UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER, MAY 2012

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B.COM V
TITLE OF PAPER	:	FINANCIAL ACCOUNTING 1V
COURSE CODE	:	AC501 (M) MAY 2012 (Full-time) IDE AC501 (M) MAY 2012 (PART-TIME)
TIME ALLOWED	:	THREE (3) HOURS
TOTAL MARKS	:	100 MARKS

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

Betty, a public limited company, purchased 6 000 000 shares in Rustin, a public limited company, on 1 January 2007 for E10 000 000. Rustin had purchased 4 000 000 shares in Pascal, a public limited company for E9 000 000 on 31 December 2004 when its retained earnings stood at E5 000 000. The balances of retained earnings in Rustin were E8 000 000 and there were E6 500 000 in Pascal at 1 January 2007.

The book values of the identifiable assets and liabilities of Rustin and Pascal at their current statement of financial position as at 31 December 2011 was equivalent to the book values at the acquisition dates. Put differently the assets and liabilities of the acquired companies have not changed since the dates of acquisition.

The statements of financial position of the three companies as at 31 December 2011 are as follows:

	Betty Co	Rustin Co	Pascal Co
	E000	E000	E000
Non current assets			
Property, plant and equipment	14,500	12,140	17,500
Investment in Rustin Co	10,000	-	-
Investment in Pascal Co	-	9,000	-
	24,500	21,140	17,500
Current assets			
Inventories	6,300	2,100	450
Accounts receivable	4,900	2,000	2,320
Cash	500	1,440	515
	11,700	5,540	3,285
Total assets	36,200	26,680	20,785
Equity			
50c Ordinary shares	5,000	4,000	2,500
Retained earnings	25,500	20,400	16,300
	30,500	24,400	18,800
Current liabilities			
Accounts payable	5,700	2,280	1,985
Total liabilities	36,200	26,680	20,785

Minority shareholders in Rustin paid E980 000 for their shares in that company on 1 January 2007 whilst minority shareholders in Pascal in 1 January 2007 paid E4 600 000 for their shares.

Impairment tests in previous years did not reveal any impairment losses.

Required:

i. Prepare the consolidated statement of financial position of Betty Co as at 31 December 2011. (14 Marks)

ii. Computation of total goodwill. (8 Marks)

iii. Determine minority interest. (3 Marks)

Total: (25 Marks)

QUESTION 2

On 1 January 2008 Malthus Co, a manufacturing entity, bought a machine from Roselyn Co under a finance lease that had a cash price of E7,700 by paying an immediate deposit of E2,000. The balance was settled by Malthus in four equal annual instalments commencing on 31 December 2008. Interest on this lease was calculated using the actuarial method at the interest rate of 15% per annum on the capital balance outstanding at the beginning of each year. The machine is to be depreciated at the rate of 25% on a straight line basis assuming a residual value of nil. The spirit of the lease agreement is that ownership is intended to be passed to Malthus on the payment of the last instalment.

Required:

Prepare the relevant ledger accounts as indicated below in respect of the lease for each of the years ended 31 December 2008, 2009, 2010, and 2011 in the books of Malthus Co.

a) Machine account. (1 Mark)
b) Roselyn Co loan account. (8 Marks)
c) Provision for depreciation account of the machine. (5 Marks)
d) Income statement extract. (4 Marks)
e) Statement of financial position extract of Malthus Co showing the correct classification for the non-current and current liabilities for the lease. (7 Marks)

Total: (25 Marks)

QUESTION 3

The following information has been extracted from the recently published accounts of Elson Co.

EXTRACTS FROM THE INCOME STATEMENTS TO 30 APRIL

	2010	2011
	E000	E000
Sales	9,750	11,200
Cost of sales	6,825	8,460
Gross profit	2,925	2,740
Expenses		
Depreciation	280	360
Audit fees	10	12
Other expenses	2,246	1,808
Total operating expenses	2,536	2,180
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

	2010	2011
	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 eamings	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 Elson co, based on its published accounts for the previous year and also the latest industry average ratios:

	30-Apr-10	Industry Average
ROCE (Capital employed=equity and debentures)	16.30%	18.50%
Profit/sales	3.90%	4.73%
Asset tumover	4.18x	3.91x
Current ratio	2.10	1.90
Quick ratio	1.52	1.27
Gross profit margin	30%	35.23%
Accounts receivable collection period	40 days	52 days
Accounts payable payment period	37 days	49 days
Inventory tumover (times)	13.9x	18.30x
Gearing	25.75%	32.71%

Required:

(a) Calculate comparable ratios (to two decimal places where appropriate) for Elson Co for the year ended 30 April 2011. All calculations must be clearly shown. (10 Marks).

(b) Write a report to the Board of directors analyzing the performance of Elson Co, comparing the results against the previous year and against the industry average.
(15 Marks)

Total: (25 Marks)

QUESTION 4

a) Discuss the criteria for the recognition of revenue from the sale of goods as highlighted in IAS 18. (10 Marks)

b) State three requirements that should be met for the recognition of a provision in line with IAS 37. (6 Marks)

c) Contingent liabilities should not be recognized in the financial statements but they should be disclosed. What are the required disclosure requirements for contingent liabilities? (8 Marks)

d) Define impairment loss in accordance with IAS 36. (1 Mark)

Total: (25 Marks)