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ACCOUNTING 100
FINAL ASSESSMENT OPPORTUNITY

9 November 2015 **Marks: 150** **Time: 180 Minutes**

Examiners

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Moderator

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Instructions:

- Please confirm that your question paper consist of **11** pages (including cover page).
- Read questions carefully and manage your time properly.
- Show calculations clearly.
- Do not write in pencil and do not use tip-ex as this will not be marked.
- Do not hand in this question paper with your answer booklets.
- Answer questions in the following colour answer booklets:

Q1= Blue **Q2 = Green** **Q3 = Red** **Q4 = Yellow**

QUESTION 1

(30 MARKS)

The financial statements of Jones Ltd for the reporting period ended 31 December 2015 are presented below.

STATEMENT OF FINANCIAL POSITION ON 31 DECEMBER 2015

	Additional information	R	R
		2015	**2014**
ASSETS			
Non-current assets			
Property, plant and equipment		10 240 000	9 650 000
Intangible assets		1 330 000	1 250 000
Other financial investments		740 000	980 000
Investment property		960 000	750 000
Total non-current assets		**13 270 000**	**12 630 000**
Current assets			
Inventories		1 700 000	1 635 000
Trade receivables	1	4 050 000	3 750 000
Cash and cash equivalents		13 968 000	11 735 000
Total current assets		**19 718 000**	**17 120 000**
Total assets		**32 988 000**	**29 750 000**
EQUITY AND LIABILITIES			
Equity			
Share capital		19 200 000	18 000 000
Retained earnings		5 093 000	3 250 000
Total equity		**24 293 000**	**21 250 000**
Non-current liabilities			
Long term borrowings		3 250 000	2 750 000
Total non-current liabilities		**3 250 000**	**2 750 000**
Current liabilities			
Trade and other payables		3 645 000	3 375 000
Current portion of long term borrowings		315 000	205 000
Income tax payable		220 000	350 000
Shareholders for dividends		345 000	950 000
Short term provision	2	920 000	870 000
Total current liabilities		**5 445 000**	**5 750 000**
Total liabilities		**8 695 000**	**8 500 000**
Total equity and liabilities		**32 988 000**	**29 750 000**

STATEMENT OF PROFIT OR LOSS FOR THE PERIOD ENDED 31 DECEMBER 2015

	Additional Information	R
Revenue		12 500 000
Cost of sales		(5 330 000)
Gross profit		7 170 000
Other income		210 000
Income from subsidiary		-
Income from financial investments	3	120 000
Distribution, administrative and other expenses		(2 120 000)
Finance costs	4	(320 000)
Profit before tax	6	5 060 000
Income tax expense		(1 417 000)
Profit for the period		3 643 000

Additional information

1. Trade receivables are stated after an increase of R155 000 in the allowance for doubtful debts.
2. The short term provision is for a lawsuit against Jones Ltd.
3. Income from financial investments consists of dividends from listed investments.
4. The following table provides a breakdown of the finance costs incurred during the reporting period:

	R
Finance costs on supplier's loan	110 000
Finance costs on bank loan	210 000
Finance costs on specific loan	90 000
	410 000
Interest income on unutilised funds	(35 000)
Interest capitalised to plant	(55 000)
Finance costs	320 000

   The full amount of interest expense for the year has been paid and the full amount of interest income has been received during the year.

5. An interim dividend of R1 800 000 was declared during the year. No other dividends were declared during the year.

6. The following are some of the items that were included in the calculation of profit before tax:

	R
Income	
Fair value adjustment on investment property	210 000
Expenses	
Loss on fair value adjustment - listed investment	(40 000)
Impairment of intangibles	(105 000)
Operating lease expense	(120 000)
Loss on sale of vehicle	(30 000)
Amortisation of intangible assets	(125 000)
Depreciation	(1 250 000)
Impairment loss - property, plant and equipment	(150 000)
Write down of inventory to net realisable value	(420 000)

Required:

Present only the ***"Cash flows from operating activities"*** section of statement of cash flows for Jones Ltd for the reporting period ended 31 December 2015 together with the note ***"Cash generated from operations"***. (30)

Note:

- Ignore VAT.
- Show all calculations clearly.
- Comparatives are not required.

QUESTION 2 (25 MARKS)

Cactus Printing Ltd, a registered VAT vendor, is a supplier of high volume printers and related products to medium and large organisations. VAT is calculated at 14%. The reporting period of Cactus Printing Ltd ends on 31 August.

MATTER 1

On 3 January 2015, Olives Inc., a medium sized law firm based in Sandton, ordered a printer for R342 000 (including VAT). Payment of the total amount of R342 000 was received on the date of the order. The printer was delivered to the premises of Olives Inc. on 15 February 2015. The accountant of Cactus Printing Ltd recorded a journal to recognise revenue of R342 000 on 3 January 2015.

Required:

a) Assuming that the transaction between Cactus Printing Ltd and Olives Inc. meets the requirements of a contract in terms of *IFRS 15 Revenue from contracts with customers*, discuss (with calculations) whether the accountant applied the appropriate recognition and measurement of revenue from the contract in the records of Cactus Printing Ltd in accordance with *IFRS 15 Revenue from contracts with customers.* (15)

MATTER 2

On 5 March 2015 Cactus Printing Ltd was contacted by Shange publishers, a customer who purchased a new printing press that was delivered and installed by Cactus Printing Ltd. The printing press malfunctioned and therefore Shange publishers threatened to sue Cactus Printing Ltd for lost revenue since Shange publishers could not print their monthly magazines on time.

Cactus Printing Ltd replied that it had only been contracted to transport and install the machine. According to the installation contract, Cactus Printing Ltd provided no guarantees for the proper functioning of the machine since the company was only contracted to transport and install it.

Shange publishers did not contact Cactus Printing Ltd again and Cactus Printing Ltd's lawyers indicated that the case would not succeed in court if Shange publishers proceeded with the case.

Required:

b) Explain whether the above-mentioned matter meets the definition of a contingent liability by referring to both alternative definitions of a contingent liability and discuss whether a contingent liability needs to be disclosed in the financial statements of Cactus Printing Ltd for the reporting period ended 31 August 2015. (10)

QUESTION 3 (60 MARKS)

The following balances appear in the financial records of NMR (Pty) Ltd at 31 December 2015:

	Additional information	Dr R	Cr R
Ordinary Share capital (1 January 2015)	1		19 550 000
Preference share capital (1 January 2015)	1		1 275 000
Plant A	2	25 000 000	
Vehicles		1 500 000	
Accumulated depreciation: Plant A			10 000 000
Accumulated impairment: Plant A			1 500 000
Accumulated depreciation: Vehicles			750 000
Office block building	4	14 500 000	
Investment in subsidiaries			
- JJ (Pty) Ltd	5	4 400 000	
- LO (Pty) Ltd	5	2 450 000	
Investment in KK Ltd – listed shares	6	3 285 000	
Term deposit		1 750 000	
Trademarks (1 January 2015)	7	937 500	
Trade inventories		4 950 000	
Accounts receivable		1 444 500	
Provision for warranty claims	3		129 000
Bank overdraft			349 000
Profit after tax	5		26 664 000
		60 217 000	60 217 000

Additional information

1. Share capital
   - NMR (Pty) Ltd has an authorised share capital of 15 000 000 ordinary shares and 6 000 000 7% preference shares.
   - On 1 January 2015, the issued share capital amounted to 8 500 000 ordinary shares of R2.30 each and 750 000 7% preference shares of R1.70 each.
   - On 1 March 2015 the directors offered ordinary shares for subscription to current shareholders. Each current shareholder was, in respect of every 5 shares held in NMR (Pty) Ltd, entitled to subscribe for a further 2 shares at R1.50 per share. The closing date for applications was 31 March 2015. All current shareholders exercised their rights and NMR (Pty) Ltd allotted the shares on 31 March 2015.
   - On 30 April 2015 the directors issued a further 150 000 7% preference shares at R1.70 each.
   - The ordinary shares and preference shares that were issued during the year have not yet been recorded in the records of NMR (Pty) Ltd.

2. In addition to the existing plant, NMR (Pty) Ltd entered into a lease agreement on 2 January 2015 to acquire a second plant, Plant B, at a cost price of R18 880 000. Plant B is of such a specialised nature that only the lessee can use it without major modification. The plant was ready for use on 2 January 2015. The period of the lease agreement is 8 years, where-after ownership of the new plant will transfer to NMR (Pty) Ltd. A deposit of R2 500 000 was paid on the plant. The remaining balance on the purchase price will be settled in 8 equal annual instalments from 31 December 2015 at an interest rate of 11% per annum compounded annually. The expected useful life of the plant is 8 years with no residual value. The plant was pledged as security for the lease. No entries have been accounted for in respect of the purchase of this plant yet. The instalment due on 31 December 2015 was paid on time, but was also not accounted for.

3. NMR (Pty) Ltd manufactures and sells many products. The products are sold with a warranty whereby customers are allowed to return any defective product for a full refund within one month of the transaction taking place. The company's past experience is that 15% of total sales are returned for a refund. NMR (Pty) Ltd makes a provision at the end of each reporting period reflecting that figure.

Sales figures per month	**R**
December 2014	860 000
December 2015	620 000

In January 2015 the pay-out related to December 2014 sales amounted to R102 700.

4. NMR (Pty) Ltd owns an office block building adjacent to its manufacturing facility situated in Eikenhof. The building was purchased with the intention of diversifying revenue streams and is used to earn rental income. The property is accounted for using the fair value model. An independent professional sworn valuer determined the fair value of the building at 31 December 2015 at R12 500 000.

5. Investment in subsidiaries

   - The investment in JJ (Pty) Ltd represents a 55% interest in the issued ordinary share capital of 2 000 000 ordinary shares of JJ (Pty) Ltd.
   - On 1 April 2015, NMR (Pty) Ltd acquired all 2 000 000 ordinary shares in MM (Pty) Ltd, a key distributor of NMR (Pty) Ltd's products for R10 500 000. Transaction costs and legal fees of R73 000 and R57 000 respectively were incurred on the acquisition. Except for the transaction costs and legal fees which are included in the "profit after tax" line item on the list of balances on 31 December 2015, the purchase transaction still needs to be recorded.
   - The shares in LO (Pty) Ltd were sold for R1 500 000 as it was deemed by management that there was no strategic reason for holding the investment. The sale is yet to be recognised.

6. The investment in KK Ltd of 225 000 ordinary shares was acquired on 30 June 2013. KK Ltd is listed on the JSE with 20 000 000 issued ordinary shares. The following JSE listed share prices of KK Ltd shares are provided to you:

Date	Fair value per share
30/06/2013	R10.05
31/12/2013	R10.10
30/06/2014	R13.20
31/12/2014	R14.60
30/06/2015	R15.80
31/12/2015	R16.80

7. Trademarks consist of the following balances on 1 January 2015:

	Trademarks		
	CA	**SA**	**Total**
	R	**R**	**R**
Cost price	750 000	880 000	1 630 000
Accumulated amortisation	(312 500)	(286 000)	(598 500)
Accumulated impairment		(94 000)	(94 000)
	437 500	500 000	937 500

- The CA trademark was purchased on 1 January 2010 and it was determined at the time that the useful life would be limited to the 12 years of the contract. On 30 December 2014, the directors of NMR (Pty) Ltd successfully negotiated the extension of the use of the trademark for an additional 4 years to the original contract term.
- NMR (Pty) Ltd purchased the SA trademark on 30 September 2011. The purchase contract stipulates that the period will be limited to 10 years. On 31 December 2014, it was reliably determined that the recoverable amount of the trademark is R500 000.
- The MA trademark was purchased on 1 October 2015 for R1 000 000 with an estimated useful life of 6 years but has not yet been accounted for. On 31 December 2015, it was reliably determined that the recoverable amount of the trademark is R1 250 000
- Trademarks are amortised on a straight line basis over the useful life thereof. No residual values are accounted for.
- No transactions relating to trademarks have been accounted for yet in 2015.

8. On 31 December 2015, the directors declared a dividend of 35c per ordinary share. No entries have been recorded for this transaction yet.

Required:

After accounting for the additional information, provide the following information for NMR (Pty) Ltd for the reporting period ended 31 December 2015 in accordance with applicable standards of *IFRS*:

a) Present only the *Non-current assets* section of the statement of financial position (i.e. notes are not required). (22)

b) Disclose the *Long term borrowings* note to the statement of financial position. (14)

c) Disclose the *Provisions* note to the statement of financial position. (7)

d) Calculate the *earnings per share* for the reporting period ended 31 December 2015. (17)

Note:

- Comparative figures are not required.
- Ignore VAT.
- Show all calculations clearly.
- Where applicable, round off amounts to the nearest Rand.

QUESTION 4 **(35 MARKS)**

Sucker Ltd manufactures sweets at a manufacturing plant in Polokwane. Sucker Ltd and all the company's suppliers are registered VAT vendors in accordance with the VAT Act. A VAT rate of 14% is applicable.

The current reporting date of Sucker Ltd is 30 June 2015. On this date, the following balances, amongst others, appeared in the company's accounting records:

	Additional information	Dr	Cr
		R	R
Lease payments	1	50 000	
Insurance claim proceeds	2		855 000
Finance cost on bank overdraft		36 450	
Plant under construction (1 July 2014)	3	2 100 000	
Construction expenses paid	3	976 000	
Loan from Investec (1 July 2014)	3		3 467 880
Interest received on temporary funds invested (1 July 2014 – 31 May 2015)	3		14 000
Interest received on temporary funds invested (1 June 2015 – 30 June 2015)			1 300

Additional information

1 On 1 February 2015, Sucker Ltd signed a 5-year lease agreement on a plant in Mokopane. According to the terms of the lease agreement, ownership of the plant will not transfer to Sucker Ltd, and the company also does not have the option to acquire the plant at the end of the lease term. On the date when the lease agreement was signed, the plant was considered to have a remaining useful life of 25 years and a fair value of R5 million.

The plant is not considered to be of a specialised nature and can be converted to be used for other purposes at minimal costs. The lease payments amount to R10 000 per month, which have been paid in advance on a monthly basis since 1 February 2015. A reasonable rate of return of 8% per annum is applicable to calculate the present value of the lease payments.

2 On 30 November 2014 equipment with a cost price of R1 200 000 was destroyed in a fire. This equipment had an accumulated depreciation balance of R500 000 on 30 June 2014. Depreciation on equipment is written off at 20% per year on the diminishing balance method. A recoupment of R855 000 was received from the insurer and was recorded in the accounting records of Sucker Ltd. No other journal entries have been recorded in respect of this event yet.

3 On 1 March 2011, construction of a new plant item commenced in Musina. The plant in Musina is classified as a qualifying asset in terms of *IAS23 Borrowing costs*. The construction of the plant was financed by means of a loan from Investec Bank, which was incurred on 1 March 2011. A vacant piece of land owned by Sucker Ltd, which has a carrying value of R4 million on 30 June 2015, serves as security for the loan.

Over the duration of the project, the unutilised portion of the borrowed funds was temporarily invested and the interest earned thereon was recorded. The plant was completed on 31 May 2015 and was put into service on 1 June 2015.

Interest due on the loan from Investec Bank is calculated at 7% per year, compounded monthly. No interest payments were made to Investec Bank during the year, and therefore the interest needs to be fully capitalised to the loan. Although construction was completed on 31 May 2015, the loan had not yet been repaid by 30 June 2015 and the accountant did not know how to calculate the interest due on the loan for the reporting period and therefore did not record an interest expense on the loan. Sucker Ltd will repay the loan in one lump sum amount on 31 March 2016.

Sucker Ltd depreciates the plant at 5% per year on the straight line basis.

Required:

a) Classify the lease agreement on the plant as either an operating lease or a finance lease. Motivate your answer with reference to ALL 5 circumstances, according to IFRS, under which a lease would be classified as a finance lease. (11)

b) Provide all the journal entries to correctly account for the loss of equipment destroyed in the fire. (8)

c) Disclose the finance cost note for the period ended 30 June 2015. (7)

d) Disclose the long term liabilities note (the loan from Investec Bank) on 30 June 2015. (9)

Note:

- Comparative figures are not required.
- Round calculated amounts to the nearest Rand.
- Ignore journal descriptions.