



**UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY/JUNE 2019**

- TITLE OF PAPER** : **INTERMEDIATE FINANCIAL ACCOUNTING II**
- COURSE CODE** : **ACF212 (F/T)/ACF 212(N/P-IDE) ACF 212(IDE) AC
212(IDE) (M) MAY/JUNE 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

Mr. Amos operates a retail business whose main branch is in Manzini and a branch in Mahala. The following trial balances have been extracted from his books as at 31 December 2018.

	Manzini		Mahala	
	Dr E 000	Cr E 000	Dr E 000	Cr E 000
Capital		87		
Drawings	27			
Receivables/Payables	300	270	200	
Purchases/Sales	2 700	3140		1 210
Distribution expenses	140		37	
Allowance for unrealised profit		9		
Current accounts	269			205
Current tax payable		36		
Income tax	34		18	
Allowance for doubtful debts		9		4
Non-Current Assets	970		290	
Bank	245		47	
Goods sent to Branch		936	910	
Administration expenses	62		34	
Inventory 1 Jan 2018	60		39	
Accumulated depreciation as at 1 Jan 2018		320		156
	<u>4 807</u>	<u>4 807</u>	<u>1 575</u>	<u>1 575</u>

Additional Information:

1. At 31 December 2018, there was E38, 000 cash in transit from Mahala to Manzini.
2. Goods invoiced at E26, 000 were in transit from Manzini to Mahala on 31 December 2018.
3. All goods are purchased by the Manzini branch. Goods are then sent to Mahala and are invoiced at cost plus 30%.
4. Closing inventory was valued at 31 December 2018 at cost of E28, 000 in Mahala and at invoice price of E39, 000 in Mahala.
5. The Allowance for doubtful debts is to be maintained at a rate of 3%.
6. Depreciation is to be provided for the year on Non-current assets at the rate of 10% straight line.

Required:

- a. In adjacent columns, prepare the Statement of Comprehensive Income for the year ending 31 December 2018 for Mr Amos, for: The Manzini shop, Mahala shop and for the Combined business. (14 marks)
 - b. Prepare a combined Statement of Financial Position for Mr Amos for the year ending 31 December 2018. (11marks)
- [25marks]**

Question 2

ABC Ltd commenced business on 1 January 2017. They sell refrigerators, all of one standard type, on hire purchase terms. The hire purchase price (including interest) is E 12 000 for each refrigerator. Customers are required to pay an initial deposit of E 3 000, followed by 12 monthly instalments of E 750 each. The cost of each refrigerator to ABC Ltd is E 8 000. The following trial balance was extracted from ABC Ltd books as on 31 December 2017.

Trial Balance		
	Dr	Cr
	E	E
Ordinary share capital		1 000 000
Fixed assets	100 000	
Purchases	4 000 000	
Cash collected from customers		2 400 000
Wages and salaries	120 000	
General expenses	15 000	
Creditors		250 000
Bank overdraft		590 000
Bank charges	5 000	
	4 240 000	4 240 000

Four hundred refrigerators were sold on hire purchase terms during 2017. A dividend of 10% was proposed by the directors. The annual accounts are prepared on the basis of taking credit for profit (including interest) in proportion to cash collected from customers.

Required:

- a. Compare and contrast Hire Purchase and Leasing as modes of acquiring assets. (8marks)
 - b. Prepare the Hire Purchase Income Statement for the year ending 31 December 2017. (12marks)
 - c. Statement of Financial Position for the year ending 31 December 2017. (5marks)
- [25marks]**

Question 3

a. Habbakuk manufactures a single product. It operates a flexible budgetary control system.

Required:

- i. Explain what is meant by flexible budgetary control (3marks)
- ii. Explain why flexible budgetary control is better than a fixed budget to monitor the costs of a business. (4marks)

The budgeted sales in units for the next three months are:

Months	Units
1	1200
2	1400
3	1600

At the start of month 1 it will have 200 units of finished goods in stock. It wishes to reduce the closing stock of finished goods by 20 units a month.

Required:

- iii. Prepare the company's production budget in units for month 1-3. (8marks)
- b. Explain the conditions for recognizing and measuring a provision as contingent liability. (10marks)
[25marks]

Question 4

Mamba Ngwenya is a sole trader. He prepared the following Statement of Financial Position as at 28 February 2019.

Mamba Ngwenya			
Balance sheet as at 28 Feb 2019			
	E	E	E
Fixed assets at book value			45 000
Current assets			
Stock		12 000	
Debtors		9 500	
Cash		500	
		<u>22 000</u>	
Current liabilities			
Creditors	6 300		
Bank overdraft	8 200	14 500	7 500
			<u>52 500</u>
Capital			<u>52 500</u>

Required:

- a. Calculate, to the nearest 2 decimal places: (Show your workings)
 - i. Current ratio. (2marks)
 - ii. Quick ratio (2marks)
 - iii. State and explain which of the above ratios gives a better indication of the liquidity position of Mamba's business. (4marks)

Mamba's net profit for the year ended 28 February 2009 was E4950.

Required:

- b. Calculate, correct to two decimal places, Mamba's return on capital employed (ROCE). Base your calculation on the capital at 28 February 2019. Show your workings. (2marks)

All of Mamba's sales are made on credit. His debtors are allowed a period of 30 days in which to pay their accounts. For the year ended 28 February 2019 his sales were E69 300.

Required:

- c.
 - i. Calculate Mamba's collection period for debtors. Show your workings. (2marks)
 - ii. State and explain whether you think Mamba will regard this ratio as satisfactory. (2marks)

Mamba purchases all his goods on credit. He is allowed a period of 60 days in which to pay his accounts. For the year ended 28 February 2019 his purchases were E47 600.

Required:

- d. Calculate Mamba's payment period for creditors. Show your workings. (2marks)
- e. Explain two possible advantages to Mamba of paying his creditors before the due date. (4marks)
- f. Explain one possible disadvantage to Mamba of paying his creditors before the due date. (2marks)
- g. Explain to Mamba three limitations of ratios in analysing business performance. (3marks)

[25 Marks]

END