UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION PAPER JULY 2014

DEGREE/ DIPLOMA AND YEAR OF STUDY	:	B. COM III/ B.COM LEVEL 4
TITLE OF PAPER	:	FINANCIAL REPORTING ANALYSIS/ INTERNATIONAL ACCOUNTING STANDARDS
COURSE CODE	:	AC323/ AC412 (PART TIME) (S) JULY 2014
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS

INSTRUCTIONS

1. There are 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 all 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.

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SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

a) Marcoli Co has produced the following net profit figures for the years ending 31 December.

	Em
20X6	1.1
20X7	1.5
20X8	1.8

On 1 January 20X7 the number of shares outstanding was 500,000. During 20X7 the company announced a rights issue with the following details.
Rights: 1 new share for each 5 outstanding (100,000 new shares in total)
Exercise price: E5.00
Last date to exercise rights: 1 March 20X7
The market (fair) value of one share in Marcoli immediately prior to exercise on 1March 20X7=E11.00

Required:
Calculate the EPS for 20X6, 20X7 and 20X8 (14 Marks)

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b) In 20X7 Farrah Co had a basic EPS of 105c based on earnings of E105,000 and 100,000 ordinary E1 shares. It also had in issue E40,000 15% convertible loan stock which is convertible in two years' time at the rate of 4 ordinary shares for every E5 of stock. The rate of tax is 30%. In 20X7 gross profit of E200,000 and expenses of E50,000 were recorded, including interest payable of E6,000.
Required:
   i. Calculate the diluted EPS. (3 Marks)
   ii. What is the dilution in earnings? (3 Marks)

c) Brains Co had 100,000 shares in issue, but then makes a 1 for 5 rights issue on 1 October 20X2- at a price of E1. The market value on the last day of quotation with rights was E1.60.

Calculate the EPS for 20X2 and the corresponding figure for 20x1 given total earnings of E50,000 in 20X2 and E40,000 in 20X1. Assume a December year end. (5 Marks)

Total: (25 Marks)

QUESTION 2

Applications were invited by the directors of Granberg Ltd for 150,000 of its E1 ordinary shares at E1.15 per share payable as follows:

On application on 1 April 2013	E0.75
On allotment on 30 April 2013 (including the premium of E0.15 per share)	E0.20
On first and final call on 31 May 2013	E0.20

Applications were received for 180,000 shares and it was decided to deal with these as follows:

1. To refuse allotments to applicants for 8,000 shares.
2. To give full allotments to applicants for 22,000 shares.
3. To allot the remainder of the available shares pro rata among the other applicants.
4. To utilize the surplus received on the applications in part payment of amounts due on allotment.

An applicant, to whom 400 shares had been allotted failed to pay the amount due on the first and final call and his shares were declared forfeited on 31 July 2013. These shares were reissued on 3 September 2013 as fully paid at E0.90 per share.

Required:
Show how the transactions would be recorded in the company's books.

Total: (25 Marks)

QUESTION 3

(a) Cuesta Ltd was awarded a contract to build an office an office block in Mbabane and work commenced at the site on 1 May 2013.

During the period to 28 February 2013, the expenditure on the contract was as follows:

	E
Materials issued from stores	9,411
Materials purchased	28,070
Direct expenses	6,149
Wages	18,493
Charge made by the company for administration expenses	2,146
Plant and machinery purchased on 1 May 2012, for use at site	12,180

On 28 February 2013, the materials at the site amounted to E2,164 and there were amounts outstanding for wages E366 and direct expenses E49.

Cuesta Ltd has received on account the sum of E64,170 which represents the amount of certificate No.1 issued by the architects in respect of work completed to 28 February 2013, after deducting 10% retention money.

The following relevant information is also available:

i. The plant and machinery have an effective life of five years, with no residual value; and

ii. Show your calculation of the profit to be taken to profit and loss in respect of the work covered by Certificate No.1.

b) Discuss the concept of "foreseeable losses" as it applies to contract accounts. (3 Marks)

Total (25 Marks)

QUESTION 4

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

EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME TO 30 APRIL

	2012	**2013**
	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

	2012 E000	2013 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 Elson Co, based on its published accounts for the previous year and also the latest industry average ratios:

	30-Apr-12	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	1.27
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%

Required:

(a) Calculate comparable ratios (to two decimal places where appropriate) for Elson Co for the year ended 30 April 2013. 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)