UNIVERSITY OF JOHANNESBURG

PROGRAM	:	NATIONAL DIPLOMA BUILDING
SUBJECT	:	**CONSTRUCTION ACCOUNTING 3**
CODE	:	**CONA331**
DATE	:	SUMMER SSA EXAMINATION 1 DECEMBER 2014
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EXAMINER	:	MR J. DE BEER
MODERATOR	:	MR K. DALY
NUMBER OF PAGES	:	8 PAGES INCLUDING THE COVER PAGE

INSTRUCTIONS	:	STUDENTS MAY RETAIN THE QUESTION PAPER. ANY SILENT CALCULATOR MAY BE USED. ANSWER ALL THE QUESTIONS.
REQUIREMENTS	:	2 EXAMINATION SCRIPS PER STUDENT.

QUESTION 1

PART A

On 1 September 2014 Mr. Measure, a quantity surveyor, started his own business, **Measure Consulting Services**. The enterprise entered into the following transactions during September 2014 :

Transaction details

- Mr. Measure deposited R65 000 into the firm's ABSA bank account as start-up capital.
- Purchased furniture for R75 000 on credit from Anglo Furnishers, repayable in monthly instalments over 2 years.
- Purchased stationery (paper, ink etc.) on credit from NCA Stationers to the value of R5 500.
- Sent an account for R45 000 to Zebra Ltd relating to services rendered.
- Paid R1 300 for an advertisement placed in a local newspaper.
- Paid NCA stationery account, R5 500.
- Paid staff salaries, R12 500.
- Paid R3 500 instalment to Anglo Furnishers.
- Paid rent, R4 000.
- Received R45 000 via internet banking transfer from Zebra Ltd.

REQUIRED

1.1 The general ledger of **Measure Consulting Services** for the month ended 30 September 2014.

1.2 The trial balance of **Measure Consulting Services** as at 30 September 2014.

(15)

PART B

Construct Ltd commenced with contract B52 on 01/01/2013.
The total contract price is R3 600 000, and total cost is estimated at R2 700 000. The company uses the percentage of completion method, based on cost to date compared with total estimated cost, to recognise construction income - this calculation resulted in a profit of R630 000 for 2013.

On 31/12/2013 work certified on the contract amounted to R2 160 000, of which 10% should be regarded as retentions. At this date, a total of R1 800 000 had been received from contract debtors / receivables.

The value of machinery and building materials on site at 31/12/2013 amounted to R630 000 and R36 000 respectively.

QUESTION 1 (continued)

PART B (continued)

The following are the expenses incurred for the reporting period ended 31/12/2013.

	R
Machinery	900 000
Building materials	1 278 000
Subcontractors	162 000
Quantity surveying fees	27 000
Hiring of equipment	9 000
Wages, site workers	180 000
Accounting fees	4 000
Rent paid for administrative offices	23 000
Telephone and postage	5 000
Salaries for administrative staff	223 000
Bank charges	2 000
Interest on bank overdraft	4 000

REQUIRED

1.3 Show the journal entries (including cash transactions) related to contract B52 for the reporting period ended 31/12/2013.

(11)
[26]

QUESTION 2

PART A

Any person carrying on a business with a turnover greater than R1 000 000, or which will probably exceed R1 000 000 during any 12 months, is obliged to register as a **VAT** vendor with **SARS**. Any entity with a turnover below R1 000 000 (but greater than R50 000) per annum may also apply for registration.

REQUIRED

2.1 Briefly describe **"output"** tax.
2.2 Briefly describe **"input"** tax.
2.3 List 4 **"zero-rated"** supplies.
2.4 List 4 **"exempt"** supplies.

(10)

QUESTION 2 (continued)

PART B

The following balances for 31 December 2013 were taken from the books of **Aggri Ltd** an entity that manufactures poultry cages :

	Notes	R'000
Machinery and equipment at net carrying amount - 31/12/2012	(1)	34 000
Vehicles at net carrying amount - 31/12/2012	(2)	8 400

Additional information

- Machinery and equipment were purchased on 1 April 2012. Depreciation is provided for at 20% per annum on the reducing balance method.
- The vehicles were purchased on 1 July 2011. Depreciation is provided for at 20% per annum on the straight-line method.

REQUIRED

2.5 Prepare the plant and equipment note to the statement of financial position of **Aggri Ltd** for the reporting date ended 31 December 2013. Comparative figures are not required.

(14)
[24]

QUESTION 3

PART A

The following appeared in the Statement of Financial Position of **Juno Ltd** as at 31/12/2013.

7 500 **9%** Cumulative redeemable Debentures of R100 each : R750 000

The current interest rate for similar debentures is **8%** per annum.

REQUIRED

Determine the **total** value of the debentures at 31/12/2013 under the following assumptions :

3.1 The debentures are **not** redeemable - thus valuation must be done in **perpetuity**.

3.2 The debentures are redeemable in 3 equal annual instalments the first commencing on 31/12/2014.

(10)

QUESTION 3 (continued)

PART B

Lever Ltd has the following budgeted information :

- Fixed costs (FC) of R144 000 ;
- Variable costs (VC) of R8 per unit ;
- Selling price (SP) of R17 per unit ;
- Interest expense of R45 000.

REQUIRED

Determine the following for **Lever Ltd** based on an expected minimum demand of 35 000 units :

3.3 The break-even units.
3.4 Earnings / profit before interest expense and tax (EBIT).
3.5 Net income / profit before tax.
3.6 Degree of operating leverage (DOL).
3.7 Degree of financial leverage (DFL).
3.8 Degree of combined / total leverage (DCL).

(15)
[25]

QUESTION 4

PART A

The following are the financial statements of **Tsunami Ltd** :

Statement of financial position as at 31 December 2013	**Note**	**R'000**
Assets		
Non-current assets : Property, plant and equipment		60 207
Current assets	(1)	30 210
Total assets		90 417
Equity and liabilities		
Total equity	(2)	62 744
Non-current liabilities : Long-term borrowings		10 980
Current liabilities	(3)	16 693
Total equity and liabilities		90 417

Statement of profit or loss for the year ended 31 December 2013	**Note**	**R'000**
Revenue	(4)	140 730
Cost of sales		(100 521)
Gross profit		40 209
Distribution costs, administrative and other expenses		(22 320)
Finance cost		(1 973)
Profit before tax		15 916
Income tax expense		(4 616)
Profit for the year		11 300

Statement of changes in equity for the year ended 31 December 2013	**Note**	**R'000**
Equity at the beginning of the year		58 092
Changes in retained earnings	(5)	4 652
Equity at the end of the year		62 744

QUESTION 4 (continued)

PART A (continued)

Notes : Additional information

	R'000
1. **Current assets**	30 210
Inventory	15 045
Trade receivables (trade debtors)	15 165
2. **Total equity**	62 744
Ordinary share capital (**346 000 shares**)	25 950
12% preference share capital	12 150
Retained earnings	24 644
3. **Current liabilities**	16 693
Trade and other payables	14 308
Bank overdraft	2 385
4. **Revenue**	
Cash sales represents **15%** of revenue	
5. **Changes in retained earnings**	4 652
Profit for the year	11 300
Preference dividends	(1 458)
Ordinary dividends	(5 190)

REQUIRED

Calculate the following for 2013 :

4.1 Current ratio.
4.2 Acid test ("Quick") ratio.
4.3 Trade receivables / debtors collection period (in "**days**" based on **365** days).
4.4 Inventory / stock turnover ratio (based on **closing inventory**).
4.5 Inventory / stock holding period (in "**days**" based on **closing inventory**).
4.6 Debt equity ratio.
4.7 Mark-up percentage on cost.
4.8 Gross profit margin.
4.9 Net profit margin.
4.10 Ordinary dividend cover.
4.11 Basic earnings per ordinary share.
4.12 Return on total equity.
4.13 Net asset value (based on statement of financial position figures).
4.14 Net asset turnover (revenue to net assets).

(18)

QUESTION 4 (continued)

PART B

The appropriate rate to be used as a basis for accepting or rejecting investment projects which are to be evaluated is the weighted average cost of capital (**WACC**).

Hyper Ltd is considering investing R10 000 000 in **Project Z** that is estimated to yield an after tax return of 20% per annum.

Hyper Ltd's most recent Statement of Financial Position showed the following :

	R'000
Equity	60 000
Preference shares	10 000
Debentures	30 000
	100 000

The cost to maintain the above is 25% for equity; 22% for preference shares; and 12% (after tax) for debentures.

REQUIRED

4.15 Calculate the weighted average cost of capital (**WACC**) of **Hyper Ltd**.
4.16 Should **Hyper Ltd** accept or reject **Project Z** ?

(7)
[25]

TOTAL MARKS : 100