

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION QUESTION PAPER

DEGREE/YEAR OF STUDY : B COMM V
TITLE OF PAPER : FINANCIAL ACCOUNTING 111
COURSE CODE : AC 401
TIME ALLOWED : THREE (3) HOURS
INSTRUCTIONS

- 1. TOTAL NUMBER OF QUESTIONS ON THIS PAPER: FOUR (4)**
- 2. ANSWER ALL QUESTIONS**
- 3. WHERE APPLICABLE ALL WORKINGS SHOULD BE SHOWN**
- 4. ALL CALCULATIONS ARE TO BE MADE TO THE NEAREST LILANGENI.**

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

SPECIAL REQUIREMENT: NONE

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR.

QUESTION 1

The following information has been collected for the year to 31 December 2009 for OP Ltd.

Retained Earnings as at 31 December 2008	15 300
Stock 1 Jan 2009	57 500
Purchases	164 000
Sales	288 000
Returns inwards	11 500
Returns outwards	2 000
Carriage inwards	1 300
Wages & Salaries	8 400
Rent & rates	6 250
General distribution expenses	4 860
General administrative expenses	3 320
Discounts allowed	3 940
Bad debts	570
Debenture interest	2 400
Motor expenses	7 200
Interest received on bank deposit	770
Income from shares	660
Motor vehicles at cost - Administrative	14 000
- Distribution	26 000
Equipment at cost - Administration	5 500
- Distribution	3 500
Royalties receivable	1 800

Additional information

1. Stock as at 31 December 2009 was E64 000
2. Wages and salaries are to be apportioned: Distribution 1/3, Administrative 2/3.
3. Rent and rates are to be apportioned: Distribution costs 60% Administration 40%.
4. Apportion motor expenses equally between distribution costs and administration costs.
5. Depreciate motor vehicles 25% and equipment 20% on cost.
6. Accrue auditors remuneration of E500
7. Accrue corporate tax for the year on ordinary activity profits E30 700
8. A sum of E8 000.00 is to be transferred to general reserve.
9. An ordinary dividend of E30 000.00 is to be proposed.

Required

Prepare a Statement of Comprehensive Income suitable for publication for the 2009 financial year using the function of expenditure method. The Statement of Comprehensive Income must be in conformity with the requirements of International Financial Reporting Standards (IFRS).

(25marks)

QUESTION 2

You are provided with the financial statements of SS Limited for the financial year ending 29 February 2008 and 28 February 2009

SS Ltd				
Statement of Comprehensive Income for the year ended 29/28 February				
		2009		2008
		E'000		E'000
Turnover		16000		11000
Stock: 1 March	240		200	
Purchases	7960		5600	
Stock: 28 February	-300		-240	
Cost of Sales		-7900		-5560
Gross Profit		8100		5440
Interest on Investment		100		40
Gross Income		8200		5480
Expenses:				
Distribution expsnses				
Salaries	-720		-660	
Advertising	-120		-90	
Vehicle expenses	-190		-160	
Depreciation: Vehicles	-400	-1430	-100	-1010
Administration				
Salaries	-1240		-980	
Depreciation: Equipment	-100		-40	
Directors fees	-60		-260	
Audit Fees	-40		-30	
Sundry expenses	-300	-1740	-240	-1550
Net profit before interest and Tax		5030		2920
Interest on debentures		-240		-80
Net profit before Tax		4790		2840
Company tax		-1440		-850
Profit after Tax		3350		1990
Dividend paid and proposed:				
- Interim	-200		-150	
- Proposed	-800	-1000	-250	-400
Retained Earnings for the year		2350		1590

Statement of Financial Position as at 28/29 February

	Notes	2009	2008
ASSETS			
Non current Assets			
Tangible	1	10,280	5,320
Investment	2	<u>1,000</u>	<u>400</u>
		11,280	5,720
Current Assets			
Stock		300	240
Debtors		2,920	1,760
Cash		<u>100</u>	<u>880</u>
		<u>3320</u>	<u>2880</u>
Total Assets		<u>14 600</u>	<u>8 600</u>
EQUITY AND LIABILITIES			
Share capital and reserves			
Share capital	3	3,000	2,600
Reserves	4	6,750	3,620
Non current liabilities	5	<u>1,810</u>	<u>670</u>
		11,560	6,890
Current Liabilities			
Trade Creditors		740	590
Tax Owing		1,440	850
Accrued expenses		60	20
Proposed dividends		<u>800</u>	<u>250</u>
		<u>3,040</u>	<u>1,710</u>
Total Equity and Liabilities		<u>14,600</u>	<u>8,600</u>

Notes to the Statement of Financial Position

1	Non current Assets					
	2009			2008		
	Cost	Accumulated	Net	Cost	Accumulated	Net
		Depreciation	book		Depreciation	book
			Value			Value
	E'000	E'000	E'000	E'000	E'000	E'000
Premises	8400	0	8400	4400	0	4400
Equipment	900	-220	680	440	-120	320
Vehicles	1800	-600	1200	800	-200	600
	11100	-820	10280	5640	-320	5320

2	Investment		
		2009	2008
	Standard Bank Fixed deposit 12%	1000	400

3	Share Capital		
		2009	2008
	E1 Ordinary shares- fully paid	3000	2600
4	Reserves		
		2009	2008
	Share Premium	1080	300
	Retained Earnings	5670	3320
		6750	3620

5	Non Current Liabilities		
		2009	2008
	12% Dentures	670	670
	14% Debentures	1140	670

- a) You are required to prepare a cash flow statement for the year ended 28 February 2009 using the indirect method, complying as far as possible with the requirements of IAS7. **(18 marks)**
- b) Prepare the statement of changes in Shareholders Equity for the year ended 28 February 2009. **(7 marks)**

QUESTION 3

On 1 July 2005, Rich acquired 70% of the ordinary share capital of poor for E140,000. At that date Poor had accumulated profits of E50, 000.

The following Statements of Financial Position have been prepared at 30 June 2009.

	Rich	Poor
ASSETS		
Non current Assets		
Tangible	190,000	170,000
Investment: shares in Poor	140,000	
	330,000	
Current Assets	270000	186000
Total Assets	600,000	356,000
EQUITY AND LIABILITIES		
Share capital and reserves		
Ordinary shares of E1 each	200,000	130,000
Accumulated Retained Earnings	175,000	89,000
	375,000	219,000
Current Liabilities	225000	137000
Total Equity and Liabilities	600,000	356,000

You are required to prepare the consolidated Statement of Financial Position of Rich and its subsidiary as at 30 June 2009. Goodwill is amortised over five years on the straight line basis.

(25marks)

QUESTION 4

The summarised Statement of Financial Position of Brood Ltd. at 30 April 2008 and 30 April 2009 are given below:

	2008	2009
ASSETS		
Non current Assets		
Tangible	51 000	63 000
Accumulated Depreciation	-12 500	-16 300
	38 500	46 700
Current Assets		
Stock	16 400	18 400
Debtors	19 100	20 600
Prepayments	3 100	4 000
	38 600	43 000
Total Assets	77 100	89 700
EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	10 000	10 000
Share Premium Account	5 000	5 000
Revaluation Reserves	5 000	5 000
Accumulated Retained Earnings	8 600	12 300
	28 600	32 300
Non Current Liabilities		
7% Long Term Loan	20 000	40 000
Current Liabilities		
Trade Creditors	11 400	8 400
Accrued expenses	3 400	4 200
Overdraft	13 700	4 800
	28 500	17 400
Total Equity and Liabilities	77 100	89 700

The summarised Statement of Comprehensive Income of Brood for the year ended 30 April 2009 is as follows:

	2008	2009
	E	E
Sales Revenue	58 000	66 000
Cost of Sales	-43 000	-49 000
Gross Profit	15 000	17 000
Operating Expenses	-10 000	-10 500
Profit from operations	5 000	6 500
Interest payable	-1 400	-2 800
Retained Earnings for the period	3 600	3 700

Required:

(a) Calculate the following ratios for each of the two years:

- (i) Return on capital Employed
- (ii) Return on owners equity
- (iii) Current Ratio
- (iv) Quick ratio
- (v) Gearing (Leverage) ratio

NB: Use year end figures for all ratios

(15 marks)

(b) Write a report to the management of Brood Ltd commenting briefly on the movements in these ratios between the two years.

(10marks)