



UNIVERSITY
OF
JOHANNESBURG

AUCKLAND PARK KINGSWAY & SOWETO CAMPUS

DEPARTMENT OF ACCOUNTANCY

ACCOUNTING 1B – 2014 REK1B01/ACC1B01

FINAL ASSESSMENT OPPORTUNITY

10 November 2014

TIME: 2 ½ hours

125 Marks

ASSESSORS: MR MN DLAMINI, MRS L MEYER & ME JD NAPO

MODERATORS: MR M VAN WYK & MR A MOHAMMADALI-HAJI

1. This paper consists of 10 pages and 1 attachment (pages 11 to 14).
2. Silent, non-programmable calculators are permitted.
3. ALL calculations should be shown.
4. Please draw a line through all open spaces and empty pages.

Question	Topic	Marks	Time
1.	Statement of profit or loss	35	42 minutes
2.	Loans and provisions	20	24 minutes
3.	Statement of financial position	30	36 minutes
4.	Statement of Cash flows	40	48 minutes
		125	150 minutes

QUESTION 1

(35 MARKS)
(42 MINUTES)

The current reporting period of Grant (Pty) Ltd, a successful company, ends on 31 December 2013.

The following information is applicable:

Income and expenses

	R
Income	
Sales of merchandise	31 250 000
Rent income – lease of building	3 532 000
Interest on fixed deposit	65 000
Profit on sale of machinery	120 000
Expenses	
Cost of sales:	
Cost of normal sales and smaller inventory shortages	14 250 000
Cost of inventories destroyed in a fire	950 000
Recoupment from insurer	(800 000)
Write down of certain inventory items to net realisable value	300 000
Distribution costs, administrative expenses and other expenses	14 117 000
Interest on Bank overdraft	65 000
Interest on Mortgage bond	520 000
Income tax expense	1 441 300

Additional information:

1 The following 4 adjustments still have to be accounted for:

- 1.1 Office supplies on hand on 31 December 2013, to the amount of R45 000, still have to be recognised.
- 1.2 The allowance for doubtful debts, still has to be increased from R95 000 to R110 000.
- 1.3 On 15 November 2013, Delivery vehicle with a cost of R1 401 250 and an accumulated depreciation of R406 250 was damaged in an incident to such an extent that it was not possible to repair the vehicle. In settlement of the claim, the insurer paid an amount of R934 800 (including VAT) on 6 December 2013 directly into Grant (Pty) Ltd's bank account.
- 1.4 Grant (Pty) Ltd was summoned by a customer in respect of a claim for damages of R 600 000 caused by a defective product, which was purchased from Grant (Pty) Ltd. Grant (Pty) Ltd's advocate indicated that it is **probable** that a court will decide in favour of the customer. Grant (Pty) Ltd's technical advisors reliably estimated the amount of the damages at R450 000

2 Distribution costs, administrative expenses and other expenses

Detail of the expenses, as summarised, for the reporting period ended 31 December 2013, excluding point 1.1 – 1.4 above, are as follows:

	R
Depreciation on buildings	250 000
Depreciation on machinery	750 000
Depreciation on vehicles	250 000
Impairment on machinery	600 000
Employee benefits expense	3 850 000
Maintenance and insurance of PPE items	365 000
Technical support for implementing a new accounting software programme	1 750 000
Remuneration to auditors in respect of audit services	500 000
Remuneration to auditors in respect of taxation services	205 000
Remuneration to non-executive directors for attending meetings	200 000
Remuneration to executive directors for attending meetings	300 000
Salaries to executive directors	2 600 000
Bonuses to executive directors	800 000
Telephone and network costs	750 000
Office supplies	560 000
Doubtful debts	35 000
Water and electricity	352 000
	14 117 000

Required:

- Present the statement of profit or loss of Grant (Pty) Ltd for the reporting period ended 31 December 2013. (11)
- Disclose **ONLY** the following notes to the statement of profit or loss of Grant (Pty) Ltd for the reporting period ended 31 December 2013. (24)
 - Cost of sales
 - Finance costs
 - Profit before tax

QUESTION 2

(20 MARKS)
(24 MINUTES)

This question consists of TWO independent parts.

Part A

(10 Marks)

On 2 January 2013, AA Limited acquired a machine by means of a lease agreement. The fair value of the asset is R900 000, which is equal to the present value of the lease instalments. The lease agreement satisfies the requirements of a finance lease.

The following information was extracted from the repayment schedule of the finance lease loan:

Repayment schedule – finance lease

		Instalment			Outstanding
		Total	Interest	Capital	capital amount
Datum			10% pa		of loan
					900 000
31/12/2012	Instalment 1	237 418	90 000	147 418	752 582
31/12/2013	Instalment 2	237 418	75 258	162 160	590 423
31/12/2014	Instalment 3	237 418	59 042	178 375	412 047
31/12/2015	Instalment 4	237 418	41 205	196 213	215 834
31/12/2016	Instalment 5	237 418	21 583	215 834	-

- The only entry that was recorded in respect of the finance lease was to debit the payment of the instalment on 31 December 2013 to the suspense account.
- Depreciation is written off on the straight-line method over the expected useful life of 5 years.
- The estimated residual value at the end of 5 years is R40 000.

REQUIRED:

- 2.1 Record the entries relating to finance lease in the General Journal of AA Entity for the reporting period ended 31 December 2013 by using journal entries. (6)

Note: journal narrations are **NOT** required.

- 2.2 Disclose **ONLY** the Long term loan note to the Financial Statements of AA Limited as at 31 December 2013. (4)

QUESTION 2 (CONTINUED)

Part B

(10 Marks)

The BB Ltd is a tobacco manufacturing company. The company has been sued for R12 500 000 by Mrs Alone, the widow of a long time smoker who died of lung cancer in respect of damages.

The entities' legal representatives are of the opinion that it is more than 50% probable that the court will adjudicate in favour of Mrs Alone for the amount she claimed, given the recent ruling of the Reynolds Tobacco Co case in the USA.

The law suit was filed in the South Gauteng High Court on 1 August 2014. The current reporting period is 30 September 2014.

REQUIRED:

- 2.1 Provide the definition and recognition criteria of a provision. (5)
- 2.2 Should the law suit be recognised as a provision in the financial statements of BB Ltd for the current reporting period? Provide reasons your answer. (3)
- 2.3 Assuming a provision should be recognised, provide the journal entry to recognise the provision on 30 September 2014. (2)

QUESTION 3

(30 MARKS)
(36 MINUTES)

PUMBA (Pty) Ltd, as well as all of its suppliers, are registered VAT vendors.

On 31 December 2013, the current reporting date, the following balances, amongst others, appeared in the accounting records of PUMBA (Pty) Ltd:

	Additional information	R	R
Property at cost price	1	5 600 000	
Bank loan in respect of property purchased	2		2 000 000
Machinery at cost price	3	2 890 000	
Accumulated depreciation – machinery (31/12/2012)	3		1 112 245
Proceeds on scrap sold (excluding VAT)	3.3		11 400
Inventories	4	520 525	
Investment in subsidiary – cost price	5	800 000	
Office supplies on hand – 31/12/2012	6	54 000	
Office supplies expense account	6	780 000	

The following additional information must still be considered:

- On 2 January 2013, the property was registered in the name of the entity and was purchased for R5 600 000 (excluding VAT). The cost price is allocated as follows: R1 600 000 for the land and R4 000 000 for the building.

The useful life of the building is estimated at 20 years. The cost of the building is allocated to an expense over the useful life of the building by using the straight line method.

- The purchased of the property was partially financed by a bank loan. The loan is repayable in one amount (primary debt and interest) on 31 December 2015. The interest rate is 10% per annum and interest is calculated bi-annually on the compounded interest rate method.

The interest schedule in respect of this loan is as follows:

Date	Detail	Interest at 10% p.a	Amortised cost of the loan (R)
2 Jan 2013	Primary debt		2 000 000
30 Jun 2013	Interest	100 000	2 100 000
31 Dec 2013	Interest	105 000	2 205 000
30 Jun 2014	Interest	110 250	2 315 250
31 Dec 2014	Interest	115 763	2 431 013
30 Jun 2015	Interest	121 551	2 552 564
31 Dec 2015	Interest	127 629	2 680 193
		680 193	

QUESTION 3 (CONTINUED)

3.1 Detail of machinery is as follows:

Machinery item	Put into service	Cost price	Accumulated depreciation on 31 December 2012	Estimated useful life
Machine A	1 Jan 2009	750 000	616 120	6 years
Machine B	1 Jan 2011	650 000	375 375	6 years
Machine C	1 Jul 2012	690 000	120 750	6 years
Machine D	1 Dec 2013	800 000	0	
		2 890 000	1 112 245	

- 3.2 Depreciation on machinery is written off at 35% per year in accordance with the diminishing balance method.
- 3.3 On 30 June 2013, machine A was withdrawn from production and was sold as scrap. On the date of the sale, the VAT was appropriately credited to the VAT output account. Machine A.
- 3.4 On 31 December 2013, it was clear that machine B should be impaired. The recoverable amount of machine B, as at 31 December 2013, was estimated at R120 000.
- 3.5 On 31 December 2013, it was decided that, due to the nature of Machine C, the depreciation method be changed to straightline over the useful life of the asset. On this day it was estimated that the remaining useful life of machine C was 5 years.
- 3.6 Machine D was purchased for R912 000 (including VAT) to replace machine A.
4. Certain inventory items' cost price, which is calculated by using the weighted average method, exceeds the estimated net sales price of the items with R44 500. The write off adjustment still has to be recognised.
5. The 700 000 ordinary shares (55%) in Simba Ltd were purchased on 30 November 2012, by means of a cash transaction. All cost relating to this transaction were correctly recognised. On 31 December 2013 the market price of a Simba Ltd share was 75 cents.
6. Office supplies with a cost price of R62 500 were on hand as at 31 December 2013.



QUESTION 3 (CONTINUED)

REQUIRED:

3.1 After accounting for the abovementioned additional information, present only the following line-items in the statement of financial position of PUMBA (Pty) Ltd as at 31 December 2013:

-  Property, plant and equipment
-  Investments in subsidiaries
-  Inventories (4)

3.2 Disclose ONLY the following notes to the financial statements of PUMBA (Pty) Ltd for the reporting period ended 31 December 2013:

-  Property, plant and equipment (total column not required) (20)
- Investments in subsidiaries (3)
-  Inventories (3)

Note:

- Journal entries and general ledger accounts are not required.
- Notes on accounting policy are not required.
- In some instances, when accounting for the additional information, there are VAT implications.
- Where applicable, VAT is charged at 14%.
- Where applicable, round off all amounts to the nearest Rand.
- All calculations must be shown.

QUESTION 4

(40 MARKS)
(48 MINUTES)

DEF Limited is a company with a reporting period that ends on 31 December 2013. The Statement of comprehensive income, the Statement of changes in equity and the Statement of financial position have already been prepared.

The asset, liability and equity accounts of the company displayed the following balances On 31 December 2013 and 31 December 2012:

	Additional information	2013 R	2012 R
Ordinary share capital		(3 112 500)	(1 500 000)
Retained earnings		(4 935 000)	(2 955 000)
Mortgage bond	1	(1 507 500)	(1 200 000)
Finance lease loan		(525 000)	(675 000)
Trade payables		(1 918 125)	(1 575 000)
Shareholders for dividends		(450 000)	(281 250)
Income tax payable		(60 000)	(54 375)
Land and buildings at valuation	1	3 150 000	2 340 000
Revaluation surplus: Land and buildings	1	(378 750)	(352 500)
Plant and equipment at cost price	2	2 550 000	1 800 000
Accumulated depreciation: Plant and equipment	2	(856 875)	(750 000)
Delivery vehicle – controlled by a finance lease		825 000	825 000
Accumulated depreciation: Delivery vehicle		(495 000)	(330 000)
Financial investment at fair value	3	1 256 250	543 750
Mark-to-Market reserve: Financial investments	3	(93 750)	(56 250)
Trademarks	4	1 128 750	675 000
Accumulated amortisation: Trademarks	4	(360 000)	(270 000)
Accumulated impairment: Trademarks	4	(112 500)	0
Inventories		1 177 500	825 000
Trade receivables		2 962 500	2 475 000
Allowance for doubtful debts		(480 000)	(405 000)
Call deposit		1 972 500	562 500
Bank – favourable		337 500	358 125

ADDITIONAL INFORMATION:

- The land and buildings acquired during the current reporting period were partially financed through an additional mortgage bond of R450 000. Land and buildings are shown at the revaluation amount. Revaluation adjustments are accumulated in a Revaluation reserve via other comprehensive income.
- An item of plant with a cost price was R675 000 was completely destroyed in a fire on 15 August 2013. On the date of destruction it had a carrying amount of R421 875. The insurance company paid R300 000 in respect of this loss within 2 months after the claim was lodged. This plant item was replaced with a new one at a cost of R900 000 which was paid for in cash.

No other derecognition of plant and equipment occurred during the current reporting period.

- 3 Fair value adjustments on financial investments are accumulated in a mark-to-market reserve *via* other comprehensive income. During the year, additional shares were purchased in the financial investment, in accordance with a cash transaction.

No portion of the financial investments was sold during the course of the current year.

- 4 At the end of December 2013, an impairment loss was recognised in respect of some of the trademarks.

No trademarks were sold during the course of the year.

- 5 The following information was extracted from the Statement of comprehensive income and the Statement of changes in equity for the year ended 31 December 2013:

	Additional information	Dr R	Cr R
Sales/Revenue			7 425 000
Profit before tax			2 925 000
Dividend income from financial investments			120 000
Recoupment from insurer – plant destroyed	7		300 000
Income tax expense		630 000	
Ordinary dividend - distribution		600 000	
Interest expense on mortgage bond and finance lease loan		136 875	
Amortisation of trademarks	5	90 000	
Impairment of trademarks	5	112 500	
Depreciation on vehicles		165 000	
Depreciation on plant and equipment	7	360 000	
Loss – Plant & equipment destroyed in a fire	7	421 875	

REQUIRED:

- 4.1 By making use of **Annexure A**, present the Statement of Cash Flows of DEF Limited for the reporting period ended 31 December 2013. (27)
- 4.2 By making use of **Annexure A**, disclose only the note for cash generated from operations to the statement of cash flows of DEF Limited for the reporting period ended 31 December 2013. (13)

Note:

- Ignore VAT.
- Show ALL calculations clearly.

NAME:

STUDENT NUMBER:

DEF LIMITED
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	R
Cash flow from operating activities		
Cash receipts from customers		
Cash paid to suppliers and employees		
<i>Cash generated from operations</i>	10	
Dividends received		
Interest paid		
Income tax paid		
Dividends paid		
Net cash inflow from operating activities		
Cash flow from investing activities		
Net cash outflow for investing activities		
Cash flow from financing activities		
Net cash inflow from financing activities		
Net increase in cash and cash equivalents		
Cash and cash equivalents beginning of period	12	
Cash and cash equivalents end of period	12	

NOTES TO THE FINANCIAL STATEMENTS

10 Cash generated from operations

Reconciliation of profit before tax with cash generated from operations:

	R
Profit before tax	
<i>Adjusted with non-cash items accounted for in Profit before tax</i>	
<i>Adjusted with items that are presented separately in the Statement of cash flows or items which form part of other separate items</i>	
<i>Elimination of the effect of the accrual basis of accounting</i>	
Cash generated from operations	

STUDENT NUMBER:

[illegible][illegible][illegible][illegible]

[illegible][illegible][illegible]

Case No.	Case Name	Case Type	Case Status	Case Date	Case Time	Case Location	Case Description	Case Action	Case Result	Case Comment
1	Case 1	Case 1 Type	Case 1 Status	Case 1 Date	Case 1 Time	Case 1 Location	Case 1 Description	Case 1 Action	Case 1 Result	Case 1 Comment
2	Case 2	Case 2 Type	Case 2 Status	Case 2 Date	Case 2 Time	Case 2 Location	Case 2 Description	Case 2 Action	Case 2 Result	Case 2 Comment
3	Case 3	Case 3 Type	Case 3 Status	Case 3 Date	Case 3 Time	Case 3 Location	Case 3 Description	Case 3 Action	Case 3 Result	Case 3 Comment
4	Case 4	Case 4 Type	Case 4 Status	Case 4 Date	Case 4 Time	Case 4 Location	Case 4 Description	Case 4 Action	Case 4 Result	Case 4 Comment
5	Case 5	Case 5 Type	Case 5 Status	Case 5 Date	Case 5 Time	Case 5 Location	Case 5 Description	Case 5 Action	Case 5 Result	Case 5 Comment
6	Case 6	Case 6 Type	Case 6 Status	Case 6 Date	Case 6 Time	Case 6 Location	Case 6 Description	Case 6 Action	Case 6 Result	Case 6 Comment
7	Case 7	Case 7 Type	Case 7 Status	Case 7 Date	Case 7 Time	Case 7 Location	Case 7 Description	Case 7 Action	Case 7 Result	Case 7 Comment
8	Case 8	Case 8 Type	Case 8 Status	Case 8 Date	Case 8 Time	Case 8 Location	Case 8 Description	Case 8 Action	Case 8 Result	Case 8 Comment
9	Case 9	Case 9 Type	Case 9 Status	Case 9 Date	Case 9 Time	Case 9 Location	Case 9 Description	Case 9 Action	Case 9 Result	Case 9 Comment
10	Case 10	Case 10 Type	Case 10 Status	Case 10 Date	Case 10 Time	Case 10 Location	Case 10 Description	Case 10 Action	Case 10 Result	Case 10 Comment