
UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

NOVEMBER_ DECEMBER_ 2019

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

TITLE OF PAPER : ADVANCED FINANCIAL ACCOUNTING I

COURSE CODE : ACF 311/ AC 323 (M) NOVEMBER/DECEMBER 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. The working for any individual amount should be properly referenced to the answer, otherwise it will be ignored in the award of marks.
 - 5 For theory questions, responses should be in bullet form and each unique point should be presented under a separate bullet/paragraph. Failure to do so will result in a loss of marks.
 - 6 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

The following information has been provided for Siteki Limited for the year ended 31 October 2019

Debits	2019	2018
	E	E
Property	1,750,000	1,400,000
Motor vehicles	436,000	410,000
Machinery	385,000	370,000
Inventory	178,000	154,000
Trade and other receivables	214,000	220,000
Cash in bank	2,000	76,000
Financial assets at fair value through profit or loss	-	40,000
	<u>2,965,000</u>	<u>2,670,000</u>

Credits

Share capital (400 000/ 300 000 shares)	440,000	330,000
Revaluation Surplus	220,000	10,000
Retained earnings	981,000	870,000
Long term borrowings - interest free	900,000	1,100,000
Accumulated depreciation - Motor vehicles	76,000	54,000
Accumulated depreciation - Machinery	141,000	120,000
Trade and other payables	139,000	142,000
Tax payable	44,000	28,000
Dividends payable - ordinary	24,000	16,000
	<u>2,965,000</u>	<u>2,670,000</u>

Additional information:

1. The following information was obtained from the statement of profit or loss and other comprehensive income of Siteki Limited for the year ended 31 October 2019:

	E
Revenue	750,000
Cost of sales	(300,000)
Gross profit	450,000
Other income	4,000
Administrative and selling expenses	(208,000)
Other expenses	(26,000)
Profit before tax	220,000
Income tax expense	(85,000)
Profit for the year	135,000
 Other comprehensive income for the year	
Revaluation surplus	210,000
 Total comprehensive income for the year	 345,000

2. Extract from the statement of changes in equity for the year ended 31 October 2019:

	Revaluation surplus	Retained earnings	Total
	E	E	E
Profit for the year		135,000	135,000
Dividends declared		(24,000)	(24,000)
Revaluation surplus	210,000		

3. On 31 October 2019, Siteki Limited purchase a new motor vehicle for E 54 000 and sold an old vehicle at its carrying amount.
4. A Limited traded in a machine with a carrying amount of E 60 000 on which E 51 000 had already been written off in depreciation for E 54 000 and replaced it with a new machine.
5. Depreciation for the current year

	E
Vehicles	48 000
Machinery	72 000
6. Siteki limited sold the investment for E 24 000 on 28 February 2019 at a profit of E 4 000. There was also a fair value adjustment during the current year.

Required: Draft the statement of cash flows of Siteki Ltd for the year ended 31 October 2019 in accordance with the requirements of International Financial Reporting Standards (IFRS) using the direct method.

Total:

[25 Marks]

QUESTION 2

The following balances were taken from the records of Mabatho Ltd and Lusekelo Ltd for the year ended 30 June 2019:

	Mabatho	Lusekelo
Debits	E	E
Property at cost	600,000	160,000
Equipment at cost	300,000	180,000
Inventories	100,000	80,000
Investment in Lusekelo at fair value 30 000 ordinary shares (cost price: E 204 000)	204,000	-
Bank - LNB Bank	1,200	12,000
Trade and other receivables	124,400	406,800
Income tax expense	190,000	170,000
Provisional tax payments	100,000	90,000
Loan to parent (interest free)	-	140,000
Dividends paid - Ordinary shares	40,000	30,000
Dividends paid - Preference shares	12,800	8,000
	1,672,400	1,276,800
Credits		
Share capital		
Ordinary shares (100 000/50 000 shares)	240,000	120,000
16% cumulative preference shares (80 000/50 000 shares)	80,000	50,000
Retained earnings at the beginning of the year	150,000	118,000
Accumulated depreciation- equipment	128,000	94,000
Bank overdraft - Non - Standard bank	48,800	500
Trade and other payables	175,600	238,300
Taxation payable	190,000	170,000
Loan from subsidiary	120,000	-
Profit before tax	540,000	486,000
	1,672,400	1,276,800

Additional information

1. Mabatho acquired its interest in Lusekelo Limited on 01 July 2015. At that date, Lusekelo Ltd's retained earnings amounted to E 35 000. Mabatho paid E 204 000 of which E 75 000 was for goodwill. The balance was attributable to the revaluation of Lusekelo Ltd's property. The carrying amount of all the other assets and liabilities was equal to the fair value thereof. At the date of acquisition, there was no arrear preference dividend. Each share carries one vote.
2. Mabatho Limited has bought all its inventories from Lusekelo Limited since 01 July 2018. Lusekelo made a profit of 25% on the cost price of inventories sold to Mabatho Limited.

3. Lusekelo paid no preference dividend for the period 01 July 2015 to 30 June 2017. On 30 June 2018, Lusekelo paid a preference dividend of E 24 000.
4. On 29 June 2019, Lusekelo Limited sent goods to the value of E 20 000 to Mabatho Limited, which Mabatho Ltd only received on 03 July 2019.
5. On 02 January 2018, Mabatho Limited sold a machine to Lusekelo Limited at a profit of E 40 000. It is group policy to provide depreciation at 25% per annum according to the reducing balance method.

Required: Prepare the consolidated Statement of Profit or Loss and other comprehensive income and the consolidated Statement of change in equity for the Mabatho Limited group for the year ended 30 June 2019 in accordance with the requirements of International Financial Reporting Standards (IFRS). Notes are not required and you are to ignore any deferred tax implications arising from intercompany transactions. **Journals and all necessary workings are required.**

Total:

[35 Marks]

QUESTION 3**TRIAL BALANCES OF STEREO LTD AND SOUND LTD FOR THE YEAR ENDED 30 JUNE 2019:**

	Stereo	Sound
	Ltd	Ltd
	E	E
Debits		
Property, plant and equipment at carrying amount	323 600	28 000
Investment in Sound Ltd at fair value	15 400	—
Inventories	21 900	18 100
Accumulated loss – 1 July 2018	—	14 500
Cost of sales	147 800	68 000
Income tax expense	20 600	8 100
Dividends paid	12 500	12 000
	<u>541 800</u>	<u>148 700</u>
Credits		
Share capital: - 130 000 ordinary shares	162 500	—
- 18 000 ordinary shares	—	36 000
Retained earnings – 1 July 2018	122 500	—
Revenue	220 000	100 000
Other income (profit on sale of land) (tax effect – E nil)	—	5 500
Dividends received	11 500	—
Trade and other payables	25 300	7 200
	<u>541 800</u>	<u>148 700</u>

Additional information

1. On 1 July 2016, Stereo Ltd acquired 8 100 ordinary shares for E 15 400 in Sound Ltd, a company in the motor industry when the retained earnings of Sound Ltd amounted to E 8 000. Stereo Ltd exercises significant influence over the management and financial policies of Sound Ltd.
2. At acquisition date no unidentified assets, liabilities or contingent liabilities existed and the fair values of all assets, liabilities and contingent liabilities were confirmed to be equal to the carrying amounts thereof.
3. During the current financial year, Stereo Ltd purchased inventory from Sound Ltd at cost plus 20%. At year-end on 30 June 2016, Stereo Ltd had inventory amounting to E 5 700 on hand that had been bought from Sound Ltd during the year.
4. The Eswatini normal tax rate has been 28% since 2016.
5. The published market price for the investment in Sound Ltd is E 16 000.
6. The Stereo Ltd Group accounts for investments in associates using the equity method in accordance with IAS 28, *Investments in Associates and Joint Ventures*.
7. Stereo Ltd accounts for investments in associates at fair value through profit and loss in its separate financial statements. The fair value of the equity investment is equal to the cost price thereof.
8. Each share carries one vote.
9. Sound Ltd is incorporated in Eswatini and its principal place of business is in Mbabane. Sound Ltd produces inventory used in the operational process of Stereo Ltd.

Required: Prepare the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive income of the Sound Limited group for the year ended 30 June 2019

Total:

[25 Marks]

QUESTION 4

Busy Bees Ltd is a manufacturer of computer equipment. The company's year-end is 31 March 2019 and the following came to your attention before the financial statements were finalised on 25 May 2019:

1. The market value of a listed investment decreased in April 2019 to E 600 000. Investments are stated at market value. Assume that the company does not speculate with shares.
2. A debtor with an outstanding balance of E 71 500 on 31 March 2019, was declared insolvent and placed under liquidation on 20 April 2019. The liquidator indicated that creditors will receive 30 cents in the lilangeni. No allowance for credit losses was made at reporting date.
3. On 15 April 2019 the directors declared a dividend of 10 cents per share for the year ended 31 March 2019. There is 100 000 issued ordinary shares.
4. In April 2019 inventory with a value of E 20 000 was destroyed when a store was burnt down during political unrest.

Ignore the effects of taxation

REQUIRED

- (a) Define events occurring after the reporting period according to *IAS 10*. [3 Marks]
- (b) In each of the above events, do the following:
- (i) Discuss briefly how the event will affect assets and liabilities in the financial statements, that is, must the assets and/or liabilities be adjusted or not? [7 Marks]
- (ii) Disclose this in the notes to the financial statements if required [5 Marks]

Total:

[15 Marks]