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AUCKLAND PARK KINGSWAY AND SOWETO CAMPUS

DEPARTMENT OF ACCOUNTANCY

ACCOUNTING 1A (DEGREE) – 2014

REK1A01 / ACC01A1

MONDAY 9TH JUNE 2014

FINAL ASSESSMENT OPPORTUNITY

Time: 2.5 hours

125 Marks

ASSESSORS:
MODERATORS:

MISS MS MARCHBANK, MRS L MEYER, MR N DLAMINI
MS T MOHOLO
MR A MOHAMMADALI-HAJI

1. This paper consists of 10 pages.
2. Silent, non-programmable calculators are allowed.
3. Show ALL calculations.
4. Scratch out open spaces and empty pages.

Question	Topic	Marks	Time
1.	Theory and bank reconciliation	30	36 minutes
2.	Value Added Taxation and journal entries	35	42 minutes
3.	Ledger accounts and presentation	20	24 minutes
4.	Presentation and disclosure in financial statements	40	48 minutes
		125	150 minutes

QUESTION 1

(30 MARKS)

This question comprises two independent parts, namely Part A and Part B.

PART A

(11 MARKS)

VAT



An extract of the definition according to the Value-Added Tax Act, 1991 (Act No. 89 of 1991) is provided below:

"Value-Added Tax is commonly known as VAT. VAT is an indirect tax on the consumption of goods and services in the economy. Revenue is raised for government by requiring certain businesses to register and to charge VAT on the taxable supplies of goods and services. These businesses become vendors that act as the agent for government in collecting the VAT."

XX Entity's VAT period is a calendar month and the current reporting date is 31 May 2014. On 24 May 2014, XX Entity's records contained *inter alia* the following balances:

	Dr	Cr
VAT input	969 996	
VAT output		824 336
Bank	1 036 086	
Trade payables		693 257

Required:

- After critically reviewing the information provided above, calculate the amount of vat either payable or refundable of XX Entity as at 24 May 2014. (2)
- Based on your answer in a) above, indicated whether the VAT satisfies the definition **and** recognition criteria of either an asset or a liability in the records of XX Entity as 24 May 2014. (9)

PART B**(20 MARKS)**

ZZ Entity is a registered VAT vendor. As FNC Bank, the bank that ZZ Entity banks with, takes too long to send ZZ Entity's bank statements, it is company policy for the financial manager to download the electronic bank statements from the bank once a week and to pass these onto the cashbook clerk.

The following represents the bank account for the last week in May 2014, the bank reconciliation on 23 May 2014 and the cheque account statement for the last week in May 2014.

ZZ Entity's records

Date	Contra account		R	Debit	Credit	Balance	
2014							
23/5	Balance					935 288	Dr
25/5	Insurance & VAT	DO1253			10 596	924 692	Dr
28/5	Deposit	Dep 634		78 963		1 003 655	Cr
29/5	Vodacom & communication & VAT	EFT111			9 250	994 405	Dr
29/5	Employee benefits	EFT112			75 690	918 715	Dr
29/5	Growth Point Office Rental & VAT	CH1200			25 000	893 715	Dr
30/5	Payable H2O	EFT114			109 666	784 049	Dr
31/5	INV1002 – Receivable Marx	DEP 635		325 666		1 109 715	Dr
31/5	Unallocated deposit (no references)	DEP 636		159 635		1 269 350	Dr

Bank reconciliation on 23 May 2014

Date	Transaction description		R	Debit	Credit
23/05	Balance – Cheque account statement				485 986
	Items that still have to appear on the bank statement				
	Deposit	Dep 602			101 525
	Cheque	1156		18 222	
	Balance – Bank account			935 288	
				587 511	587 511

FNC Bank Cheque account statement for ZZ Entity

Date	Transaction description		R	Debit	Credit	Balance
23/05	Balance					485 986
25/05	Outsurance	DO1253		10 596		475 390
27/05	Deposit	Dep 602			101 525	576 915
28/05	Deposit	Dep 634			78 963	655 878
29/05	Vodacom SP	EFT 111		9 250		646 628
29/05	A Seketlo - Salary	EFT112		23 596		623 032
29/05	Z Khumalo - Salary	EFT112		22 693		600 339
29/05	AC Apple - Salary	EFT112		29 401		570 938
30/05	Deposit – INV986	Dep638			365 999	936 937
30/05	Payable H2O	EFT114		109 666		827 271
31/05	Monthly management fee	AA		2 369		824 902
31/05	ACB Credit Interest	AA			1 896	826 798

Required:

- a) Open the bank account in the records of ZZ Entity with the balance as at 23 May 2014 and appropriately recognise the unmarked items on the cheque account statement of 31 May 2014 directly in the bank account. (4)
- b) On 30 May 2014 the bank account was debited with R365 999 resulting from the receipt of a receivable who paid on their invoice no INV986. The receivable relates to AA Enterprise. Provide the journal entry for this transaction. (3)
- c) Prepare a bank reconciliation as at 31 May 2014. (10)
- d) Present the balance of the bank in the statement of financial position as at 31 May 2014. (2)

QUESTION 2**(35 MARKS)**

Avengers Entity, as well as all of Avengers Entity's suppliers, are registered as VAT vendors. Avengers Entity uses the perpetual inventory system.

Avengers Entity's current reporting period is 31 December 2013 and the financial statements for 2013 will probably be approved by the owner for distribution on 28 February 2014.

The following transactions have reference and, where applicable, include VAT at 14%:

- On 30 November 2013, the balances on the VAT accounts in Avengers Entity's accounting records were as follows:

- VAT output account R189 029
- VAT input account R113 419

The VAT due for November 2013, was paid to SARS per electronic fund transfer on 10 December 2013.

- Avengers Entity issued an order to Supplier Hulk to perform specific electric maintenance in respect of equipment on Avengers Entity's premises as from 12 December 2013. On 29 December 2013, Supplier Hulk completed the work to the satisfaction of Avengers Entity. The invoice for R37 155 was received and paid with an EFT on 29 December 2013.
- On 15 December 2013, trade inventories were sold on credit to Receivable Thor and were delivered on the same day. The invoice reflects the amount as R296 400 which is payable on 13 January 2014. The cost of the goods sold amount to R120 000.
- According to the inventory records, trade inventories with a cost price of R27 500 were taken by Tony Stark, the owner on 30 December 2013 for personal use.
- On 14 December 2013, Avengers Entity ordered a minibus from Payable Loki. This minibus will be used to transport the entity's staff. The minibus was received on 30 December 2013. The invoice price is R547 200 and the credit term is 30 days.
- Receivable Widow's debt to the amount of R24 008 was written off as irrecoverable. The owner provided authorisation on 30 December 2013 for this write-off.
- The following item that appears on the bank statement on 31 December 2013, has reference:
 - Interest on the bank overdraft balance to the amount of R9 555.
- On 31 December 2013, the owner's drawings for December 2013, to the amount of R60 000, were transferred to the owner's personal bank account per electronic fund transfer.
- The payroll for December 2013, is as follows:

	R
Employee benefit expense	325 520
PAYE payment control	(71 510)
Medical aid payment control	(31 500)
Pension fund payment control	(48 010)
Net salaries	174 500

The payroll for December 2013 still has to be journalised as at 31 December 2013.

The net salaries, as reflected on the December 2013 payroll, were paid on 31 December 2013 by means of an electronic funds transfer.

Required:

Recognise the abovementioned transactions and events in the accounting records (general journal) of Avengers Entity for the reporting period ended 31 December 2013. **(35)**

Note: You are not required to indicate next to each account in the journal one of the following abbreviations between brackets: P/L, SCE, SFP

Journal narrations and the effect of the transactions on the accounting equation ($A = L + E$), are not required.

Dates must be indicated correctly.

Where applicable, round off all amounts to the nearest Rand.

(35½ Max [35])

QUESTION 3**(20 MARKS)**

Snap Entity, as well as all of Snap Entity's suppliers, are registered as VAT vendors.

Snap Entity uses the perpetual inventory system.

Snap Entity's current reporting date is 31 December 2013 and the owner will probably approve the financial statements for 2013 for distribution on 28 February 2014.

The following information represents an extract from the list of balance of Snap Entity on 31 December 2013:

	Amount
	R
Receivable Crackle (30 November 2013)	120 000
Payable Pop (30 November 2013)	222 500

The Payable/ Receivable clerk of Snap Entity has finalised all the other receivables and payables accounts, but was admitted to hospital before she could do the abovementioned accounts and they approached you to complete it for them.

The following transactions where applicable, include VAT at 14%:

03 Dec An amount of R114 000 due by Receivable Crackle, was paid directly into Snap Entity's bank account by the means of an EFT. (The amount of R114 000 is included in the balance on 31 November 2013)

03 Dec The balance of R120 000, represents a sale of goods on credit on 23 November 2013 to Receivable Crackle, before the trade discount of 5%. Due to an oversight, the receivables clerk of Snap Entity did not take this discount into account.

04 Dec An amount of R142 500 was paid to Payable Pop by means of an EFT.

06 Dec Included in the balance of Payable Pop's account is an invoice of R80 000. The invoice represents the purchase of trade inventories by Pep Entity from Snap Entity, which were delivered and received by Pep Entity on 28 November 2013. Snap Entity's payables clerk inadvertently entered the transaction into the account of Payable Pop.

08 Dec Inventories which were purchased from Payable Pop, were received by Snap Entity. The invoice amount of R136 800 is payable on or before 08 January 2014.

12 Dec Inventories were sold on credit to Receivable Crackle and delivered on the same day. The invoice reflects the amount as R289 610 and is payable on 12 January 2014. The cost of the goods sold, amount to R114 319.

- 15 Dec A credit note to the amount of R17 298, was issued to Receivable Crackle in respect of goods returned by Receivable Crackle. The cost of the goods was R6 828.
- 18 Dec Snap Entity returned some of the inventories which were received from Payable Pop on 8 December 2013. In this regard Snap Entity received a credit note, dated 19 December 2013, from Payable Pop to the amount of R3 300.
- 20 Dec Inventories that were purchased from Payable Pop on credit, were received. The invoice from Payable Pop reflects an amount of R125 571 and is payable on 20 January 2014.
- 23 Dec Inventories were sold on credit to Receivable Crackle and delivered on the same day. The invoice reflects the amount as R307 800 and is payable on 23 January 2014. The cost of the goods sold, amount to R180 000.
- 24 Dec An amount of R350 000, due by Receivable Crackle, was paid directly into Snap Entity's bank account by the means of an EFT.
- 24 Dec An amount of R180 000, was paid to Payable Pop by means of an EFT.

Required:

- a) Prepare the following ledger accounts:
- Receivable Crackle (8)
 - Payable Pop (8)
- b) Present the above-mentioned accounts in the appropriate financial statement of Snap Entity for the reporting period ended 31 December 2013. (4)

QUESTION 4**(40 MARKS)**

Berkenshire Entity, as well as all the parties with whom Berkenshire Entity conducts business, are registered VAT vendors. The following balances, amongst others, relate to Berkenshire Entity's reporting period ended 31 December 2013:

	Additional information	Dr	Cr
		R	R
Cost of sales	3	2 102 500	
Office supplies	4	207 250	
Water and electricity	5	144 250	
Doubtful debts	6	34 000	
Inventories	3	278 000	
Office supplies on hand - 31 December 2012	4	16 500	
VAT input		34 125	
Trade receivables	6	437 500	
Allowance for doubtful debts	6		80 000
Plant at cost price	7	2 600 000	
Accumulated depreciation – Plant (31 December 2012)	7		624 750
Trade and other payables	5		332 500
PAYE – transfer control			21 500
Pension fund – transfer control			7 000
VAT output			57 820
Bank loan	8		1 400 000

Additional information:

- The financial statements of Berkenshire Entity will probably be approved, by the owner, for distribution on 28 February 2014.
- Berkenshire Dlamsta Entity uses the perpetual inventory system. The cost of the inventories is calculated by using the FIFO cost formula.
- On 31 December 2013, the inventory system reflected:
 - an inventory shortage of R17 500;
 - that certain inventory items' cost price in total exceeds the estimated net realisable value thereof with R16 250;
 - that inventory items with a cost of R12 500 were donated to a local charity organisation.

All three these events still have to be recognised.

- On 31 December 2013, the physical inventory count revealed office supplies on hand amounted to R18 250; this still has to be recognised.

- 5 The balance of trade and other payables comprise the following:

	R
Accounts with credit balances	345 000
Accounts with debit balances	(12 500)
	332 500

- 5.1 The December 2013 account for the utilisation of water and electricity during December 2013, to the amount of R13 680 (including VAT) was received from Payable Mogale City on 6 January 2014, and still has to be recognised.

- 6 After objective indications were taken into account, it was decided to increase the allowance for doubtful debts with R8 500; this adjustment still has to be recognised.

- 7 Detail of the cost price of plant is as follows:

	Put into service	Cost R	Useful life	Residual value (excluding VAT)
Plant A	01/04/2011	1 200 000	5 years	120 000
Plant B	01/07/2013	1 400 000	5 years	140 000

- 7.1 Depreciation on plant is written off at 35% per year, in accordance with the diminishing balance method. The depreciation expense for 2013 still has to be recognised.

- 8 On 1 July 2013 a loan of R1 400 000 was received from the bank. The interest rate is 11% per year and is calculated bi-annually on the compounded interest rate method (the interest is added to the primary debt every six months). The loan is repayable in one amount on 30 June 2016, which includes the primary debt and interest. The interest for 2013 still has to be recognised.

Required:

After accounting for the abovementioned information, appropriately present the balances:

- (a) on the statement of profit or loss of Berkenshire Entity for the reporting period ended 31 December 2013; and (17)
- (b) on the statement of financial position of Berkenshire Entity as at 31 December 2013. (23)

Note: Show the calculations of all the line items between brackets, either directly after or directly underneath the wording of the relevant line item.

[23]