UNIVERSITY OF SWAZILAND

FINAL EXAMINATION PAPER MAY 2006

DEPARTMENT OF ACCOUNTING

23.1.06

COURSE TITLE	:		**FINANCIAL ACCOUNTING III**
COURSE CODE	:		**AC 401/IDE-ACE401**
DEGREE	:		**B COM. IV**
TIME ALLOWED	:		**THREE (3) HOURS**
INSTRUCTIONS	:	**1.**	**TOTAL NUMBER OF QUESTIONS IN THE PAPER: FOUR (4)**
		2.	**ANSWER ALL QUESTIONS.**
		3.	**THE MARKS AWARDED FOR A QUESTION/ PART OF A QUESTION ARE INDICATED AT THE END OF EACH QUESTION.**
		4.	**WHERE APPLICABLE, ALL WORKINGS ARE TO BE SHOWN.**
		5.	**CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI UNLESS OTHERWISE INSTRUCTED.**

SPECIAL REQUIREMENTS: **CALCULATOR**

NOTE: YOU ARE REMINDED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE TAKEN OF THE ACCURACY OF LANGUAGE, THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND PRESENTATION OF YOUR FINAL ANSWER.

THIS QUESTION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1:

a) Define "Government" as contained in IAS-20 ? **[2 Marks]**

b) An enterprise opens a new factory at Matsapha, and receives a government grant of E 30 000 in respect of capital equipment of E 200 000. It depreciates all plants and machinery at 20% per annum, straight-line.
Show balance sheet extracts to record the grant in the first year under methods 1 and 2.
[4 Marks]

c) Which of the following are investment properties ? State which standard applies to each item:

i. A field of land, purchased for its investment potential.
ii. A building occupied by a business as its head office, whose capital value is rapidly appreciating.
iii. A building which is surplus to requirements and is for sale.
iv. A building acquired under a finance lease for its investment potential.

[8 Marks]

d) Give **two** examples of the ways in which companies have tried in the past to keep assets and liabilities off the balance sheet.
[2 Marks]

e) When drafting the financial statements, a company's accountant includes a figure of E 4 000 as net realizable value of damaged items of inventory. The cost of these items was E 6 000, and the normal selling price would be E 8 000. Between the balance sheet date and the approval of the financial statements, the items are sold for E 6 200. What valuation in the account should be shown?
[2 Marks]

f) The Company's accounts for the year ended 31st December, 2005, were still under preparation in March, 2006. On 1st March, 2006, a major production plant was destroyed by a fire. How this items be treated in the accounts of 2005?
[2 Marks]

g) The following data relate to 3 independent projects of Inyatsi Construction Company:

	A	B	C
Degree of Completion	**75%**	**50%**	**15%**
Direct Costs to date	E 30 000	25 000	5 000
Sales price of complete project	60 000	50 000	57 500
Overhead allocated to date	4 000	2 000	500
Cost to complete:			
Direct	10 000	25 000	40 000
Overheads	2 000	2 000	3 000

Recommend the appropriate accounting treatment and profit figure for the year.
[5 Marks]

[Total: 25 Marks]

QUESTION 2: The following trial balance has been extracted from the books of New Swazi Commercial Bank Ltd as on 31 December, 2005:

New Swazi Commercial Bank Ltd.
TRIAL BALANCE
As at 31 December, 2005.

(E 000)

	DR	CR
Interest income		60 000
Interest expenses	20 000	
Non-interest income		10 000
Employees compensation and benefits	8 000	
Other operating expenses	12 000	
Coins and bank notes	15 000	
Balance with Central Bank of Swaziland	40 000	
Balances with other banks	5 000	
Treasury bills	20 000	
Investments (15%)	10 000	
Indebtedness by fellow subsidiaries	90 000	
Loan and overdraft	195 000	
Bankers acceptances	5 000	
Non-performing loans	5 000	
Remittances in transit	9 000	
Fixed assets	20 000	
Accumulated depreciation - fixed assets		5 000
Customer's current accounts		200 000
Savings account and other deposits		120 000
Other creditors and Provisions (including taxation)		7 000
Indebtedness to fellow subsidiaries		15 000
Share Capital		10 000
Statutory Reserve		5 000
Reserves		18 000
Balance of allowances for credit losses		4 000
	454 000	454 000

Other Information: (E 000)

1. Provision for credit losses of E 1 000 for the year is required.
2. Transfer a sum of E 2 000 to Statutory Reserve.
3. Provision of E 4 000 for taxation should be made.
4. Provide 10% depreciation on fixed assets, based on cost.
5. Market value of Investments (15%) in Swaziland Government stocks, redeemable in 2008 was E 10 200.
6. Letter of credit and guarantees on behalf of clients amounted to E 20 000.

REQUIRED: Prepare profit and loss account for the year ended 31 December, 2005, and balance sheet as at that date in accordance with Financial Institutions Order, 1975 and Swaziland Accounting Standard 5. **[25 Marks]**

QUESTION 3: You have been asked to assist in the preparation of the consolidated accounts of H Group. Set out below are the balance sheets of H Ltd and S Ltd for the year ended 31 December, 2005:

BALANCE SHEET AS AT 31 DECEMBER, 2005

	H Ltd	S Ltd
Fixed Assets (net)	E 600 000	360 000
Investment in S Ltd	300 000	-
Current Assets:		
Stock	100 000	80 000
Debtors	80 000	80 000
Cash	20 000	20 000
	200 000	180 000
Current Liabilities:		
Trade creditors	40 000	24 000
Proposed Dividend:		
Ordinary Shares	60 000	24 000
Preference Shares	-	12 000
	100 000	60 000
Net Current Assets	100 000	120 000
Total assets less Current Liabilities	1 000 000	480 000
Capital and Reserves:		
Ordinary Share capital	600 000	240 000
Preference Share Capital (10%)	-	120 000
Profit and Loss Account	400 000	120 000
Total	**1 000 000**	**480 000**

NOTES:

1. H Ltd acquired the shares in the S Ltd as follows:

192 000 ordinary shares of E 1 each at a cost of E 260 000.
48 000 preference shares of E 1 each at a cost of E 40 000.

All these shares were acquired on March 1, 2005, when the P & L balance of S Ltd stood at E 60 000.

2. During the year to 31 December, 2005, H Ltd purchased goods from S Ltd. For E 36 000. S Ltd invoiced these goods at a cost plus 50%. Half of these goods were in stock at the year end.

3. H Ltd has not yet accounted for dividends receivable from S Ltd.

4. Inter-Company debts at the end were: H Ltd owed S Ltd E 4 000.

5. Any goodwill/capital reserve on acquisition is to be taken to reserves.

6. Elimination of inter-group profits (or losses) is to be dealt with according to FRS-2.

REQUIRED:

Computation of the following items under separate headings and in the order indicated:

1. Cost of control
2. Stock
3. Dividends Current assets and current liabilities
4. Inter-Company debts
5. Fixed Assets
6. Consolidated Profit and Loss Account
7. Minority Interest
8. Cash
9. Consolidated Balance Sheet as at 31 December, 2005.

Marks will be awarded on computations and adjustments made under the above distinct headings.

[25 marks]

QUESTION 4: On January 2, 2005, Swazi Glass Company Ltd issued 300 000 ordinary shares of E 1 each, at E 1.20 per share payable as follows:

On application	0.70 cents
On allotment (10.2.2005)	0.30 cents (including premium)
On first and final call (1.5. 2005)	0.20 cents

The lists were closed on January 30, 2005 and by that date applications for 400 000 shares were received and it was decided to deal with as follows:

A. To return cheques for 40 000 shares;
B. To accept in full applications for 120 000 shares;
C. To allot the remaining applicants on a pro rata basis;
D. To utilize the surplus received on applications in part payment of the amounts due on allotment, and if necessary, on calls.

The balance due on allotment and first calls were received except from Mr. A and B, as follows:

The balance due on allotment was received in February, 2005, with the exception of Mr. A, an allottee of 6 000 shares (who was allotted on pro rata basis). These shares were declared forfeited on February 28 and were re-issued to Mr. X on the same day as fully paid at E 1.10 per share.

B, an applicant whom 4 000 shares had been allotted on a full allotment basis failed to pay the amount due on the first and final call. His shares were declared forfeited on May 1, 2005. These were re-issued to Mr. Y on May 5 as fully paid at E 0.90 per share.

REQUIRED:

1. Share Application Account
2. Share Allotment Account
3. Share First Call Account
4. Forfeited Shares Account
5. Re-issue Account
6. Bank Account

No Journal entries are required. **[25 Marks]**