

125

UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

RESIT EXAMINATION PAPER

JULY 2019

DEGREE/YEAR OF STUDY: BACHELOR OF COMMERCIAL YEAR III/ IDE LEVEL IV

TITLE OF PAPER : FINANCIAL REPORTING AND ANALYSIS

COURSE CODE : ACF 312 /AC 323/ IDE AC 323 (S) JULY 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

Makori Limited has an authorized share capital of E 1,500,000 divided into 1,500,000 ordinary shares of E 1 each. The issued share capital at 31 March 2017 was E 500,000 which was fully paid, and has been issued at par. On 1 April 2017, the directors in accordance with the company's Articles, decided to increase the share capital of the company by offering a further 500,000 ordinary shares of E 1 each at a price of E 1.60 per share, payable as follows:

| | |
|--|------------------|
| On application, including the premium | E 0.85 per share |
| On allotment | E 0.25 per share |
| On first and final call on 3 August 2017 | E 0.50 per share |

On 13 April 2017, applications had been received for 750,000 shares and it was decided to allot the shares to applicants for 625,000 shares, on the basis of four shares for every five shares for which applications had been received. The balance of the money received on application was to be applied to the amounts due on allotment. The shares were allotted on 1 May 2017, the unsuccessful applicants being repaid the cash on this date. The balance of the allotment money was received in full by 15 May 2017.

With the exception of one member who failed to pay the call on the 5,000 shares allotted to him, the remainder of the call was paid in full within two weeks of the call being made.

The directors resolved to forfeit these shares on 1 September 2017, after giving the required notice. The forfeited shares were reissued on 30 September 2017 to another member at E 0.90 per share.

You are required to write up the ledger accounts necessary to record these transactions in the books of Makori Limited.

Total:

[25 Marks]

QUESTION 2

PART A

Riyadh Ltd enters into an agreement to lease an asset from one of the leasing companies in Matsapha. The terms of the lease are as follows.

- 1 Primary period is for four years from 1 January 2018 with a rental of E2, 000 pa payable on 31 December each year.
- 2 The present value of the lease payments is E 5,710
- 3 The interest rate implicit in the lease is 15%.

Required:

- i) Prepare a lease amortisation schedule based on the information above **[12 Marks]**
- ii) Using the information in i) above, show the extracts of Riyadh's Statement of Financial Position as at 31 March 2018 and the Statement of Profit or loss and other comprehensive income for the year then ended. **[4 Marks]**

PART B

Discuss the term "low value items" per IFRS 16 and the accounting treatment recommended for low value items. **[9 Marks]**

[25 Marks]

Total:
QUESTION 3

Discuss how each of the transactions below should be accounted for in accordance with IAS principles. Use journal entries where possible.

1. An entity is taking legal action against its competitor for patent infringement relating to a patent that had been granted to the entity on one of its products. The outcome of the case is uncertain. However, it is probable that the court will order the competitor to pay damages to the entity. **[3 Marks]**

2. The facts are the same as in 1 above. However, in this example, it is virtually certain that the court will order the competitor to pay damages to the entity. **[3 Marks]**

3. The government introduces changes to the income tax system. As a result of those changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with tax regulations. At the end of the reporting period, no retraining of staff has taken place. **[3 Marks]**

4. An entity that operates ten petrol stations and owns the land and buildings for those stations chooses not to purchase fire insurance on those buildings but, rather, to 'self - insure' in case of fire loss. The entity can estimate reliably the statistical probability of the occurrence and amount of expected fire loss (loss of about E 100,000 once every ten years). The entity wants to recognise a provision of E 10,000 and related expense each year for the next ten years to reflect its expected loss. The entity argues that the loss is highly probable, the amount can be measured reliably, and if it had purchased insurance it would recognise an expense in each reporting period. **[6 Marks]**

5. You are the newly appointed Chief Financial Officer of Gold Mine (Pty) Limited ("Gold Mine"), a gold mining and exploration company. In the process of preparing the financial statements for year ended 30 June 2018, you came across the following information.

The mine had recently started operations near Klerksdorp for the first time on 1 October 2017, at which time the environment has been damaged in order to establish the mine. According to the law, Gold Mine will need to restore the land to its original condition after mining is completed. On 1 October 2017 it was estimated that the cost of rehabilitation (resulting from the damage) would be E 32 million and the total useful life of the mine was estimated at 20 years. These estimates were unchanged at 30 June 2018. **[10 Marks]**

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

Beckett Limited is a manufacturing company specialising in the manufacturing of medical equipment. The company's year-end is 31 March. You have been provided with the following information:

Salaries

It is the policy of the company to pay the salaries to employees on the last Friday of each calendar month. Due to cash flow problems the company will not be able to pay the salaries until one of the debtors pays its account on 2 April 2019. The total salary bill for March 2019 amounts to E 1 500 000 and this amount will be paid to employees on 3 April 2019.

Wages

It is the policy of the company to pay weekly wages (Monday to Friday) to employees on every Friday. The total wages for 30 March 2019 to 3 April 2019, the 3rd being a Friday, is E 50 000.

REQUIRED

Prepare the relevant journal entries of Beckett Limited for the year ended 31 March 2019.

[7 Marks]**PART B**

On 1 January 2017 Diamond Limited commenced with the construction of a new plant at a contract price of E 3 000 000. The estimated period of construction is 14 months. Initially the activities were financed by way of a bank overdraft (general loan) of E 1 000 000 at an interest rate of 23% per annum. On 30 June 2017 the company obtained a loan of E 500 000 at an interest rate of 20% per annum to finance the construction of the plant. The funds cannot be used for any other purpose. On 1 October 2017 the bank overdraft was decreased to E 800 000. The bank compounds interest on the loan at the end of each quarter.

Assume that the company does not have other interest-bearing debt and that the overdraft facility is fully utilised throughout the year for the general activities of the enterprise. Interest on the overdraft is paid to the bank quarterly from other cash reserves. The interest and capital on the loans will be paid back to the bank in 2024. Only interest charged by the bank on the loan may result in the original loan amount received been exceeded.

Expenses incurred for the year ended 31

December 2017 were as follows:

| Quarter (Emalangen) | |
|---------------------|-----------|
| 1 | 150 000 |
| 2 | 200 000 |
| 3 | 900 000 |
| 4 | 1 000 000 |
| | 2 250 000 |

Further assume the following:

- Interest on the overdraft is compounded at the end of each quarter.
- On 1 October the loan of E 500 000 was increased to E 1 000 000 in total.
- The loan obtained from the bank is used for both the construction of the qualifying asset and general activities of the company.
- When the limits of both the overdraft and the loan are reached, interest will be paid to the bank from other cash reserves

REQUIRED

- (1) Calculate the interest that should be capitalised to the plant if it is assumed that the expenses were incurred evenly through every quarter.
- (2) Calculate the interest that should be capitalised to the plant if it is assumed that the expenses were incurred at the beginning of each quarter.
- (3) Calculate the interest that should be capitalised to the plant if it is assumed that the expenses were incurred at the end of each quarter.

[18 Marks]

ACF 312/ AC 323 / IDE ACF 312/ AC 323 [PART TIME] (S) JULY 2019

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Total:

[25 Marks]