
UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

SUPPLEMENTARY EXAMINATION PAPER

JULY 2015

| | | | | |
|-----------------------|--------------|--|-----------|------|
| DEGREE/YEAR OF STUDY: | BACHELOR | OF- | COMMMERCE | YEAR |
| | II/EDUCATION | YEAR II | | |
| TITLE OF PAPER | : | INTERMEDIATE FINANCIAL ACCOUNTING I | | |
| COURSE CODE | : | AC211/ IDE AC 211 (S) MAY 2015 | | |
| TOTAL MARKS | : | 100 MARKS | | |
| TIME ALLOWED | : | THREE (3) HOURS | | |
| INSTRUCTIONS | 1 | There are four (4) questions. Answer all. | | |
| | 2 | Begin the solution to each question on a new page. | | |
| | 3 | The marks awarded for each question are indicated at the end of the question. | | |
| | 4 | Show all your workings. | | |
| | 5 | Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed. | | |
| RECOMMENDATION | 1 | Reading time should not exceed fifteen minutes | | |

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.

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

SPECIAL REQUIREMENTS: CALCULATOR

QUESTION 1

Sibonginkhosi, Simphiwe and Nomcebo are equal partners in a permanent joint venture arrangement. The business was established in December 31, 2005. The object of the business was the supply of food to employees of B-Tel, a cellphone service provider in the Kingdom of Swaziland. B-Tel relocated its offices from Manzini to Mbabane on 31 October 2014. The partnership had established its own premises in Manzini and all meals were prepared there. The relocation of the business from Manzini had not been envisaged by the partners. The partners therefore resolved that the business should be shut down. It was further agreed that the partnership should be dissolved since there were no prospects for recovery.

Sibonginkhosi has approached you for advice on how they should proceed with the dissolution of the partnership. He has stated that the partnership agreement does not have any provisions on what needs to be done in the event the partnership has to be dissolved. He has requested you to prepare a memorandum for the attention of the partners on how the dissolution should be dealt with. He has further requested you to prepare the final journals or illustration of ledger accounts on how the final accounts of the business will appear after all the transactions for the dissolution have been processed. The following further facts have been provided.

- 1) The partners noted that FINCORP charges a fee of 7% of the principal amount if an entity opts for early settlement. It was therefore agreed that the partner with the lowest capital account balance should take over the FINCORP loan. FINCORP has consented to this arrangement.
- 2) It was resolved that the partnership will comply with all relevant legislation in the country in undertaking the dissolution. Special attention has been drawn to the letter received from the employees of the company. (This letter has been attached as appendix 1 at the end of the question)
- 3) Siboniso, a local business man in Manzini has agreed to take over the assets in the business (other than cash) and as a return for the take-over of the assets to accept loans from the partners in the business to the extent of their Capital Accounts at 31 December 2012 before the consideration of dissolution journals but after considering item no.1 above.
- 4) The total payroll costs for the period ended 31 December 2014 was E 300 000. The company had, since inception employed 5 chefs and they were the only employees in the company. The employees work 260 days per year.
- 5) The statement of financial position as at 31 December 2014 before the dissolution has been provided in the next page.

Required;

Prepare a response to Sibonginkhosi's request.

Total:

[40 Marks]

**STATEMENT OF FINANCIAL POSITION FOR THE SS&N PARTNERSHIP AS AT
31 DECEMBER 2014**

ASSETS

| | E | E |
|---------------------------|--------|-----------------------|
| NON-CURRENT ASSETS | | |
| LAND & BUILDINGS | | 150,000 |
| EQUIPMENT | | 70,000 |
| PLANT | | 60,000 |
| | | <u>280,000</u> |
| CURRENT ASSETS | | |
| INVENTORY | 23,000 | |
| ACCOUNTS RECEIVABLE | 16,000 | |
| BANK | 25,000 | |
| | | <u>64,000</u> |
| TOTAL ASSETS | | <u><u>344,000</u></u> |

EQUITY AND LIABILITIES

EQUITY

| | | |
|----------------|---------|----------------|
| CAPITAL | | |
| SIBONGINKHOSI | 100,000 | |
| SIMPHIWE | 100,000 | |
| NOMCEBO | 25,000 | |
| | | <u>225,000</u> |

CURRENT ACCOUNTS

| | | |
|---------------|----------|---------------|
| SIBONGINKHOSI | 5,000 | |
| SIMPHIWE | 65,000 | |
| NOMCEBO | (10,000) | |
| | | <u>60,000</u> |

NON-CURRENT LIABILITIES

| | | |
|-------------------|--|--------|
| LOAN FROM FINCORP | | 45,000 |
|-------------------|--|--------|

CURRENT LIABILITIES

| | | |
|------------------|--|--------|
| ACCOUNTS PAYABLE | | 14,000 |
|------------------|--|--------|

| | | |
|---------------------------------------|--|-----------------------|
| TOTAL EQUITY & LIABILITIES | | <u><u>344,000</u></u> |
|---------------------------------------|--|-----------------------|

Appendix a

THE EMPLOYEES UNION

PO BOX 556X

MBABANE

31 DECEMBER 2014

THE MANAGING PARTNER

SS&N CATERING

P O BOX 7568

MBABANE

Sir,

TERMINATION FROM EMPLOYMENT

It has come to the union's attention that you intend to close down the business and terminate our members employ from your organization.

The union is disappointed at the manner at which management has handled this matter. We have not received a formal letter informing us on the looming retrenchments and this is against good labour practice. We wish to draw your attention to the following matters articulated in the employment act of 1980.

Severance allowance.

34. (1) Subject to subsections (2), and (3) if the services of an employee are terminated by his employer other than under paragraphs (a) to (j) of section 36 the employee shall be paid, as part of the benefits accruing under his contract of service, a severance allowance amounting to ten working days' wages for each completed year in excess of one year that he has been continuously employed by that employer. (Amended A.11/1981; A.4/1985.)

(2) In calculating the amount of the severance allowance to which the employee is entitled under subsection (1) any employment by him with the employer concerned prior to the 1st day of January, 1968 shall be disregarded.

(3) If any employer operates or participates in, and makes any contribution to, any gratuity, pension or provident fund (other than the Swaziland National Provident Fund established by the Swaziland National Provident Fund Order, 1974) which is operated for the benefit of his employees, the employer on termination of employment of an employee, shall be entitled to repayment from the gratuity, pension or provident fund equal to the employer's total contribution to that gratuity, pension or provident fund in respect of the employee to whom a severance allowance is to be paid under this section.

(4) The amount of the repayment under subsection (3) shall not exceed the total amount of the severance allowance paid by the employer under subsection (1).

(5) For the purpose of this section, the term “wages” shall mean the wages payable to the employee at the time his services were terminated.

(6) (Repealed A.11/1981.)

36. It shall be fair for an employer to terminate the services of an employee for any of the following reasons —

- (a) because the conduct or work performance of the employee has, after written warning, been such that the employer cannot be reasonably be expected to continue to employ him;
- (b) because the employee is guilty of a dishonest act, violence, threats or ill treatment towards his employer, or towards any member of the employer’s family or any other employee of the undertaking in which he is employed;
- (c) because the employee wilfully causes damage to the buildings, machinery, tools, raw materials or other objects connected with the undertaking in which he is employed;
- (d) because the employee, either by imprudence or carelessness, endangers the safety of the undertaking or any person employed or resident therein;
- (e) because the employee has wilfully revealed manufacturing secrets or matters of a confidential nature to another person which is, or is likely to be, detrimental to his employer;
- (f) because the employee has absented himself from work for more than a total of three working days in any period of thirty days without either the permission of the employer or a certificate signed by a medical practitioner certifying that he was unfit for work on those occasions;
- (g) because the employee refuses either to adopt safety measures or follow the instructions of his employer in regard to the prevention of accidents or disease;
- (h) because the employee has been committed to prison and thus prevented from fulfilling his obligations under his contract of employment;
- (i) because the employer is unable to continue in employment without contra-vening this Act or any other law;
- (j) because the employee is redundant; (Renumbered A.4/1985.)

We hope the matters detailed above will be dealt with accordingly.

Sibonsile Magagula

Secretary General

Question 2

San Limited bought a farm in the Mtubatuba mountain area that is suitable for growing pine trees. They paid E 1 million for the farm and immediately started to develop the land. This involved making roads to the various planting areas, dividing the farm into sections, and creating fire and windbreaks. Holes were also dug and young trees planted and fertilized. This was done at a cost of E 100 000 per hectare.

After the trees had been planted they had to be watered and the weeds had to be controlled. The trees also had to be pruned to ensure that they grew straight and tall. This was an ongoing operation with costs being continually incurred.

After a period of about 10 years the trees should be ready for harvest and should yield a return in excess of 20% per annum on the costs incurred to establish them.

During the financial year ended 31 March 2015, San Limited developed 10 hectares at a cost of E 1 million and spent E 300 000 on watering and maintaining the trees.

The accountant reflected the cost of E 1.3 million as an asset in the statement of financial position as at 31 December 2014.

Required:

Provide a well-reasoned argument by referring only to the requirements of the Framework as to whether the cost of planting and maintaining the plantation should be treated as an expense or an asset.

Total:

[20 Marks]

Question 3

The statements of financial position for M. Maseko, a sole trader, for two successive years are shown below.

ASSETS

| NON CURRENT ASSETS | 31-Dec-14 E | 31-Dec-13 E |
|---|----------------|----------------|
| Land & Premises (Cost E 52 000) | 40,000 | 44,000 |
| Plant & Machinery (Cost 2014:E 25 000, 2013:E 19 000) | 19,600 | 14,250 |
| Total Non-Current Assets | 59,600 | 58,250 |
| CURRENT ASSETS | | |
| Inventory | 6,300 | 6,600 |
| Trade accounts receivable | 12,600 | 17,800 |
| Bank | 7,100 | - |
| Total current assets | 26,000 | 24,400 |
| Total assets | 85,600 | 82,650 |

EQUITY AND LIABILITIES

| EQUITY | | |
|-------------------------------------|---------------|---------------|
| Capital | 15,000 | 15,000 |
| Retained earnings | 39,000 | 32,000 |
| Total equity | 54,000 | 47,000 |
| NON-CURRENT LIABILITIES | | |
| Loan | 20,000 | - |
| CURRENT LIABILITIES | | |
| Trade accounts payable | 11,600 | 22,000 |
| Bank overdraft | - | 13,650 |
| Total Current Liabilities | 11,600 | 35,650 |
| Total equity and liabilities | 85,600 | 82,650 |

Profit for the year E 22 000

AC211/ IDE AC211 [PART-TIME] (S) JULY 2015

Required: Draw up the statement of cash flows for M. Maseko for the year ended 31 December 2014.

Total:

[20 Marks]

Question 4

John, Obi and Mikel enter into a joint venture for dealing in paintings. The following transactions took place:

2015

- | | | |
|------|----|--|
| May | 1 | John rented a shop paying 3 months' rent E 2 100. |
| | 3 | Obi bought a van for E 2 200. |
| | 5 | Obi bought paintings for E 8 000. |
| | 17 | Mikel received cash from the sale proceeds of paintings E 31 410. |
| | 23 | John bought paintings for E 17 000 |
| June | 9 | Van broke down. Mikel agreed to use his own van for the job until cessation of the joint venture at an agreed charge of E 600. |
| | 14 | Van bought on May 3 was sold for E 1 700. Proceeds were kept by John. |
| | 17 | Sales of paintings, cash being to Obi E 4 220. |
| | 25 | Lighting bills paid for shop by Mikel E 86. |
| | 29 | Mikel bought paintings for E 1 700. |
| July | 3 | General expenses for shop paid for E 1 090, John and Mikel paying half each |
| | 16 | Paintings sold by Mikel E 2 300, Proceeds being kept by him |
| | 31 | Joint venture ended. The paintings still in inventory were taken over at an agreed valuation of E 6 200 by Obi. |

Required: Show the joint venture accounts in the books of the three parties. Show the full workings needed to arrive at the profit on the venture. The profit or loss was to be split: John (3/8), Obi (1/2) and Mikel (1/8). Any outstanding balances between the parties were to be settled on 31 July 2015.

Total:

[20 Marks]