

**UNIVERSITY OF ESWATINI**  
**FACULTY OF COMMERCE**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION PAPER NOVEMBER 2019**

**TITLE OF PAPER : INTERMEDIATE FINANCIAL ACCOUNTING I**

**COURSE CODE : ACF211/AC211 (M) NOVEMBER 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**

### Question1

An extract from Logico (Pty) Ltd Statement of Income for the year ended 30 April 2018 was as follows:

	E 000	E 000
Operating profit		1 000
Debenture interest 12.5%		<u>250</u>
		750
Ordinary dividend paid and proposed	350	
Preference dividend paid and proposed	120	
Transfer to general reserve	<u>200</u>	<u>670</u>
		<u>80</u>

Logico (Pty) Ltd issued share capital and reserves at 30 April 2018 consisted of:

	E
Ordinary shares of E10	4 000
8% Preference shares of E5	1 500
Capital and revenue reserves	900

The market price of the ordinary shares at 30 April 2018 was E 30.

#### Required:

- a. Calculate the following ratios for Logico (Pty) Ltd.
    - i. Interest cover (2marks)
    - ii. Dividend cover (2marks)
    - iii. Earnings per share (2marks)
    - iv. Price earnings ratio (2marks)
    - v. Dividend yield (2marks)
    - vi. Gearing (2marks)
  - b. Explain why each of the ratios in (a) is important for investors in ordinary shares of Logico (Pty) Ltd. (12 marks)
  - c. State, with a reason, any further information you might require to enable you to assess the likely future performance of Logico (Pty) Ltd (1mark)
- [Total 25]

## Question 2

The following balances had been extracted from the books of Mars (Pty) Ltd. on 1<sup>st</sup> May 2018.

	E
Premises at cost	520 000
Equipment at cost	200 000
Provision for depreciation on premises	104 000
Provision for depreciation on equipment	128 000
Inventory	75 000
Receivables	50 000
Payables	41 000
Provision for doubtful debts	1 000
Dividends due	16 800
Issued and fully paid-up capital	
Ordinary shares of E 0.50 each	150 000
6% Preference shares of E 1 each	80 000
5% debentures 2024	100 000
8% loan repayable 2022	25 000
Share premium	80 000
General reserve	75 000
Retained profit	87 200
Bank	43 000

The following transactions took place during the year ended 30<sup>th</sup> April 2019:

	E
Purchases	380 000
Sales	605 000
Returns outwards	10 000
Returns inwards	15 000
Wages	80 000
Other expenses	60 000

Balances on 30<sup>th</sup> April 2019 were as follows:

	E
Debtors	60 000
Creditors	43 000
Accrued wages	2 000
Prepaid expenses	3 300
Stock	85 000
Bank	113 200

#### Additional information

1. It was decided that debts of E 3000 should be written off as bad.
2. Loan and debenture interest for the year were paid in full on 30<sup>th</sup> April 2019.
3. The provision for doubtful debts was to be 2.5% of debtors.
4. Depreciation on premises was 2% straight line.
5. Depreciation on equipment was 40% reducing (diminishing) balance.
6. During the year a further 40 000 ordinary shares were issued at a premium of E 0.05.

The directors proposed the following:

- 8% dividend to be paid on all ordinary shares in issue at the year end.
- The preference dividend to be paid in full.
- E 20 000 to be transferred to the General Reserve.

#### Required:

- a. Prepare Mars (Pty) Ltd Income Statement and Appropriation account for the year ended 30<sup>th</sup> April 2019. (14marks)
  - b. Prepare the Mars (Pty) Ltd Statement of Financial Position as at 30 April 2019. (11marks)
- [Total 25]

#### Question 3

- a.
  - i. Explain the term 'Branch' in relation to accounting for branches. (2marks)
  - ii. What is meant by **Invoice price method** in accounting for branches? (2marks)
  - iii. Explain four differences between an independent and dependent branch. (8marks)
- b. Ryco head office supplies goods to its branch at Pakhama at invoice price which is cost plus 50%. All Cash received by the branch is remitted to Ryco and all branch expenses are paid by the head office. The following particulars relate to Pakhama Branch for the year 2018.

	E
Stock with Branch on 1.1.18 (at invoice price)	66 000
Branch Debtors on 1.1.18	22 000
Petty cash balance on 1.1.2018	500
Goods received from head office (at invoice price)	204 000
Goods returned to head	6 000

<b>Current liabilities</b>			
Creditors		9230	19450
			<u>184450</u>
<b>Capital accounts</b>			
	John	80000	
	Jane	<u>40000</u>	120000
<b>Current accounts</b>			
	John	14430	Cr
	Jane	<u>2580</u>	Dr 11850
Loan from John			<u>52600</u>
			<u>184450</u>

The partnership ceased trading on 30<sup>th</sup> September 2019 and the assets were realised as follows.

	E
Buildings	100 000
Fixtures and fittings	37 000
One motor vehicle	15 000
The remaining motor vehicle was taken by John at an agreed valuation of	9 500
Stocks	5 200

All debts were collected and banked except for bad debts totalling E 900.

Discounts allowed amounted to E 200.

Creditors were paid in full.

Dissolution expenses of E 1200 were paid by cheque.

John's loan was repaid from the bank account.

Partners' Current account balances were transferred to their Capital accounts.

**Required:**

- i. Prepare Dissolution (Realisation) account for the month of October 2019. **(8marks)**
  - ii. Partners' Current accounts, in columnar form. **(5marks)**
  - iii. Partners' Capital accounts, in columnar form. **(4marks)**
- b.
- i. Explain cash and cash equivalents according to IAS 7. **(2marks)**

- ii. On 30 September 2019, Star (Pty) Ltd sold a machine for E 1 000. Payment was effected in cash on the same day. On the same day, the machine's carrying amount was E 900. Star's (Pty) Ltd profit at 30<sup>th</sup> September 2019 (which included the gain on disposal of the machine) was E 10 000.

**Required:**

Illustrate the effects of the disposal of the machine on Star's (Pty) Ltd statement of cash flows. Star's (Pty) Ltd presents its cash flows from operating activities according to the indirect method. Ignore tax effects. **(6marks)**

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**[Total 25]**