

UNIVERSITY OF ESWATINI  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER DECEMBER 2018

DEGREE/ DIPLOMA	:	B. COM III - FULL TIME B.COM V LEVEL 4 – IDE B. ED. SECONDARY - LEVEL 3 & 4
YEAR OF STUDY	:	Year Three (1 <sup>st</sup> Semester) – Full Time Year Four (1 <sup>st</sup> Semester) – IDE Year Three & Four (1 <sup>st</sup> Semester) – B. ED
ACADEMIC YEAR	:	2018/2019
TITLE OF PAPER	:	Advanced Financial Accounting I
COURSE CODE	:	ACF311 / IDE AC320 / IDE AC411
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are THREE (3) 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 INVILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

**QUESTION 1:**

Petina Limited was incorporated in the year 2006 with an authorised share capital of 1 000 000 ordinary shares and 500 000 10% non-redeemable preference shares. The following information has been extracted from the financial statements as at 30 September 2018:

**Petina Limited**

**Extract from the Statement of profit or loss and other comprehensive income for the year ended 30 September 2018:**

Revenue	3 500 000
Cost of sales	<u>(2 450 000)</u>
Gross profit	1 050 000
Dividend income	3 200
Other expenses	<u>(339 950)</u>
Finance cost (interest expense)	<u>(136 268)</u>
Profit before tax	576 982
Income tax expense	<u>(177 888)</u>
Total profit and other comprehensive income for the year	E399 094

**Petina Limited**

**Extract from the Statement of changes in equity for the year ended 30 September 2018:**

	Retained earnings
Opening balance – 1/10/2017	360 755
Profit and comprehensive income for the year	399 094
Transfer to asset replacement reserve	<u>(70 000)</u>
Shareholders for Dividends (Ordinary and Preference)	<u>(250 000)</u>
Closing balance - 30/09/2018	E439 849

**Petina Limited**  
**Statement of financial position as at 30 September 2018 and 2017**

ASSETS	2018	2017
<b>Non-current assets:</b>		
Property, plant and equipment	2 362 000	2 480 000
Investment	370 000	250 000
<b>Current assets:</b>		
Inventories	146 000	131 200
Debtors	135 350	147 200
Prepaid expenses	6 300	5 960
Swaziland Revenue Authority (SRA)	---	6 440
Cash and cash equivalents	120 250	84 300
<b>TOTAL ASSETS</b>	<b>R3 139 900</b>	<b>R3 105 100</b>

EQUITY AND LIABILITIES	2018	2017
<b>Equity:</b>		
Issued capital – ordinary shares	1 225 000	1 225 000
Issued capital – preference shares	272 700	---
Other components of equity	70 000	---
Retained earnings	439 849	360 755
Total Equity	2 007 549	1 585 755
<b>Non –current liabilities:</b>		
16% Interest bearing borrowings (Mortgage loan)	250 000	625 000
20% Debentures	526 845	526 845
<b>Current liabilities:</b>		
Creditors	96 350	142 500
Income tax payable – SRA	12 888	---
Interest payable	96 268	100 000
Shareholders for dividends (ordinary and preference)	150 000	125 000
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3 139 900</b>	<b>3 105 100</b>

**Additional Information:**

1. During the year ended 30 September 2018, 500 000 preference shares were issued for E275 000. Share issue expenses of E2 300 were paid.
2. The 20% debentures were issued on 1 October 2009 and they are all repayable on 30 September 2022.
3. Debtors are reflected on the statement of financial position **net** of a provision for doubtful debts of E5 640 in 2018 and E6 133 in 2017.

4. Property, plant and equipment consisted of the following:

2018			
	Cost	Accumulated depreciation	Carrying amount
Land and buildings	1 750 000	----	1 750 000
Equipment	480 000	168 000	312 000
Vehicles	360 000	60 000	300 000
	2 590 000	228 000	2 362 000

2017			
	Cost	Accumulated depreciation	Carrying amount
Land and buildings	2 200 000	----	2 200 000
Equipment	400 000	120 000	280 000
Vehicles	----	----	----
	2 600 000	120 000	2 480 000

5. The following transactions took place relating to non-current assets and investments during the year:

- a) Land and buildings with a cost price of E450 000 were sold for E520 000 and the profit on sale of the asset has been transferred to an asset replacement reserve. No further sales or purchases were made.
- b) Investments, with a cost E125 000 were sold at a profit of E12 450.
- c) No equipment was sold during the year.

**You are required to:**

- A. Prepare the statement of cash flows of Petina Limited for the year ended 30 September 2018 in accordance with the requirements of IAS7. **(19 Marks)**
- B. Show the note for the reconciliation of the profit before taxation with the cash generated from operating activities. **(6.5 Marks)**
- C. Show the following calculations:
  - i) Cash receipts from customers **(2 Marks)**
  - ii) Cash paid to suppliers and employees **(4.5 Marks)**

**(QUESTION 1: TOTAL MARKS 32)**

**QUESTION 2:**

On 01 January 2015, Calvin Limited acquired 120 000 ordinary shares in Klein Limited for E151 000. Klein Limited has 160 000 issued ordinary shares. The financial statements of Calvin Limited and Klein Limited for the year ended 31 December 2017 are as follows:

**Statement of financial position as at 31 December 2017**

	Calvin Limited	Klein Limited
	E	E
<b>ASSETS</b>		
<b>Non-current assets:</b>		
Property, plant and equipment	299 000	195 000
Investment in Klein Limited	151 000	----
<b>Current assets:</b>		
Inventories	205 000	45 000
Trade and other receivables	368 000	166 000
Cash and cash equivalents	----	195 000
<b>Total Assets</b>	<u>1 023 000</u>	<u>601 000</u>
<b>EQUITY AND LIABILITIES</b>	E	E
<b>Equity:</b>		
Issued capital	150 000	160 000
Retained earnings	608 000	275 000
<b>Non-current liabilities:</b>		
Long-term liabilities	120 000	75 000
Differed taxation	85 000	56 000
<b>Current liabilities:</b>		
Trade and other payables	40 000	35 000
Bank overdraft	20 000	----
<b>Total equity and liabilities</b>	<u>1 023 000</u>	<u>601 000</u>

**Statements of changes in equity for the year ended 31 December 2017**

	Calvin Limited	Klein Limited
<b>Retained Earnings:</b>	E	E
Balance at 31 December 2016	198 800	148 900
Total comprehensive income for the year	459 200	156 100
Ordinary dividends paid	(50 000)	(30 000)
Balance at 31 December 2017	<u>608 000</u>	<u>275 000</u>

**Statements of profit or loss and other comprehensive income for the year ended 31 December 2017**

	Calvin Limited E	Klein Limited E
Sales	1 500 000	800 000
Cost of sales	(800 000)	(500 000)
Gross profits	700 000	300 000
Other income	36 000	5 000
Other expenses	(80 000)	(82 000)
Profit before tax	656 000	223 000
Income tax expense	(196 800)	(66 900)
Profit for the year / Total comprehensive income	<u>459 200</u>	<u>156 100</u>

**Additional Information:**

- The accounting policies of the two companies are identical.
- On 1 January 2015, the identifiable assets and liabilities of Klein Limited were considered to be fairly valued.
- It is Calvin Limited's accounting policy to account for investments in subsidiaries at cost price in its separate financial statements.
- On 1 January 2015, the retained earnings of Klein Limited amounted to E108 000 and the share capital has remained unchanged.
- Calvin Limited sold inventory to Klein Limited at the agreed profit margin of 20% on cost. The amount of inventory sales to Klein Limited by Calvin Limited amounted to E100 000 for the year ended 31 December 2017.

- Klein Limited has the following inventories on hand that were purchased from Calvin Limited:

31 December 2016	E6 000
31 December 2017	E10 500

- Assume a tax rate of 28%.

**You are required to:**

- A. Prepare the analysis of equity of subsidiary company (Klein Limited) for the year ended 31 December 2017. **(9 Marks)**
- B. Prepare the consolidated statement of profit or loss and other comprehensive income of the Calvin Limited Group for the year ended 31 December 2017. **(11.5 Marks)**
- C. Prepare the consolidated statement of changes in equity of the Calvin Limited Group for the year ended 31 December 2017. **(8 Marks)**
- D. Prepare the consolidated statement of financial position of the Calvin Limited Group as at 31 December 2017. **(11.5 Marks)**

**Show all calculations.**

**(QUESTION 2: TOTAL MARKS 40)**

**QUESTION 3:**

- A. Provide a detail exposition with regards to the definitions of research and development cost and indicate the requirements of IAS 38 with regards to the recognition criteria of development cost. **(16 Marks)**
- B. Explain why it is necessary to prepare consolidated financial statements. **(12 Marks)**

**(QUESTION 3: TOTAL MARKS 28)**

**END**