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**UNIVERSITY OF ESWATINI**

**DEPARTMENT OF ACCOUNTING & FINANCE**

**MAIN EXAMINATION PAPER**

**MAY\_ JUNE\_ 2019**

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**DEGREE/YEAR OF STUDY:** BACHELOR OF COMMMERCE YEAR III/ IDE LEVEL IV

**TITLE OF PAPER :** FINANCIAL REPORTING AND ANALYSIS

**COURSE CODE :** ACF 312/ AC 323 (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 each question are indicated at the end of the question.
  - 4 Show all your workings.
  - 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 language together with the layout and presentation of your final answer.

**SPECIAL REQUIREMENTS:** CALCULATOR

**This paper is not to be opened until permission has been granted by the invigilator**

**QUESTION 1**

## Sipholesihle Ltd Statement of Financial Position

	E
Net assets ( except bank)	20,000
Bank	13,000
	<u>33,000</u>
Preference share capital	5,000
Ordinary share capital	15,000
Share premium	2,000
	<u>22,000</u>
Retained earnings	11,000
	<u>33,000</u>

With reference to the statement of financial position above, process the journal entries that would be necessary to give effect to the five separate and independent events below:

- i) Sipholesihle Ltd redeems E 5 000 shares at par, a new issue of E 5 000 ordinary shares at par being made for the purpose. **[ 6 Marks]**
- ii) Sipholesihle redeems E 5 000 preference shares at par, with no new issue of shares to provide funds. **[ 6 Marks]**
- iii) Sipholesihle Ltd redeems E 5 000 preference shares at par. To help finance this, an issue of E 1 500 ordinary shares at par is effected. **[ 6 Marks]**
- iv) Sipholesihle Ltd redeems E 5 000 preference shares at a premium of 25%. There is no new issue of shares for the purpose. **[ 7 Marks]**

**Total:****[25 Marks]**

**QUESTION 2****PART A**

Sipholesihle Ltd entered into an agreement to lease an item of plant on 1 October 2018. The lease required four annual payments of E 200,000 each, commencing on 1 October 2018. The plant has a useful life of four years and is to be scrapped at the end of this period. The implicit interest rate within the lease is 10%.

Prepare extracts of the financial statements in respect of the leased asset for the year ended 31 March 2019.

**[16 Marks]****PART B**

On 1 April 2018 Taggart acquires telephones for its sales force under a two year lease agreement. The terms of the lease require an initial payment of E 2,000, followed by two payments of E 8,000 each on 31 March 2018 and 31 March 2019.

Show the impact of this lease arrangement on the financial statements of Taggart for the year ended 31 December 2018.

**[9 Marks]****Total:****[25 Marks]**

**QUESTION 3****PART A**

Randall is currently preparing its financial statements for the year ended 28 February 2019. The board has met to discuss the following issue:

Some of the products sold by Randall are sold with warranties enabling customers to return faulty goods within 2 years of purchase. Randall will either repair the product or refund the sales value to the customer. During the year the sales value of products sold with such warranties totaled E 300,000. Based on past experience it is anticipated that 20% of these products will be returned under the terms of the warranty. Of the goods that are returned it is expected that 5% will be beyond repair and Randall will need to refund the full sales value to the customer. The remaining 95% of returned goods will be able to be repaired. This will cost Randall, on average, 30% of the items sales price. Some of the goods that have been sold this year have already been returned under the terms of the warranty. Randall has incurred costs of E 5,000 in respect of these items. As at 28 February 2018, Randall's financial statements showed a provision of E14 000 in respect of warranty costs. This was made up of E 4,000 in relation to goods sold during the year ended 28 February 2017 and E 10,000 in respect of goods sold during the year ended 28 February 2018. The warranty in respect of items sold during the year ended 28 February 2017 has expired as at 28 February 2019. During the year ended 28 February 2019, E 3,000 of costs were incurred in respect of warranty claims made in relation to goods sold in the year ended 28 February 2018.

**Required:** Discuss how the matter above should be accounted for (in each year) to comply with the requirements of International Financial Reporting Standards (IFRS) **[10 Marks]**

**PART B**

Sebastian Co is currently involved in four legal cases, all of them unrelated.

- In Case A, Sebastian Co is suing a supplier for E 100,000.
- In Case B, Sebastian Co is suing a professional adviser for E 200,000.
- In Case C, Sebastian Co is being sued by a customer for E 300,000.
- In Case D, Sebastian Co is being sued by an investor for E 400,000.

Sebastian Co has been advised by its lawyers that the probabilities of success in each case are as follows:

**Case Likelihood of Sebastian Co winning the case**

A	10%
B	90%
C	98%
D	60%

State the accounting treatment for each of the four cases above.

**[10 Marks]**

**PART C**

Briefly discuss the two primary qualitative characteristics of good financial information

**[5 Marks]**

**Total:****[25 Marks]****QUESTION 4****PART A**

Weir Limited, a retail company opened its doors for business on 1 January 2005. On 1 January 2018 the company had 20 employees, who were each entitled to 20 working days leave per calendar year. Leave not taken up to a maximum of seven working days, can be carried forward to the next calendar year, after which it lapses without payment, if not taken. All employees must take ten days leave over December. Four employees took all their leave during 2018 (The leave entitlement for 2018, no days were taken relating to the 2017 financial year). Thirteen employees took only 17 days leave and the remaining employees only took the compulsory ten days over December. Assume the daily rate for all employees is E 200 and that no employees resigned during the year. Past experience has shown that on average only five days of leave that were carried forward, were indeed taken during the next year. Assume that the accrued leave for the year ended 31 December 2017 was E 9 200.

- i) Discuss the accounting treatment of the event(s) referred to above. **[7 Marks]**
- ii) Discuss expenses within the context of the conceptual framework to financial reporting and explain why leave pay should be classified as an expense. **[3 Marks]**

**PART B**

With regards to borrowing costs (IAS 23), discuss when capitalisation should commence, when it should be suspended and when it should end. **[15 Marks]**