

UNIVERSITY OF SWAZILAND  
DEPARTMENT OF ACCOUNTING  
MAIN EXAMINATION PAPER DECEMBER 2014

DEGREE/ DIPLOMA AND

YEAR OF STUDY : B. COM 111/ B.COM Level 5

TITLE OF PAPER : Advanced financial accounting 1

COURSE CODE : AC320/ IDE AC411 (M) DECEMBER 2014

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 a question are indicated at the end of each question.
  - 4 Show all the necessary workings.

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**

Rita Ltd purchased 75% of Eunice Ltd for E2,000,000 10 years ago when the balance of retained earnings was E1,044,000. The statement of financial position of the two companies as at 31 March 2014 are as follows:

	Rita Ltd E'000	Eunice Ltd E'000
<b>Non current assets</b>		
Investment in Eunice	2,000	-
Land and buildings	3,350	-
Plant and equipment	1,010	2,210
Motor vehicles	510	345
	<u>6,870</u>	<u>2,555</u>
<b>Current assets</b>		
Inventories	890	352
Trade receivables	1,372	514
Cash and cash equivalents	89	51
	<u>2,351</u>	<u>917</u>
	<u>9,221</u>	<u>3,472</u>
<b>Equity</b>		
Share capital -E1 Ordinary shares	1,000	500
Retained earnings	4,225	2,610
Revaluation surplus	2,500	-
	<u>7,725</u>	<u>3,110</u>
<b>Non current liabilities</b>		
10% Debentures	500	-
<b>Current liabilities</b>		
Trade payables	996	362
	<u>9,221</u>	<u>3,472</u>

The following additional information is available:

1. Included in trade receivables of Rita are amounts owed by Eunice of E75,000. The current accounts do not at present balance due to a payment for E39,000 being in transit at the year end from Eunice.
2. Included in inventories of Eunice are items purchased from Rita during the year for E32,200. Rita Ltd marks up its goods by 30% to achieve its selling price.

3. E180,000 of the recognized goodwill arising is to be written off due to impairment losses.
4. Eunice shares were trading at E4.40 just prior to acquisition by Rita Ltd and this price is used to value non-controlling interests.

**Required:**

Prepare the consolidated statement of financial position for Rita group of companies as at 31 March 2014; showing all your workings where relevant and marks will be awarded for workings. It is group policy to value non-controlling interest at full (or fair) value.

**Total (30 Marks)**

**QUESTION 2**

As a Financial Accountant for Elmond Ltd, you are responsible for the preparation of a statement of cash flows for the year ended 31 March 2014.

The following information is available.

**ELMOND LTD****STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MARCH 2014**

	Em
Revenue	473
Cost of sales	(229)
Gross profit	244
Distribution costs	(76)
Administrative expenses	(48)
Investment income	6
Finance costs	(17)
Profit before tax	109
Income tax expense	(47)
Profit for the year	62
Dividends paid in the period	32

**ELMOND LTD****Statement of financial position as at 31 March 2014**

	2014 Em	2013 Em
<b>Non current assets</b>		
Property, plant and equipment	327	264
<b>Current assets</b>		
Inventories	123	176
Trade receivables	95	87
Short term investments	65	30
Cash at bank and in hand	29	-
	<u>312</u>	<u>293</u>
	<u>639</u>	<u>557</u>
<b>Equity</b>		
Share capital - E1 shares	200	120
Share premium	30	-
Revaluation surplus	66	97
Retained earnings	71	41
	<u>367</u>	<u>258</u>
<b>Non current liabilities</b>		
10% Debentures	100	150
<b>Current liabilities</b>		
Trade accounts payable	172	149
	<u>639</u>	<u>557</u>

**The following notes are also relevant.**

- a) **Property, plant and equipment**  
Property, plant and equipment held by Elmond are items of plant and equipment and freehold premises. During 2014 items of plant and equipment which originally cost E40m were disposed of, resulting in a loss of E6m. These items have a net book value of E28m at the date of disposal.
- b) **Short-term investments** meet the definition of cash equivalents per IAS7 statement of cash flows.

## c) Current liabilities

Current liabilities consist of the following.

	2014	2013
	Em	Em
Bank overdraft	-	22
Trade payables	126	70
Interest payable	7	3
Income tax payable	39	54
	<u>172</u>	<u>149</u>

## d) 10% debentures

On 1 August 2013 E50m of 10% debentures was converted into E50m of E1 ordinary shares.

## e) Depreciation

The depreciation charge for the year included in the statement of profit or loss was E43m.

**Required**Using the information provided, prepare a statement of cash flows for Elmond Ltd for the year ended 31 March 2014 using the indirect method as laid out in IAS 7. **(25 Marks)****Total (25 Marks)**

**QUESTION 3**

The following trial balance has been extracted from the books of Arnold PLC as at 31 March 2014:

	<b>DEBIT</b>	<b>CREDIT</b>
	<b>E000</b>	<b>E000</b>
Administrative expenses	95	
Called up share capital (all ordinary shares of E1 each		200
Cash at bank and in hand	25	
Accounts receivable	230	
Deferred taxation (1 April 2013)		60
Distribution costs	500	
Non current asset investments	280	
Income from non current asset investments		12
Interim dividend paid	21	
Overprovision of last year's corporation tax		5
Land and buildings at cost	200	
Acc. Depreciation for land and buildings 1 April 2013		30
Plant and machinery at cost	400	
Acc. Depreciation for plant and machinery 1 April 2013		170
Retained profits 1 April 2013		229
Purchases	1,210	
Sales		2,265
Inventory at 1 April 2013	140	
Trade accounts payable		130
	<u>3,101</u>	<u>3,101</u>

**Additional information**

- i. Inventory at 31 March 2014 was valued at E150,000.
- ii. Depreciation for the year to 31 March 2014 is to be charged against administrative expenses as follows:
 

	E000
Land and buildings	5
Plant and machinery	40
- iii. Corporation tax of E180,000 is to be charged against profits on ordinary activities for the year to 31 March 2014.
- iv. E4,000 is to be transferred to the deferred taxation account.
- v. The company proposes to pay a final ordinary dividend of 30 cents per share.

**Required:**

In so far as the information permits, prepare the company's statement of comprehensive income for the year ended 31 March 2014 and a statement of financial position as at that date which should be in published form and must comply with relevant IFRS (25 Marks).

**NB:** Relevant notes to the statement of comprehensive income and statement of financial position are not required.

**Total (25 Marks)**



**QUESTION 4**

- a) On 1 January 2013 the net tangible assets of Alfred Co amounts to E220,000, financed by 100,000 E1 ordinary shares and revenue reserves of E120,000. Pius Co, a company with subsidiaries, acquires 30,000 of the shares in Alfred Co for E75,000. During the year ended 31 December 2013 Alfred Co's profit after tax is E30,000 from which dividends of E12,000 are paid.

**Required**

Show how Pius Co's investments in Alfred Co would appear in the consolidated statement of financial position at 31 December 2013. (5 Marks)

- b) Discuss two types of events after the reporting date and explain how they should be accounted for in the financial statements of the entity and give examples of each. (10 Marks)
- c) What is the effect of the equity method on the consolidated statement of profit or loss and statement of financial position? (3 Marks)
- d) Define significant influence? (2 Marks)

**Total (20 Marks)**