

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
SUPPLEMENTARY EXAMINATION PAPER JULY 2011

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B.COM V

TITLE OF PAPER : FINANCIAL ACCOUNTING 1V

COURSE CODE : AC501 (S) JULY 2011 (Full-time)
IDE AC501 (S) JULY 2011 (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 zero 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

- (a) Edith Baker who relocated to Swaziland from United States in January 2006 negotiated for Finance with Standard Bank Swaziland and she purchased two vehicles for her new business venture. She signed a finance lease agreement to purchase the cars with Standard Bank Swaziland on 1 January 2007 and because of the risk of dealing with individuals, Standard Bank provided the finance at an interest rate of 11% per annum (Prime 10% plus 1%). Details of the cars that were purchased are shown below:

Details	Toyota Fortuner ASD797YL	Toyota Landcruiser ASB697YL
Date of purchase	1 January 2007	1 January 2007
Cost price	E310,000	E274,000
Cash deposit	10% of cost price	10% of cost price
Lease period	3 years	3 years
Repayment terms	Annually	Annually
Economic useful life	4 years	4 years

In 31 December 2008, the Toyota Land cruiser was involved in an accident and she claimed from the insurance (Lunex). The insurers paid E165,000 in settlement of the claim. Standard Bank Swaziland accepted E95,000 in final settlement and agreed to cancel the lease in respect of this car. Edith Baker makes her accounts to 31 December each year. The residual value of the vehicles for purposes of depreciation is nil. Edith uses the straight line method to depreciate the vehicles. Finance charges are calculated on the balance outstanding on 1 January each year.

Required:

Show the following accounts in the books of Edith Baker for the years ended 31 December 2007, 2008 and 2009 and the balance sheet extract for each year;

- Motor vehicle account; (4½ Marks)
- Provision for depreciation account (5½ Marks)
- Lessor's account / Standard Bank Swaziland; (11 Marks)
- Motor vehicle disposal account; (2 Marks)
- Income statement extract for each of the years; (3½ Marks)
- Statement of financial position extract (3½ Marks)

Total: 30 Marks

QUESTION 2

- (a) Sipiwe and Co, whose year end is 31 December, buys some goods from Tesco Limited situated in Botswana on 31 August 2010. The invoice value is P50,000 and is due for settlement in two equal installments on 30 October 2010 and 28 February 2011. The exchange rate moved as follows.

31 August 2010 P1=E1.30

30 October 2010 P1=E1.40

31 December 2010 P1=E1.20

28 February 2011 P1=E1.35

Required:

In accordance with IAS 21, state the accounting entries (journals) in the books of Sipiwe and Co. (8 Marks)

- (b) The abridged statements of financial position and income statement of Tayo Ltd and its foreign subsidiary, Nadine Ltd, appear below.

DRAFT STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	TAYO Ltd		NADINE Ltd	
	E	E	M	M
Non current assets				
Plant at cost	600		500	
Less: depreciation	<u>(250)</u>		<u>(200)</u>	
		350		300
Investments in Nadine Co 100 shares E1 each		<u>25</u>		<u>-</u>
		375		300
Current assets				
Stock	225		200	
Debtors	<u>150</u>		<u>100</u>	
	375		300	
Less: Current liabilities				
Accounts payable	<u>(100)</u>		<u>(110)</u>	
		275		190
		<u>650</u>		<u>490</u>
Capital and reserves				
Issued share capital E1/ M1 shares		300		100
Retained earnings		<u>300</u>		<u>280</u>
		600		380
Non current liabilities				
Long term loans		<u>50</u>		<u>110</u>
		<u>650</u>		<u>490</u>

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

	TAYO Ltd	NADINE Ltd
	E	M
Profit before tax	200	160
Tax	<u>100</u>	<u>80</u>
Profit after tax, retained	<u>100</u>	<u>80</u>

The following further information is given.

1. Tayo Co has had its interest in Nadine Co since the incorporation of the company.
2. Depreciation is 8% on cost.
3. There have been no loan repayments or movements in non-current assets during the year. The opening inventory of Nadine Co was M120. Assume that inventory times are very short.

4. Exchange rates:
- i. M4 to E1 when Nadine Co was incorporated.
 - ii. M2.5 to E1 when Nadine Co acquired its non current assets.
 - iii. M2 to E1 on 31 December 2009.
 - iv. M1.6 to E1 average rate of exchange year ending 31 December 2010
 - v. M1 to E1 on 31 December 2010

Required:

Prepare the summarized consolidated financial statements of Tayo Ltd including a statement of changes in equity. (20 Marks)

Note: Consolidated income statement (3 Marks), Statement of financial position (13 Marks) and statement of changes in equity (4 Marks).

- c) What is the difference between conversion and translation? (2 Marks)

Total: 30 Marks

QUESTION 3

- (a) Although ratio analysis is useful in analysing the financial performance of a company, there are still certain limitations that are inherent with it. Discuss seven (7) of these limitations. (7 Marks)
- (b) Discuss some of the common ways that companies use to manage their reported earnings? (5 Marks)
- (c) Inyatsi Ltd which is involved in road construction and Pick & Pay - a supermarket have each a quick ratio of 1.2? Comment on the quick ratios of these two companies? (2 Marks)
- (d) Define a contingent liability in accordance with IAS 37 and explain how they should they be treated in a company's financial statements? (3)
- (e) Discuss three rights that shareholders of a company have by virtue of their shareholding in a particular company? (3 Marks)

Total: 20 Marks

QUESTION 4

- (a) Discuss the criteria that have to be satisfied for revenue from the sale of goods to be recognized in the accounts of an entity? (5 Marks)
- (b) On 1 April 2010, Village Limited issued 18,000 of its E35 fair value (E10 per value) shares for all the shares of Delisile Limited. Village paid direct acquisition costs of E20,000. The two companies had the following statement of financial positions as at April 1, 2010 prior to the acquisition:

	Village Ltd E	Delisile Ltd E
Non current assets		
Land	100,000	40,000
Building	300,000	120,000
Equipment	430,000	110,000
	<u>830,000</u>	<u>270,000</u>
Current assets		
Inventory	120,000	60,000
Other current assets	50,000	70,000
	<u>170,000</u>	<u>130,000</u>
Less: Current liabilities	<u>(180,000)</u>	<u>(60,000)</u>
Working capital	<u>(10,000)</u>	<u>70,000</u>
	<u>820,000</u>	<u>340,000</u>
Equity and reserves		
Ordinary shares at E10 per share	400,000	200,000
Retained earnings	420,000	140,000
	<u>820,000</u>	<u>340,000</u>

The following fair values differ from book values for Delisile's assets:

	E
Land	100,000
Building	150,000
Equipment	75,000
Inventory	65,000

Required:

Prepare a consolidated statement of financial position for the Group as at 1 April 2010, immediately after the purchase of shares in Delisile Limited. Show all your workings. (15 Marks)

Total: 20 Marks