UNIVERSITY
OF
JOHANNESBURG

DEPARTMENT OF ACCOUNTANCY

ACCOUNTING 2A

FINAL ASSESSMENT OPPORTUNITY
7 JUNE 2014

ASSESSORS: MS D NAPO
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MODERATOR: MS B MADIKIZELA

MARKS: 125
TIME: 150 MINUTES

- *THE ASSESSMENT OPPORTUNITY PAPER CONSISTS OF 4 QUESTIONS AND 10 PAGES (front page included).*
- *SILENT NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.*
- ***SHOW ALL CALCULATIONS.***
- *START EVERY NEW QUESTION AT THE TOP OF A PAGE.*
- *ANSWERS CONTAINING TIPPEX OR PENCIL WILL NOT QUALIFY FOR REMARKING.*
- *CROSS OUT OPEN SPACES AND EMPTY PAGES.*

QUESTION 1 (BLUE BOOK)

(25 MARKS)
(30 MINUTES)

Armano Ltd manufactures designer label clothing and operates in South Africa. The company entered into the following transactions denominated in American dollars during the current financial year:

1. Inventories purchased of $200 000
   Transaction date 1 January 2014
   Payable on 15 April 2014
   Only 60% of these inventories were sold on 30 April 2014

2. Specialised equipment of $500 000
   Transaction date 1 February 2014
   Payable 30 April 2014
   Arrived on site 1 March 2014 (was installed and ready for use on the same day)
   Installation costs paid on 1 March 2014 R210 000
   Taken into use on 1 April

ADDITIONAL INFORMATION:

1. No forward cover was taken out in respect of any of the above-mentioned transactions.

2. The applicable exchange rates are:

Date	**Spot rate R to $1.00**
1 January 2014	8.00
1 February 2014	8.21
1 March 2014	8.30
1 April 2014	8.32
15 April 2014	8.38
30 April 2014	8.25
30 June 2014	8.27

3. Equipment is depreciated on the diminishing balance method at a rate of 18% per annum.

4,. The end of the company's reporting period is 30 April.

5. VAT may be ignored.

6. The functional currency of Armano Ltd is South African rand.

REQUIRED:

1.1 By reference to *IAS 21, The effects of changes in foreign exchange rates*, provide the definition of the following:

1.1.1 Non-monetary item
1.1.2 Spot exchange rate
1.1.3 Exchange differences

(3)

1.2 When the presentation currency is different from the functional currency, what must be disclosed?

(3)

QUESTION 1 (CONTINUED)

1.3 Journalise all the foreign exchange transactions incurred between 1 January 2014 and 30 April 2014, and the results thereof in the general journal of Armano Ltd for the reporting period ended 30 April 2014. (14)

Note:

- Journal entries **should be dated** but journal **descriptions** are ***not* required.**
- Suggestion: Complete each transaction's journals **separately**.

3.4 Disclose ONLY the Property Plant and Equipment note to the Financial Statements of Armano Ltd at 30 April 2014 in compliance with the minimum requirements of the Companies Act and International Financial Reporting Standards (IFRS)s. (Expenses are classified by function) (5)

Note:

- Comparative amounts are not required.
- The total column is also not required.

QUESTION 2 (RED BOOK)

(40 MARKS)
(48 MINUTES)

Foottech Ltd is a listed retail company specialising in the sale of specialised footwear. The following balances appeared in the pre-adjustment trial balance at 31 December 2013.

	Notes	R
Retained earnings (31 December 2012)		46 000
Sales		510 500
R100 10% debentures (at par)	1	36 000
Investments in shares	2	13 000
Dividends received	3	11 000
Cost of sales		274 000
Administration costs	4	62 500
Distribution costs	4	23 300
Tax overprovision (credit balance) (31 Dec 2012)	5	1 500
Furniture and equipment - cost	7	118 000
Furniture and equipment - accumulated depreciation (31 Dec 2012)	7	46 000
Interest on bank overdraft		2 800

Additional information:

1. The debentures were issued at par on 1 September 2012, they are redeemable on 31 August 2019 at par. Interest on debentures is payable on 28 February and 31 August.

2. The following information relates to investments of the entity:

	No of shares purchased	Cost price per share R	JSE Price per share on 31/12/2013 R
East Ltd	3 000	2.50	3.20
West Ltd	5 000	0.50	0.97
South (Pty) Ltd	600	5.00	-

- Shares in East Ltd have been designated as available for sale. They were purchased during the current financial year.

- Shares in West Ltd were purchased during the year ended 31 December 2013 and are held for trading purposes.

- The investment in South (Pty) Ltd was made on 20 May 2012 and represents an interest of 60% (and control) in the issued share capital of the company. Foottech Ltd recognised the investment in South (Pty) Ltd on the cost basis.

- No fair value adjustments with regards to the abovementioned financial assets were recorded for the current year.

QUESTION 2 (CONTINUED)

3. The dividends of R11 000 were received from the following companies:

East Ltd	R4 200
West Ltd	R6 800

4. Administration and distribution costs consisted of the following:

	R
Managing director's salary	16 000
Directors' fees	8 000
Staff costs	44 000
Audit fees	4 000
Auditors travelling expenses	700
Office supplies	2 200
Telephone and insurance	4 600
Water and electricity	5 300
Bad debts (2012: R1 100)	1 000
	85 800

5. The income tax expense in respect of the financial year ended 31 December 2013 was correctly calculated at R56 212.

6 The delivery van was leased on 1 January 2012 for a period of 3 years. The lease payments are R5 000 per month for the first 2 years and R4 000 per month thereafter. The lease was classified as an operating lease in terms of IAS 17. No entry has been made with respect to this transaction.

7. The following transactions must still be accounted for:

7.1 On 30 September 2013 equipment was sold for R6 500. This amount was credited to sales. This was the only entry made in the accounting records in respect of this transaction. The equipment had originally cost R8 000 and accumulated depreciation at 31 December 2012 amounted to R2 000.

7.2 Furniture and equipment are depreciated on the straight-line basis over its expected useful life of 10 years. at the rate of 10% per annum. Depreciation on furniture and equipment is to be allocated to administration and distribution in the ratio of 75% and 25%, respectively.

8 Employee benefit expenses consist of salaries paid to all employees. Sales staff comprises 10 sales men who earn a commission. In order to boost sales, an incentive bonus was committed to by management if they surpass targets. The bonus is calculated at 5% of current year turnover. The current financial year targets were surpassed. The only condition is that they must remain in the employ of the company for at least 1 year after the year in which the target was attained. It is expected that only 1 of the sales staff members will resign before the condition is met. This transaction has not been recorded yet.

QUESTION 2 (CONTINUED)

REQUIRED:

Present and disclose the Statement of Comprehensive Income for Foottech Ltd for the financial reporting period ended 31 December 2013 in compliance with the minimum requirements of the Companies Act and International Financial Reporting Standards (IFRS)s. (Expenses are classified by function)

(40)

Note:

- Comparative amounts are not required.
- Appropriate **disclosure** in the **notes must be provided**.
- Notes on the accounting policy are not required.
- Show **calculations separately** and clearly where necessary.

QUESTION 3 (YELLOW)

(20 MARKS)
(24 MINUTES)

The following information relating to Apex Ltd's results for the reporting period ended 30 June 2014 is presented to you:

1. **Accounting policy**

   Research and development expenditure

   Research expenditure is recognised as an expense as incurred. Development expenditure is also treated as an expense, unless the expenditure is deemed recoverable through future sales or cost savings.

2. **Abridged provisional Statement of Comprehensive Income of Apex Ltd for the reporting period ended 30 June 2014**

	R
Profit before tax	12 100 000
Income tax expense	3 550 000
Profit for the year	8 550 000
Total comprehensive income for the year	8 550 000

Included in profit before tax are the following costs that relate to research and development:

	Notes	R
Engineers' remuneration (8 persons)	(2.1)	10 000 000
Laboratory technicians remuneration	(2.2)	3 235 000
Personnel costs	(2.3)	2 000 000
Amortisation of other patents	(2.4)	500 000
Consumables		4 500 000
Water, lights and services		600 000
Design costs regarding prototypes		2 000 000

2.1 The engineers' time was spent as follows on the project:
- six engineers were busy with a search for product or process alternatives; and
- two engineers were busy with the formulation and design of new the product.

2.2 Laboratory technicians constantly applied quality control during commercial production.

2.3 Forty per cent of the personnel costs pertained to administrative salaries. The remaining personnel expenditure related to research and development costs in the ratio 3:2.

2.4 Patents were used in performing research work.

2.5 All other applicable expenditure is allocated between research and development expenditure in the ratio 3:2.

2.6 Research equipment with a cost price of R3 500 000 is depreciated at 20% per annum on a straight-line basis. The carrying amount on 1 July 2013 was R550 000. The research equipment was used for the whole year.

2.7 Some work which relates to product development was contracted out at a rate of R1 250 per hour. A total of 144 hours were worked on contracted work.

QUESTION 3 (CONTINUED)

2.8 The accountant of Apex Ltd determined that the development expenditure of the company complies with the asset recognition criteria as set out in IAS 38 *Intangible assets*.

2.9 The development was finalised on 31 March 2014 and was ready to be used from that date.

2.10 The development costs have a useful life of 4 years after which Apex Ltd will develop a new product and will have no use for the capitalised costs after that date.

REQUIRED:

3.1 Calculate the amount of research expenditure that should be recognised as an expense and the amount of development expenditure that should be recognised as an asset. (15)

3.2 Disclose research and development expenditure in the notes to the Statement of Financial Position of Apex Ltd for the reporting period ended 30 June 2014 to comply with the requirements of International Financial Reporting Standards (IFRS).

(5)

Please note:

• Show all the necessary calculations clearly.

QUESTION 4 (GREEN BOOK)

(40 MARKS)
(48 MINUTES)

Oros Limited is a leading producer of beverages in the country. Your assistance is requested to prepare the financial statements for the reporting period ended 31 December 2013. The following information is presented to you:

1. The company has a lease agreement to lease equipment from 1 January 2012. The effective interest rate is 15.24% and the useful life of this machine is 4 years. Oros Ltd will not obtain ownership of the leased asset at the end of the lease term. The following amortisation schedule applies:

	Instalment	Interest	Capital	Balance outstanding
1 January 2012				2 500 000
31 December 2013	750 000	380 956	369 044	2 130 956
31 December 2014	750 000	324 720	425 280	1 705 676
31 December 2015	750 000	259 915	490 085	1 215 591
31 December 2016	750 000	185 235	564 765	650 826
31 December 2017	750 000	99 174	650 826	-

2. The following information relates to machinery:

Acquisition date	1 July 2012
Purchase price (excluding VAT)	R825 000
Installation	R50 000
Useful life	6 years
Residual value	R25 000
Fair value - 31 December 2013	R500 000
Selling costs - 31 December 2013	R25 000
Value in use - 31 December 2013	R550 000

3. Oros Ltd has the following investments:

	Fair value at 1 January 2013 **R**
20 000 ordinary shares acquired in Brookes Ltd for R2.50 each on 1 January 2013. Brooke Ltd's issued share capital consists of 100 000 ordinary shares.	50 000
30 000 ordinary shares in Milo Ltd acquired at R2 each. Milo Ltd's issued share capital consists of 50 000 ordinary shares of R1 each	60 000

3.1 On 30 May 2013 Oros Ltd sold 10 000 shares in Brookes Ltd at a cash price of R3.50 per share. The fair value of the remaining shares in Brookes Ltd as at close of day on 31 December 2013 was quoted on the JSE at R3.80 per share. Oros Ltd classifies the investment in Brookes Ltd's shares as an available for sale. All these transactions must still be recorded.

3.2 The share price of the ordinary shares in Milo Ltd on 31 December 2013 was quoted on the JSE as R2.30 per share.

QUESTION 4 (CONTINUED)

4. Inventory on hand consists of:

	R
Raw materials	590 000
Work in progress	-
Finished products	670 000

5. Outstanding receivables amounted to R75 000 at year end. A provision for bad debts must be made for 5% of outstanding trade receivables as there are indications that it is highly probable that some of the debtors will not be in a position to make payments.

6. Cash on hand amounted to R10 500.

REQUIRED:

4.1 Present only the **ASSETS** section of the Statement of Financial Position for Oros Ltd for the financial reporting period ended 31 December 2013 to comply with the minimum requirements of International Financial Reporting Standards (IFRS).

4.2 Disclose the following notes to the Financial Statements of Oros Ltd for the financial reporting period ended 31 December 2013 to comply with the minimum requirements of IFRS:

- Property, plant and equipment (total column not required)
- Investment in subsidiary
- Other financial assets
- Finance lease commitment

Please note:

- Round off all amounts to the nearest Rand.
- Show all calculations separately and clearly when appropriate.
- Accounting policy notes are not required.

(40)