 3

Joseph and Mary have separate garage businesses and have agreed to form a joint venture to buy and sell second hand cars. They have agreed to share the profits and losses as two thirds to Joseph and one third to Mary. They record purchases and sales of cars in their own books of account.

The following financial information is available for the period of the joint venture.

	Joseph	Mary
	E	E
Credit purchases	24500	17600
Expenses	3200	2300
Commission received	1000
Discounts received	500	100
Cash sales	6000	4800
Credit sales	32000	50700
Returns inwards	4500	
Irrecoverable debts		300

It was agreed that Mary would take over the inventory of unsold cars at the end of the venture. Mary has advised that she has an inventory of unsold cars at the end of the venture valued at E6500.

Required

- a. Prepare the memorandum joint venture account. (9 Marks)
- b. Prepare the joint venture account in the books of Joseph and show the balance due to or from Mary. (8 Marks)
- c. State the heading under which the balance due will be shown in Joseph's statement of financial position. (1 Mark)

Additional information

Joseph has discovered that Mary did not hold any inventory but had sold the closing inventory of cars for E12 500.

Required

- d. Calculate:
 - i. The correct total profit for the joint venture. Start your calculation with your answer from (a). (3 Marks)
 - ii. The extra profit due to Joseph from the joint venture. (1 Mark)
- e. Evaluate whether or not Joseph should have entered into the joint venture with Mary. Justify your answer. (3 Marks)

Question 4

- a. Distinguish between script issue and bonus issue in regard to company accounts. (4 Marks)
- b. Identify and discuss seven qualitative characteristics of financial statements. (14 Marks)
- c. In accordance with IAS 2 - Inventories, explain the following terms
 - i. Net realisable value (1.5 Mark)
 - ii. Replacement cost (1.5 Mark)

- iii. A company has three items of inventories on hand at the year-end. Their costs and NRVs are as follows:

Item	Cost E	Net Realisable Value. E	Closing value at year end
1	360	380	?
2	280	240	?
3	200	200	?
Total	840	820	?

Compute the closing values at the year-end

(4 Marks)

END