



UNIVERSITY  
OF  
JOHANNESBURG

Department of Commercial Accounting  
**Financial Accounting 2B**  
FAC22B2/FAC2BB2

**Last Assessment Opportunity**

**31 October 2015**

**Time: 3 hours**

**Marks: 100**

**Assessors:** Mr N Ebrahim Mr M Karodia Mr K Morake Dr N Rhodes

**Moderator:** Ms S Adam (Internal)

**INSTRUCTIONS:**

- This paper consists of 15 pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly.
- Start each question on a new answer sheet / book.
- Silent, non-programmable calculators may be used.
- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.

Question	Topic	Marks	Time
1	Sage Pastel	15	27 minutes
2	Property, Plant and Equipment	15	27 minutes
3	Impairments	15	27 minutes
4	Provisions	10	18 minutes
5	Events after the end of reporting period	10	18 minutes
6	Basic Financial Instruments	10	18 minutes
7	Analysis and Interpretation	15	27 minutes
8	Integrated question	10	18 minutes
		<b>100</b>	<b>180 minutes</b>

**QUESTION 1****(15 marks)****Use the Sage Pastel Printouts and Snap shots, to answer the following questions:**

1.1 Sage Pastel Printout A is used to record the following transaction: (2)

- (A) Sale of goods on credit
- (B) Sale of goods for cash
- (C) Purchase of goods on credit
- (D) Goods returned to supplier

1.2 Sage Pastel Printout A is found in which module in Sage : (2)

- (A) General ledger
- (B) Cash book
- (C) Inventory
- (D) Goods received module

1.3 A R5000 increase in Provision for warranty claims would result in which one of the following journal entry? (2)

(A)

	Account name	Account type in Pastel	Amount
DR	Warranty Claims	Current Liability	R5000
CR	Provision for warranty claims	Expense	R5000

(B)

	Account name	Account type in Pastel	Amount
DR	Provision for warranty claims	Expense	R5000
CR	Warranty Claims	Current Liability	R5000

(C)

	Account name	Account type in Pastel	Amount
DR	Warranty Claims	Expense	R5000
CR	Provision for warranty claims	Current Liability	R5000

(D)

	Account name	Account type in Pastel	Amount
DR	Provision for warranty claims	Current Liability	R5000
CR	Warranty Claims	Expense	R5000

1.4 Using Pastel Printout B and C the depreciation for the month of May 2013 if the cost of the Machine was R 912 000 including Vat would be (2)

- (A) Cannot calculate due to insufficient information provided
- (B) R2 533.33
- (C) R22 222.22
- (D) R26 666.67

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**QUESTION 1 CONTINUED**

- 1.5 In which module would you record an impairment loss on vehicles: (2)  
(A) Journal Batch  
(B) Cash book batch  
(C) General ledger  
(D) Accounts receivable module
- 1.6 What account type would you select for Investments in Sage Pastel (2)  
(A) Other current asset  
(B) Liability  
(C) Capital  
(D) None of the above
- 1.7 Using Sage Pastel Printout D provided and calculate the following ratio:  
➤ Gross profit ratio as a percentage (3)

**TOTAL 15**

**SAGE PASTEL PRINTOUTS AND SNAP SHOTS****PRINTOUT A****Goods Received Voucher**

Page: 1 of 1

Pastel Evolution Educational Version  
 Softline Technology Park  
 102 Western Services Road  
 Gallo Manor Ext 6

Tax Registration  
 Telephone +27 11 304 3000  
 Fax +27 11 304 3001  
 Delivery Method

To:  
 COMPUTER CONNECTION  
 COMPUTER CONNECTION

Account	Date	Order No	Supplier Invoice	Our Reference
COMPUTER CONNECTION	2014/03/06			GRV0008

Item Code	Item Description	Quantity	Unit	Price (Incl)	Disc	Tax	Total (Incl)
KB	Keyboards	10.00		359.00		490.00	3 990.00
Received by: .....							Total (Excl)
Date: .....							Tax
Signed: .....							Total (Incl)
							Discount
							Total (Incl)

**SAGE PASTEL PRINTOUT B****Edit Asset Type "Machines"**

Asset Type Code	MC	
Description	Machines	
Depreciation Ledger Accounts		Recalculate Values
Accumulated Depreciation	Select a General Ledger Acc...	Revaluation 0.00 %
Depreciation Expense	Select a General Ledger Acc...	Insurance 0.00 %
Depreciation Methods		Factors
Book Depreciation	Straight Line 3 Years	Insurance Cost Factor 0.00 %
Tax Depreciation	Straight Line 3 Years	Residual Factor 0.00 %
Asset Ledger Account		
Fixed Asset		
		OK Cancel

**SAGE PASTEL PRINTOUT C****Add New Asset**

Asset Details		Asset Serial Numbers	Book Depreciation	Tax Depreciation	Finance	Images	Incident History
Asset Code	MA001	Master Asset					
Description	Toy machine	No of Units		1			
Barcode							
Groups		Total Value for 1 Unit					
Asset Type	Select an Asset Type	Purchase Price		R0.00			
Cost Centre	Select a Cost Centre	Insured Value		R0.00			
Location	Select a Location	Scrap Value		R0.00			
Supplier	Select a Supplier	Revaluation					
Capex Order	Select a Capex Order	Selling/Scraping					
Dates		Selling Price					
Purchase Date	2013/04/10	Selling Date					
Replacement		Reason					
Replacement Date							
Replacement Cost	R0.00						
Capital Gains Tax							
Bare Cost							
Roll Over Relief							
		OK Cancel					

**SAGE PASTEL PRINTOUT D**

# Trial Balance

## Sage Evolution -- Student No. 802038772\*Dr RHODES

For: April 2015

Trial Balance

Page 1 of 1

<u>Account</u>	<u>Account Type</u>	<u>Branch</u>	<u>Dept</u>	<u>Debits</u>	<u>Credits</u>	<u>PY Debits</u>	<u>PY Credits</u>
<b>Income Statement</b>							
Net Profit				14 806.27			
1000 (Sales)	Revenue				419 100.00		
2000 (Cost of Goods Sold)	Cost of Sales			314 800.00			
4050 (Advertising)	Other Expense			1 315.79			
4300 (Depreciation)	Other Expense			12 961.22			
4320 (Discount Allowed)	Other Expense			28 070.18			
4360 (Electricity & Water)	Other Expense			6 666.67			
4660 (Printing & Stat.)	Other Expense			1 833.33			
4720 (Repairs & Maint.)	Other Expense			2 017.54			
4740 (Salaries & Wages)	Other Expense			36 000.00			
4880 (Loss on Exchange)	Other Expense			630.00			
				<b>419 100.00</b>	<b>419 100.00</b>		

**QUESTION 2****(15 marks)****PART A**

1. Fill in the missing words

Depreciation is defined as the systematic allocation of the (1.1) .....amount of the item of Property, Plant and Equipment over its (1.2) ..... (2)

2. Provide a formula for the profit or loss on disposal of an asset (2)

3. True or False

3.1 When an asset is exchanged for another non-monetary asset, the transaction is measured at the carrying value of the asset or consideration given up (1)

3.2 Costs that are incurred on an item of machinery after it has been brought into use, are expensed into the statement of profit or loss if they incurred to reduce the operating costs of running the machine. (1)

**PART B**

On 1 September 2014 Phat Farm Ltd (a registered VAT vendor) purchased a delivery truck for \$450,000 FOB Shipping Point, from an overseas based manufacturer. The delivery truck was delivered on the 30<sup>th</sup> of September 2014. The company paid R17,500 of import duties on the purchase of the delivery truck.

The following exchange rates may be applicable:	R1 = \$
1 September 2014	9.375
30 September 2014	9.60

The delivery truck was available for use on the 1<sup>st</sup> of October 2014, but it was actually brought into use on the 31<sup>st</sup> of October 2014. Delivery trucks are depreciated over its useful life of 10 years using the straight line method. The delivery truck has a residual value of R 10 000.

**REQUIRED:**

1. Calculate the cost of the delivery truck (4)
2. Calculate the amount of the depreciation on the delivery truck for the reporting period ending 31 December 2014 (3)
3. Prepare the journal entry to record the depreciation for the reporting period ended on 31 December 2014. Journal narrations are not required. (2)

**QUESTION 2 CONTINUED****Example of required journal layout:**

Dr	Bank (50% x R20 469.12)	SFP	R10 234.56	
Cr	Accounts Receivable(50%x R20 469.12)	SFP		R10 234.56

Journal narrations are not required.

Show all workings next to account description. Work to two decimal places.

Use the format given for each journal.

Insert additional lines if necessary.

Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position

SCI = Statement of comprehensive income

P/L = Statement of profit and loss

SoCE = Statement of changes in equity

(15)



**QUESTION 3****(15 marks)**

AB Limited is a manufacturing company that manufactures modern furniture. They have state of the art machinery that allows them to customize any furniture to suite their customer's needs. The company has a reporting date of 31 December 2014. The following information below relates to the machinery owned by AB Limited.

The following balances were extracted from the Fixed Asset Register as at 1 January 2014

	Cost	Accumulated Depreciation	Carrying Value	Depreciation Rate	Depreciation Method
Machine A	R 450 000	R 225 000	R 225 000	20%	Straight Line Method
Machine B	R 375 000	R 100 000	R 275 000	20%	Straight Line Method

On the 1 August 2014 AB Limited decided to purchase a new machine, Machine C. This machine was purchased for R 1 140 000 included VAT. The machine was delivered and ready for use on the 01 September 2014 but only brought into use on the 15 September 2014. Machine C has a useful life of 5 years and a residual value of R 100 000 at the end of its useful life.

On 31 December 2014, a fire broke out inside the factory, Machine A's production had been affected, resulting in a reduction in production capacity. The Fair Value on the 31 December 2014 amounted to R 115 000. It was determined that in order to sell the machine on this date, advertising costs would amount to R 9250 and sale commission of 5% of the fair value.

**REQUIRED:**

3.1 Provide the formula to calculate an Impairment Loss (2)

3.2 From the information above, prepare the complete disclosure with regards to machinery using the table below:

Note: Please show all calculations. (13)

	<u>Machine A</u>	<u>Machine B</u>	<u>Machine C</u>
Cost			
Accumulated Depreciation			
Accumulated Impairment			
<b>Carrying Value at the beginning of the year</b>			
Additions			
Disposals			
Depreciation			
Impairment			
Cost			
Accumulated Depreciation			
Accumulated Impairment			
<b>Carrying Value at the end of the year</b>			

**(15)**

**QUESTION 4****(10 marks)**

Exclusia Limited has an Accounts Receivable balance of R 200 000 at 31 December 2014. During the year some debtors amounting to R 10 000 were written off as bad, however this was not accounted for and their balances are included in the balance of R 200 000. At 31 December 2014 it was decided to create a provision for credit losses at 1.5% of the accounts receivable balance.

**REQUIRED:**

- 4.1 What are the two types of present obligations? (2)
- 4.2 Define a Provision in terms of S21.4. (2)
- 4.3 Provide the accounting policy note for Exclusia Limited for the Provision for Credit losses (2)
- 4.4 Provide the journal entry to record the Provision in Credit Losses at 31 December 2014 (4)

**Example of required journal layout:**

Dr	Bank (50% x R20 469.12)	SFP	R10 234.56	
Cr	Accounts Receivable(50%x R20 469.12)	SFP		R10 234.56

Journal narrations are not required.

Show all workings next to account description. Work to two decimal places.

Use the format given for each journal.

Insert additional lines if necessary.

Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position

SCI = Statement of comprehensive income

P/L = Statement of profit and loss

SoCE = Statement of changes in equity

**(15)**

**QUESTION 5****(10 marks)**

Cage Limited's current financial statements were completed on 31 December 2014 and were authorised for issue by the directors on 21 March 2015.

The following events have not been accounted for in the financial statements.

- i) Cage Limited declared a dividend of 15 cents per share on the 10<sup>th</sup> of January 2015, based on the results for the reporting period ended 31 December 2014. (2)
- ii) The company reported a contingent liability at 31 December 2014 in respect of a court case in which Cage Limited was the defendant. The case was not heard until the last week of February 2014. On 2 March the judge ruled against Cage Limited and determined that Cage Limited was liable for damages of R 800 000. (4)
- iii) Cage Limited has a material debtor whose financial position is uncertain at the end of the reporting period. The debtor was declared insolvent before the date of authorisation of the issue of the financial statements. At 31 December 2014 this client owed Cage Limited R 700 000 of which 60% of it will be repaid to Cage Limited. (4)

**REQUIRED:**

For the reporting period ending 31 December 2014, state for each of the following events:

- a) Whether the event represents an adjusting or a non-adjusting event after the reporting date. Provide reasons for your answer.
- b) How you would record or recognise each event in the financial statements for the reporting period ending 31 December 2014.

**(10)**

**QUESTION 6****(10 Marks)****PART A****(3)**

Indicate whether each of the following statements are TRUE or FALSE

- A) A financial instrument is defined as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity
- B) Included in the definition of a financial asset is the requirement that cash or a contractual right to receive cash or another financial asset should exist.
- C) When shares are issued with the condition that they are redeemable at the option of the holder under conditions that are potentially unfavourable for the entity, such should be recognised as an equity instrument by the issuing entity

**PART B**

ABC Limited purchased a government bond for R 2 000 000 on the 1 January 2015. ABC Limited incurred transaction costs of 0.125% to acquire this bond. The bond pays 6.5% p.a interest semi-annually (in June and December). The bond will be settled at face value on maturity date, which is 31 December 2015. This portfolio is classified as fair valued through profit or loss.

IGNORE THE EFFECTS OF VAT.

**REQUIRED:**

Prepare the journal entries in respect of the above investment in the financial statements of ABC Limited in accordance with Section 11 of IFRS for SME's for:

- a) The initial recognition of the investment in the government bond (4)
- b) The interest received on 30 June 2015 (3)

**Example of required journal layout:**

Dr	Bank (50% x R20 469.12)	SFP	R10 234.56	
Cr	Accounts Receivable(50%x R20 469.12)	SFP		R10 234.56

Journal narrations are not required.

Show all workings next to account description. Work to two decimal places.

Use the format given for each journal.

Insert additional lines if necessary.

Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position

SCI = Statement of comprehensive income

P/L = Statement of profit and loss

SoCE = Statement of changes in equity

**QUESTION 7****(15 marks)**

The following are extracts from the financial statements of NCR Melodies (Pty) Ltd for the reporting periods ended June 2015 and June 2014.

<b>Statement of profit or loss and other comprehensive income</b>	<b>2015 R</b>	<b>2014 R</b>
Sales	1 210 000	986 000
Cost of sales	(320 000)	(156 000)
Gross profit	890 000	830 000
Finance costs	(174 000)	(143 000)
Other expenses	(112 000)	(106 000)
Profit before tax	604 000	581 000
Tax expense	(178 000)	(158 000)
Profit for the year	426 000	423 000
<b>Total comprehensive income for the year</b>	<b>426 000</b>	<b>423 000</b>
<b>Statement of Financial Position</b>	<b>2015 R</b>	<b>2014 R</b>
<b>Assets</b>		
Property, plant and Equipment	2 850 000	1 890 500
Inventory	450 000	167 500
Trade receivables	880 500	686 000
Bank	78 400	66 800
<b>Total Assets</b>	<b>4 258 900</b>	<b>2 810 800</b>
<b>Equity and Liabilities</b>		
Share Capital	1 300 000	1 000 000
Retained Earnings	1 680 000	1 400 000
Long Term Loans	800 000	310 000
Trade Payables	478 900	100 800
<b>Total Equities and Liabilities</b>	<b>4 258 900</b>	<b>2 810 800</b>

**QUESTION 7 CONTINUED****REQUIRED:**

Calculate the following ratios and analyse the trend over 2014 and 2015 for NCR Melodies (Pty) Ltd:

a) Liquidity ratios (current, quick and cash ratios) (10)

b) Profitability Ratios (return on assets and return on equity) (5)

**Example of required layout:** Copy the tables below and complete in full

Ratio name	Formula	2015	2014
Current ratio	e.g. $X + Y - AB$	e.g. $100 + 20 - 10$	e.g. $120 + 30 - 5$
Quick ratio			
Cash Ratio			
<b>Analysis of liquidity trend over 2015 and 2014:</b>			

Ratio name	Formula	2015	2014
ROA	e.g. $X + Y - AB$	e.g. $100 + 20 - 10$	e.g. $120 + 30 - 5$
ROE			
<b>Analysis of profitability in relation to equity and other sources of finance over 2015 and 2014:</b>			

Show all workings. Work to two decimal places.  
Insert additional lines if necessary.

(15)

**QUESTION 8****(10 Marks)**

Oliver King is one of the world's richest businessman that owns companies across the globe. Despite his vast knowledge in operating and managing his companies, he lacks the basic knowledge with regards to the effects of transactions. He has presented you with a sample of transactions below that occurred in his companies. The reporting date is 31 December 2014.

1. During the prior year Oliver King had spare cash available, after searching for suitable investments on the JSE, he finally found a company to invest in. He purchased 10 000 shares in this listed company and paid R 900 000 cash. As at 31 December 2014 these shares were trading at R 80 per share
2. As part of the list of companies that Oliver King owns, one of his companies sells state of the art UHD curve TV's. As part of the company's policy, these TV's are sold under warranty and that repairs will be done to these TV's if they are damaged. From the current year sales; if all TV's have a minor defect it will cost R3 000 000 to repair and if all TV's have a major defect it will cost R 8 500 000 to repair. From past experience and market research, Oliver King is expecting the following
  - 90% of the TV's sold will have no defect or no repairs will be made
  - 8.75% of the TV's sold will have a minor defect and minor repairs will need to be made
  - 1.25% of the TV's sold will have a major defect and major repairs will need to be made
3. On the debtor's books of Oliver King, Oliver King has a material debtor whose financial position is uncertain at the end of the reporting period. The debtor is declared insolvent before the date of authorisation of the Annual Financial Statements. At 31 December 2014 this client owed R2,000,000.
4. During the current year, Oliver King purchased a one of kind machine to assist in the manufacturing process. As part of the purchase Oliver King incurred delivery costs of R 10 000, installation and inspection costs of R 25 000, and the accountant salary of R 2 500 for capturing these costs on the system. Oliver is not sure how to account for these costs. All these costs are still payable as at 31 December 2014.

\*\*\* Ignore VAT for all transactions

**REQUIRED:**

In terms of the accounting equation show the effects that each of the above transactions for the current financial year using the table below (10)

	<b>A=</b>	<b>OE+</b>	<b>L</b>
1			
2			
3			
4			

**TOTAL MARKS [100]**