UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2010

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING 1V
COURSE CODE	:	AC501 (M) MAY 2010 (Full-time) IDE AC501 (M) MAY 2010 (PART-TIME)
TIME ALLOWED	:	THREE (3) HOURS

INSTRUCTIONS

1 There are four (4) questions on this paper.
2 Answer all four (4) questions.
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 two 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.

SPECIAL REQUIREMENTS: CALCULATOR

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVILATOR OR SUPERVISOR.

QUESTION 1

On 1 April 2004, Max limited bought 80% of the ordinary share capital of Cindrella Limited. On 1 April 2007, Max Limited was itself taken over by Salem Limited who purchased 75% of the ordinary shares in Max Limited.

The statement of financial position (balance sheet) of the three companies at 31 October 2009 prepared for internal use showed the following positions:

	Salem Limited		**Max Limited**		**Cindrella Limited**	
	E	E	E	E	E	E
Non current assets						
Freehold land at cost		89,000		30,000		65,000
Buildings at cost	100,000		120,000		40,000	
Accumulated depreciation	-36,000		-40,000		-16,400	
		64,000		80,000		23,600
Plant and equipment at cost	102,900		170,000		92,000	
Accumulated depreciation	-69,900		-86,000		-48,200	
		33,000		84,000		43,800
		186,000		194,000		132,400
Investments						
Shares in max at cost		135,000				
Shares in cindrella at cost				96,000		
Current assets						
Stocks	108,500		75,500		68,400	
Debtors	196,700		124,800		83,500	
Cash at bank	25,200		-		25,400	
		330,400		200,300		177,300
		651,400		490,300		309,700
Current liabilities						
Creditors	160,000		152,700		59,200	
Bank overdraft	-		37,400		-	
Corporation tax	57,400		47,200		24,500	
Proposed dividends	80,000		48,000		12,000	
		297,400		285,300		95,700
		354,000		205,000		214,000
Ordinary shares		200,000		120,000		100,000
10% Preference shares		-		-		40,000
Revenue reserves		154,000		85,000		74,000
		354,000		205,000		214,000

Additional Information:

a) All ordinary shares are E1 each, fully paid,

b) Preference shares in Cindrella Limited are 50 Cents each fully paid.

c) Proposed dividends in Cindrella Limited are:

On ordinary shares E10,000;
On preference shares E2,000.

d) Proposed dividends receivable by Salem Limited and Max Limited are included in debtors.

e) All creditors are payable within one year.

f) Items purchased by Max Limited from Cindrella Limited and remaining in stock at 31 October 2009 amounted to E25,000. The profit element is 20% of selling price for Cindrella Limited.

g) Depreciation policy of the group is to provide for:
   (i) Buildings at the rate of 2% on cost each year;
   (ii) Plant and equipment – at the rate of 10% on cost each year including full provision in the year of acquisition.

   These policies are applied by all members of the group.
   Included in the plant and equipment of Cindrella Ltd is a machine purchased from the manufacturers, Max Ltd, on 1 January 2008 for E10,000. Max Ltd recorded a profit of E2,000 on the sale of the machine.

h) Intra-group balances are included in debtors and creditors respectively are as follows:

Salem Ltd	Creditors – Max Ltd	E45,600
	- Cindrella Ltd	E28,900
Max Ltd	Debtors – Salem Ltd	E56,900
Cindrella Ltd	Debtors – Salem Ltd	E28,900

i) A cheque drawn by Salem Ltd for E11,300 on 28 October 2009 was received by Max Ltd on 3 November 2009.

j) At 1 April 2004, reserves in Max Limited were E28,000 and in Cindrella Ltd E20,000. At 1 April 2007 the figures were E40,000 and E60,000 respectively.

Required

Prepare a group balance sheet at 31 October 2009 for Salem Ltd and its subsidiaries complying, so far as the information will allow, with the accounting requirements of the Companies Acts (22 Marks).

Marks will be allocated for the following workings:

1. Cost of control ($3^1/_2$ Marks)
2. Minority interest (4 Marks)
3. profit and loss account ($5^1/_2$ Marks)
4. debtors (3 Marks)
5. creditors (2 Marks)

Total: 40 Marks

QUESTION 2

(c) The following information has been extracted from the recently published accounts of D&T.

EXTRACTS FROM THE INCOME STATEMENTS TO 30 APRIL

	2008	2009
	E000	E000
Sales	9750	11200
Cost of sales	6825	8460
Gross profit	2925	2740
Expenses		
Depreciation	280	360
Audit fees	10	12
Other expenses	2246	1808
Total operating expenses	2536	2180
Operating profit before interest	389	560
Loan note interest	60	80
Interest on bank overdraft	9	15
Net profit after interest before tax	320	465

STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL

	2,008	2,009
	E000	E000
Non current assets		
Property, plant and equipment	1,430	1,850
Current assets		
Inventory	490	640
Accounts receivable	1,080	1,230
Bank	120	80
	1,690	1,950
Total assets	3,120	3,800
Equity and liabilities		
Ordinary share capital	800	800
Retained earnings	930	1,310
	1,730	2,110
Non current liabilities		
10% Loan stock	600	800
Current liabilities		
Bank overdraft	80	110
Accounts payable	690	750
Taxation	20	30
	790	890
Total equity and liabilities	3,120	3,800

The following ratios are those calculated for D&T, based on its published accounts for the previous year and also the latest industry average ratios:

	30-Apr-08	**Industry Average**
ROCE (Capital employed=equity and debentures)	16.30%	18.50%
Profit/sales	3.90%	4.73%
Asset turnover	4.18x	3.91x
Current ratio	2.10	1.90
Quick ratio	1.52	1.47
Gross profit margin	30%	35.23%
Accounts receivable collection period	40 days	52 days
Accounts payable payment period	37 days	49 days
Inventory turnover (times)	13.9x	18.30x
Gearing	25.75%	32.71%

(a) Calculate comparable ratios (to two decimal places where appropriate) for D&T for the year ended 30 April 2009. All calculations must be clearly shown. (10 Marks).

(b) Write a report to your Board of directors analyzing the performance of D&T, comparing the results against the previous year and against the industry average. (10 Marks)

Total: (20 Marks)

QUESTION 3

(a) On 1 January 2003 Little Co entered into a lease agreement to rent an asset for a 6 year period at which point it will be returned to the lessor and scrapped with annual lease payments of E18,420 made in advance. The market price of the asset on the same date was E86,000. The present value of the minimum lease payments amounts to E84,000, discounted at the implicit interest rate shown in the lease agreement of 12.5%.

Little Co expects to sell goods produced by the asset during the first five years of the lease term but has leased the asset for six years as this is the requirement for the lessor, and in case this expectation changes.

Required

In accordance with IAS 17, explain how the above lease would be accounted for the year ending 31 December 2003 including producing relevant extracts from the income statement and balance sheet (10 Marks).

You are not required to prepare the notes to the financial statements.

(b) Discuss the arguments in favour of capitalization of leases and the arguments against the capitalization of leases? (8 Marks).

(C) Distinguish between a Finance lease and an operating lease? (2 Marks)

Total: 20 Marks

QUESTION 4

(a) Nicholson Co, whose year end is 31 December, buys some goods from Blue Bell of France on 30 September 2008. The invoice value is €50,000 and is due for settlement in equal installments on 30 November 2008 and 31 January 2009.

The exchange rate moved as follows:

30 September 2008	€1=E10.50
30 November 2008	€1=E9.50
31 December 2008	€1=E10.00
31 January 2009	€1=E9.75

Required:
In line with IAS 21, state the accounting entries (journals) in the books of Nicholson Co (8 Marks)

(b) What is the difference between conversion and Translation? (2 Marks)

(c) Discuss five advantages of merger accounting to a group? (10 Marks)

Total: 20 Marks