

UNIVERSITY OF SWAZILAND
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER MAY 2009

**DEGREE / DIPLOMA AND
YEAR OF STUDY** : **B. COM V**

TITLE OF THE PAPER : **FINANCIAL ACCOUNTING IV**

COURSE CODE : **AC 501 (M) May 2009 (Full-time)
IDE AC 501 (M) May 2009 (Part-time)**

TIME ALLOWED : **THREE (3) HOURS**

MAXIMUM MARKS : **100**

INSTRUCTIONS:

- There are four (4) questions on this paper.
- Answer all four (4) questions.
- The marks awarded for a question/part are indicated at the end of each question/part of question.
- Where applicable, all workings are to be shown.
- Calculations are to be made to two decimal places of accuracy, unless otherwise instructed

SPECIAL REQUIREMENTS : **CALCULATOR**

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of the language, the general quality of expression, together with the layout and presentation of your answer.

THIS QUESTION PAPER SHOULD NOT BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR / SUPERVISOR.

QUESTION 1:

Wood'n Wares Ltd purchased 90% of the ordinary shares of Pine Ltd for E950,000. Wood'n Ware also paid E10,000 in direct acquisition costs. Wood'n Ware acquired a loan from the bank to finance the total cost of the acquisition. Just before the investment, the two companies had the following balance sheets:

	Wood'n Wares LTD		Pine Ltd
Fixed assets	<u>1,500,000</u>		<u>600,000</u>
	1,500,000		600,000
Inventory	600,000	200,000	
Debtors	700,000	450,000	
Bank	<u>200,000</u>	<u>50,000</u>	
	1,500,000	700,000	
Less Currant liabilities	<u>950,000</u>	<u>400,000</u>	<u>300,000</u>
	2,050,000		900,000
Long-term liabilities	<u>500,000</u>		<u>200,000</u>
	<u>1,550,000</u>		<u>700,000</u>
Finance by:			
Ordinary shares at E10 per share at par	400,000		300,000
Share premium	500,000		380,000
Retained earnings	<u>650,000</u>		<u>20,000</u>
	<u>1,550,000</u>		<u>700,000</u>

Appraisal for the assets of Pine Ltd indicate that fair values differ from recorded book values for the fixed assets and for the inventory which have fair values of E700,000 and E250,000, respectively.

Required:

Prepare the consolidated balance sheet immediately after the acquisition of the Pine Ltd.
(Total = 25 marks)

QUESTION 2:

Peace Engineering Ltd a U.S. company, reconditions and sells injection moulding equipment. The company has reconditioning facilities in the United States, Germany and South Korea. The German facility had the following transactions:

1. Purchased used equipment from a French equipment broker for 200,000 Euros to be paid for in 30 days on June 1, 2008.
2. Incurred and paid cash reconditioning costs for 80,000 Euros uniformly throughout June 2008.
3. Paid the French equipment broker on June 28, 2008.
4. Sold the reconditioned equipment for 350,000 Euros with terms of net 30 on July 15, 2008.
5. Collected 350,000 Euros in connection with the above sale on August 10, 2008.

Relevant spot rates are as follows:

June 1, 2008	1 Euro = \$1.1705
June 2008 average	1 Euro = \$1.1707
June 28, 2008	1 Euro = \$1.1709
July 15, 2008	1 Euro = \$1.1710
August 10, 2008	1 Euro = \$1.1712

Required:

Prepare the journal entries to record the above transactions on the books of the U.S. Company.

Show all your workings.

(Total = 25 marks)

QUESTION 3:

On 1 January 2005, Split Ltd entered (as lessee) into a lease over land and factory buildings from which it operates. The terms were as follows

- 25year non-cancellable lease
- Lease payment of E1 million per annum are payable annually in arrear on 31 December of each year of the lease

At the inception the lease the fair value of the land and building was E3,000,000 and E6,354,000 respectively.

On 1 January 2005, both the lessee and the lessor considered that:

- The remaining economic life of the factory building to be 25 years
- The factory building is to be depreciated using the straight line method.
- The land has an indefinite useful life
- The land would be worth E3,000,000 at the end of the lease
- Ownership of the land and building does not pass to the lessee
- The interest rate implicit in the lease is 10%
- 70% of the lease payment is attributable to the building and 30% was attributable to the land

Required:

Show the profit and loss account extract and the balance sheet extract for the first three year of the lease, that is, December 2005, 2006 and 2007.

Show all your workings.

(Total = 25 marks)

QUESTION 4:

What are the 7 typical characteristics of a finance lease as stated by the IAS 17 guidelines?

(15 marks)

Where directors feel that a company ought to be wound up what procedures must be followed to carry this out?

(10 marks)

(Total = 25 marks)