

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER, JULY 2006

DEGREE/DIPLOMA AND YEAR OF STUDY: B COM V/IDE B COM YEAR 6

TITLE OF THE PAPER	:	FINANCIAL ACCOUNTING IV
COURSE CODE	:	AC 501 (S) 2006/IDE AC501(S)2006
TIME ALLOWED	:	TWO (2) HOURS
INSTRUCTIONS	1	There are three (3) questions in this paper. Attempt all of these questions.
	2	The marks awarded for a question are indicated at the end of each question.
	3	Show your workings.

NOTE: You are reminded that in assessing your work account will be taken of accuracy of the language and the general quality of expressing together with layout and presentation of your answer.

Special Requirement:None

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

QUESTION 1:

The following are the balance sheets of A Ltd, and B Ltd as at 31.12.2005

		A Ltd		B Ltd	
		Dr	Cr	Dr	Cr
		E	E	E	E
	Share capital of E 100 each		2,000,000		1,000,000
1.1.2005	General reserves		400,000		200,000
1.1.2005	Profit and loss		100,000		60,000
	Profit and loss for the year		200,000		80,000
	Sundry creditors		100,000		100,000
	Bills payable		30,000		10,000
	Land and buildings	500,000		300,000	
	Plant and machinery	500,000		600,000	
	Stock	150,000		100,000	
	Sundry debtors	100,000		120,000	
	Investment in shares of B	1,000,000			
	Bills receivable	80,000		10,000	
	Cash and bank balances	<u>500,000</u>	<u>0</u>	<u>320,000</u>	<u>0</u>
		<u>2,830,000</u>	<u>2,830,000</u>	<u>1,450,000</u>	<u>1,450,000</u>

Other information

1. A Ltd acquired 8,000 ordinary shares of B Ltd on 1.1.2005.
2. Bills receivable of A Ltd include E 10,000 accepted by B Ltd.
3. Sundry debtors of A Ltd include E 50,000 due from B Ltd.
4. Stock of B Ltd include goods purchased from A Ltd for E 60,000 which were invoiced by A Ltd at a profit of 25% on cost.

REQUIRED:

- A. Pass adjusting journal entries to reduce inter company balances etc. (10 marks)
 - B. Produce a consolidated balance sheet of A Ltd and its subsidiary. (20 marks)
 - C. Why are the consolidated financial statements produced? (10 marks)
- Total (40 marks)

QUESTION 2 :**A. REQUIRED:**

What are the advantages of the finance lease in the financing of fixed assets?(5 marks)

B: REQUIRED :

What are the characteristics of a financial lease?

(5 marks)

C: REQUIRED :

What is the present value of the minimum lease, and the interest rate implicit in the lease?

(5 marks)

D: REQUIRED :

From the following determine if the transaction is a finance lease or an operating lease.

- i. Lease of a shopping mall for 12 years at E 170,000 per annum. The fair value of the mall is E 900,000. The discount rate is 17%.
- ii. Lease of a crane equipment for 5 years at E 180,000 per annum. The fair value of the asset is E 700,000. The discount rate is 15%.
- iii. Lease of an earth moving equipment for 3 years at E 250,000 per annum. The fair value of the asset is E 550,000. The discount rate is 20%.

(15 marks)

Total for the question

(30 marks)

QUESTION 3 :

The following is the balance sheet of Kwaluseni Trading Company Ltd as at 31.12.2005. Kwaluseni Trading Company had a poor trading performance since the date of incorporation (1.1.2005). The company was declared bankrupt on 1.1.2006.

ASSETS		LIABILITIES AND CAPITAL	
	E		E
Goodwill	60,000	4,000 Ordinary shares	400,000
Land and buildings	75,000	Profit prior to incorporation	15,000
Plant and machinery	110,000	Bank loan	100,000
Patents and trade marks	25,000	18% debentures	100,000
Stocks at cost	80,000	Sundry creditors	150,000
Sundry debtors	60,000	Sales tax due	45,000
Preliminary expenses	10,000		
Profit and loss account	386,000		
Cash at bank	4,000		0
	<u>810,000</u>		<u>810,000</u>

Security arrangements

1. The 18% debenture was secured against land and buildings. The debenture has accumulated interest in arrears of E 10,000.
2. The bank loan was secured against the plant and machinery. The bank loan has accumulated interest in arrears of E 15,000.

The revaluation of assets

	E
Land and buildings	120,000
Plant and machinery	80,000
Patents and trade marks	5,000
Stocks	65,000
Debtors	55,000

REQUIRED :

Prepare a statement of affairs of Kwaluseni Trading Company as at 1.1.2006

(30 marks)
Total marks for the paper (100 marks)