

A Leader in Accounting Education

**Accountancy@UJ**



# **ACCOUNTING 100**

## **FINAL ASSESSMENT OPPORTUNITY**

**10 November 2014**

**Marks: 150**

**Time: 180 Minutes**

### **Examiners**

Ms Daniella Goncalves

Mr Tendani Mutshutshu

Mr Jelvin Griffioen

### **Moderators**

Ms Marelize Malan

Professor Nerine Stegmann

### **Instructions:**

- Please confirm that your question paper consist of **10 pages** (including cover page).
- Read questions carefully and manage your time properly.
- Do not write in pencil and do not use tip-ex as this will not be marked.
- Hand back unused answer sheet(s) together with your completed answer sheet(s).
- Answer questions on the following colour answer booklets:

**Q1= Blue**

**Q2 = Green**

**Q3 = Red**

**Q4 = Yellow**

**QUESTION 1****(30 MARKS)**

This question consists of three independent parts.

**PART A****(12 MARKS)**

Honeymoon Limited operates a resort and spa in the Magaliesberg Mountains. The company's financial reporting period ends on 30 September 2014. The financial director has asked for your assistance with disclosing the following matters:

- On 5 July 2014 a newlywed couple drowned in the resort's swimming pool after they illegally entered the locked swimming pool during the night when no lifeguards were on duty. The family of the couple has instituted legal action against the company, claiming R2 million in damages due to negligence on the company's side. Honeymoon Limited has appointed lawyers to oppose the claim. An independent legal expert has stated that the chance of the claim succeeding is less than 50% but stated that if the company was found guilty, which is possible, the damages awarded by the court could amount to R2 million.
- On 29 July 2014 the financial manager fired a staff member who came late for work. The staff member subsequently sued the company for unfair dismissal. The case was heard in the Rustenburg regional court on 25 September 2014 and the court ruled in favour of the former staff member, but reserved judgment on the amount of compensation until 3 December 2014. The company has agreed to pay damages but will await the outcome of the verdict on 3 December 2014 to then make the necessary payment. The company consulted various legal experts for an opinion on the possible amount payable, but the legal experts could not reach consensus on the amount payable and therefore the amount of the liability could not be determined as at 30 September 2014.
- Honeymoon Limited sells various beauty treatment products that are manufactured at the resort. The products are sold with a money back guarantee whereby customers are allowed to return the products to Honeymoon Limited for a full refund within one month of the transaction taking place. The company's experience is that 10% of total sales are returned for a refund and therefore makes a provision at the end of each reporting period reflecting that figure.

**Total sales of beauty treatment products per month**

	<b>R</b>
September 2013	320 000
September 2014	250 000

In October 2013 the pay-out related to September 2013 sales amounted to R28 500.

**Required:**

Based on the information provided above, disclose the following notes in the financial statements of Honeymoon Limited for the reporting period ended 30 September 2014:

- Contingent liabilities
- Provisions

**(12)****Note:**

- Ignore VAT.
- Comparative figures are not required.

**PART B****(14 MARKS)**

A meeting is scheduled for the full board of directors of Siyabonga Limited for 30 April 2014 to approve the financial statements of the company for the reporting period ended 31 March 2014. The company requires your assistance with the following events that occurred in April 2014:

**Event 1**

Jozini Limited, a debtor who owes Siyabonga Limited R5 000 as at 31 March 2014, was declared bankrupt on 5 April 2014. Siyabonga Limited had not made any write-offs or allowances for the debt. The financial director of Jozini Limited called Siyabonga Limited on 6 April 2014 informing the company that they had experienced financial difficulty for a long time and would not be able to pay any of the outstanding debt.

**Event 2**

Some inventory that was on hand on 31 March 2014 and was included in the inventory figure at cost, was sold for R100 000 below the cost price in April 2014.

**Event 3**

On 20 January 2014 Siyabonga Limited was sued for medical expenses by a customer who slipped and fell in the shop. The directors were of the opinion that the case would not succeed and made no provision for the claim on 31 March 2014. The court however ruled in favour of the customer on 20 April 2014 and ordered Siyabonga Limited to pay R56 000 in damages.

**Event 4**

On 10 April 2014 an earthquake caused damages of thousands of Rands to Siyabonga Limited's store room. Upon further investigation it was discovered that Siyabonga Limited was not insured for this damage and it would have a severely negative impact on the company's operations for the next two years.

**Required:**

- a) With reference to the concept "events after the reporting date", provide a short definition of adjusting events and non-adjusting events. (2)
- b) In respect of each of the abovementioned events:
  - i) Indicate whether it is an adjusting event or a non-adjusting event; and (4)
  - ii) Briefly (one sentence) motivate your answer. (4)
- c) Explain and motivate what the accounting treatment and/or disclosure requirements are for event 4 for the reporting period ended 31 March 2014. (4)

**PART C****(4 MARKS)**

Manacor Ltd recently purchased a building for R2 million. The company will use the building for its own administrative purposes. The managing director of Manacor Ltd decided that the new building should be classified as Investment property because, according to his understanding, depreciation would then not be written off on the asset.

**Required:**

Write a memo to the managing director of Manacor Limited in which you explain with reasons whether the building can be classified as Investment property in terms of IAS 40.

**QUESTION 2****(30 MARKS)**

Azilana Transport Entity provides transportation services to guests on a popular game reserve. The entity's current reporting period ends on 30 June 2014. Azilana and all its suppliers are registered VAT vendors. The VAT rate is 14%.

**Vehicles**

Azilana owns 5 game drive vehicles purchased on 1 January 2012 at a cost of R300 000 each (VAT excluded) to transport the customers around the lodge and game farm. Game drive vehicles are not classified as passenger vehicles according to the VAT Act. The vehicles are depreciated at 20% per year on the diminishing balance method and have a residual value of R45 000 per vehicle (excluding VAT).

On 31 March 2014 one of the vehicles was bumped by an elephant. Luckily no passengers were hurt in this incident but the vehicle was damaged beyond repair. On 10 April 2014 the insurance company paid a compensation amount of R171 000 for this incident.

A new vehicle was purchased on 1 May 2014 to replace the damaged vehicle. The invoice price of the new vehicle amounted to R342 000, which consisted of the following amounts:

	<b>R</b>
Cost price	250 000
Registration and road worthiness	10 000
5-Year maintenance plan	40 000
Price excluding VAT	300 000
VAT at 14% (According to the VAT act a VAT Input can be claimed)	42 000
Price including VAT at 14%	342 000

**Helicopter**

Azilana also owns a helicopter which was purchased on 1 January 2012 at a price of R800 000 (VAT excluded). The helicopter is depreciated according to the number of flight hours that the helicopter is able to make over its useful life, which is 1 000 000 total flight hours and has no residual value.

Total flight hours flown thus far:

	<b>Hours</b>
1 January 2012 – 30 June 2012	25 000
1 July 2012 – 30 June 2013	125 000
1 July 2013 – 30 June 2014	140 000

On 30 June 2014 the following amounts are provided in relation to the helicopter:

	<b>R</b>
Fair value less costs to sell	480 000
Value in use	515 000

**Airplane**

Azilana owns a small airplane which is used for game viewing. The airplane was purchased on 1 July 2012 at a price of R1 400 000 (VAT excluded). The airplane consists of two components namely the body (at a cost of R1 200 000) and the engine (at a cost of R200 000). The body of the plane is depreciated over 10 years on the straight-line basis (with no residual value) whilst the engine is depreciated over 5 years according to the straight-line method (with a residual value of R40 000 VAT excluded). On 30 June 2014 it was estimated that the engine of the airplane would have a remaining useful life of 7 years with an unchanged residual value and would still be depreciated according to the straight-line method. The remaining useful life of the body remained unchanged.

**Required:**

- a) Provide all the journal entries to account for the damaged vehicle as well as the insurance claim pay-out for the reporting period ended 30 June 2014. (10)
- b) Provide the Property, plant and equipment note to the financial statements of Azilana Transport Entity for the reporting period ended 30 June 2014 (total column not required). (20)

**Note:**

- Accounting policy notes are not required.
- Comparative figures are not required.
- Calculations must be shown clearly.
- Where applicable, round calculated amounts to the nearest Rand.

**QUESTION 3****(30 MARKS)**

Grupo Desperado Entity is a wholesaler of all kinds of soccer equipment and apparel. Grupo Desperado as well as all of its suppliers are registered VAT vendors in accordance with the VAT Act. Grupo Desperado's current reporting date is 31 December 2013 and the owner will probably approve the 2013 financial statements on 20 February 2014.

Grupo Desperado recently appointed a new bookkeeper who is competent but not yet familiar with Grupo Desperado's business and thus has had some difficulty in completing Grupo Desperado's financial statements. Grupo Desperado uses the perpetual inventory system to account for its inventory transactions.

The following transactions and events still have to be accounted for in Grupo Desperado's records and, where applicable, include VAT at 14%:

1. Grupo Desperado's VAT period is a calendar month. The VAT return for November 2013 reflects the following amounts:

	R
VAT output	231 500
VAT input	187 000
Amount due to SARS	<u>44 500</u>

The amount due in respect of the November 2013 VAT return was paid to the SARS on 24 December 2013 by means of an EFT.

2. After completing the December 2013 payables reconciliation in respect of Supplier Union, Grupo Desperado's bookkeeper identified the following difference:

A credit amount exists in Supplier Union's account in Grupo Desperado's records, in respect of inventories purchased by Grupo Desperado on 28 December 2013, which amounts to R13 680. The corresponding debit amount that appears on Supplier Union's statement is however only R12 996. This difference arose because Grupo Desperado's bookkeeper was unaware that Grupo Desperado always makes use of the 5% settlement discount that Supplier Union grants on these transactions.

3. On 1 June 2010, Grupo Desperado entered into an operating lease agreement to lease a building to be used as its warehouse. The lease term is 9 years. The rental will be paid as follows:

- R12 000 per month for the first 3 years of the lease;
- R19 000 per month for following 3 years of the lease; and
- R20 000 per month for the remaining 3 years of the lease.

Grupo Desperado paid the correct amount of R193 000 of rentals for the current reporting period and debited the entire amount against the operating lease expense for 2013. The new bookkeeper did not know how to deal with this transaction and thus no other entry was made in this respect. VAT is not applicable on this rental agreement.

4. Grupo Desperado obtained a machine at a cost price of R100 000 by means of a lease agreement on 1 January 2013. This machine is specially designed to measure customers' feet so that a soccer boot can be perfectly matched to their feet. The lease agreement complies with the requirements of a finance lease. Ownership of the machine was transferred to Grupo Desperado on 1 January 2013.

The following repayment schedule is available in respect of the finance lease loan:

Date	Instalment	Total	Capital	Interest @ 10% per year	Outstanding capital amount
01/01/2013					100 000
31/12/2013	Instalment 1	31 547	21 547	10 000	78 453
31/12/2014	Instalment 2	31 547	23 702	7 845	54 751
31/12/2015	Instalment 3	31 547	26 072	5 475	28 679
31/12/2016	Instalment 4	31 547	28 679	2 868	0
		<b>126 188</b>	<b>100 000</b>	<b>26 188</b>	

Grupo Desperado depreciates machinery over their useful life by using the straight-line method. The expected useful life of this machine is 5 years.

Since the bookkeeper only arrived shortly after this transaction was entered into, the transaction was not recorded. Ignore VAT.

5. On 31 December 2013 a final inventory count performed reflected the balance of inventory on hand to be R540 000 whereas the inventory records reflect an amount of R545 000 on the same date.
6. The following items in the cheque account statement for December 2013, which was received on 2 January 2014, have yet to be recognised in Grupo Desperado's records:

**Coach Dias Bank**

**Cheque account statement for Grupo Desperado Entity**

Date	Transaction description	Debit R	Credit R
28/12	Direct credit Receivable Sporting		5 700
31/12	Credit interest		560
31/12	Bank charges	490	

**Required:**

Recognise the outstanding transactions in the accounting records of Grupo Desperado Entity for the reporting period ended 31 December 2013 by providing the relevant journal entries. (30)

**Note:**

- Journal narrations and the effect of the transactions on the accounting equation are **not** required.
- Calculations must be shown clearly and must, where applicable, be rounded off to the nearest Rand.

**QUESTION 4****(60 MARKS)**

The following balances appear in the financial records of VE (Pty) Ltd at 31 December 2013, the reporting date of the company:

	Additional information	Dr R	Cr R
Ordinary Share capital (1 January 2013)	1		25 000 000
Preference share capital (1 January 2013)	1		1 080 000
Asset under construction - Building	2	95 000 000	
Building loan	2		115 000 000
Plant	3	25 000 000	
Vehicles		1 500 000	
Accumulated depreciation: Plant	3		10 000 000
Accumulated impairment: Plant	3		1 500 000
Accumulated depreciation: Vehicles			750 000
Office block building	4	12 500 000	
Investment in subsidiaries	5		
NM (Pty) Ltd		6 000 000	
PM (Pty) Ltd		7 500 000	
KO (Pty) Ltd		2 450 000	
Investment in MK Ltd – listed shares	6	3 900 000	
Term deposit		1 750 000	
Trademarks (1 January 2013)	7	1 329 500	
Trade inventories		4 150 000	
Accounts receivable		1 540 000	
Bank overdraft			1 478 000
Sales			54 000 000
Cost of sales		12 450 000	
Interest on specific loan for construction	2	14 628 000	
Interest received on investment of unutilised portion of specific building loan	2		2 500 000
Other income & expenses		15 180 500	
Income tax expense		6 430 000	
		211 308 000	211 308 000

**Additional information****1. Share capital**

- VE (Pty) Ltd has an authorised share capital of 20 000 000 ordinary shares and 2 000 000 9% preference shares.
- On 1 January 2013, the issued share capital amounted to 10 000 000 ordinary shares of R2.50 each and 900 000 9% preference shares of R1.20 each.
- On 31 March 2013, the directors issued a further 1 000 000 ordinary shares for 75c each, and 200 000 9% preference shares for R1.00 each.



2. VE (Pty) Ltd decided to construct its own head office in Sandton. In June 2012 VE (Pty) Ltd obtained a loan of R115 000 000 for this project, with the following terms:
- Interest on the loan is charged at 12% per annum and is paid semi-annually. Unutilised/surplus funds are invested on a short term basis.
  - The loan is repayable on 31 December 2016.
  - The building under construction is pledged as security towards the building loan.
- All the other construction costs for the building have been correctly accounted for.
3. In addition to the existing plant, VE (Pty) Ltd entered into a lease agreement on 2 January 2013 to acquire a second plant at a cost price of R15 500 000. The period of the lease agreement is 5 years; where after ownership of the new plant will transfer to VE (Pty) Ltd. A deposit of R1 500 000 was paid on the plant. The remaining balance on the purchase price will be settled in 5 equal annual instalments at an interest rate of 11% per annum. The expected useful life of the plant is 8 years with no residual value. The plant was pledged as security for the lease. No entries have been accounted for in respect of the purchase of this plant yet.
4. VE (Pty) Ltd owns an office block building adjacent to its Edenvale manufacturing facility. The building was purchased with the intention of diversifying revenue streams and is used to earn rental income. The property is accounted for using the fair value model. An independent professional sworn valuer determined that the fair value of the building at 31 December 2013 is R14 500 000.
5. Investment in subsidiaries
- The investment in NM (Pty) Ltd represents a 75% interest in the issued ordinary share capital of 2 000 000 ordinary shares of NM (Pty) Ltd.
  - On 1 September 2013, VE (Pty) Ltd acquired all 1 000 000 ordinary shares in PM (Pty) Ltd, a key distributor of VE (Pty) Ltd's products for R7 500 000. Transaction costs and legal fees of R50 000 and R75 000 respectively were incurred on the acquisition. The transaction costs and legal fees are included in the "other income and expenses" line item on the list of balances on 31 December 2013.
  - The shares in KO (Pty) Ltd were sold for R2 000 000 as it was deemed by management that there was no strategic reason for holding the investment. The sale is yet to be recognised.
6. The investment in MK Ltd of 250 000 ordinary shares was acquired on 30 June 2011. MK Ltd is listed on the JSE with 20 000 000 issued ordinary shares. The following JSE listed share prices of MK Ltd shares are provided to you:

Date	Fair value per share
31/12/2011	R10.10
31/12/2012	R15.60
31/12/2013	R14.80

7. Trademarks consist of the following balances on 1 January 2013:

	Trademarks		
	CAT	JAG	Total
	R	R	R
Cost price	750 000	800 000	1 550 000
Accumulated amortisation	(112 500)	(100 000)	(212 500)
Accumulated impairment	(8 000)		(8 000)
	629 500	700 000	1 329 500

- VE (Pty) Ltd purchased the CAT trademark on 30 June 2011. The purchase contract stipulates that the period will be limited to 10 years. On 31 December 2013, it was reliably determined that the recoverable amount of the trademark is R500 000.
- The JAG trademark was purchased on 1 January 2012 and it was determined at the time that the useful life would be limited to the 8 years of the contract. On 30 December 2013, the directors of VE (Pty) Ltd successfully negotiated the extension of the use of the trademark for an additional 3 years on the original contract.
- The TAF trademark was purchased on 31 October 2013 for R900 000 with an estimated useful life of 6 years and has not yet been accounted for.

Trademarks are amortised on a straight line basis over the useful life thereof. No residual values are accounted for.

No transactions relating to trademarks have been accounted for yet in 2013.

8. On 31 December 2013, the directors declared a dividend of 50c per ordinary share. No entries have been recorded for this transaction yet.

### Required:

After accounting for the additional information:

- a) Disclose the *Intangible assets note* to the statement of financial position of VE (Pty) Ltd at 31 December 2013 (total column not required); (15)
- b) Present only the *Non-current assets* section of the statement of financial position of VE (Pty) Ltd at 31 December 2013 (i.e. notes are not required); (17)
- c) Disclose the *Long term borrowings* note to the statement of financial position of VE (Pty) Ltd at 31 December 2013; and (19)
- d) Calculate the *earnings per share* of VE (Pty) Ltd for the reporting period ended 31 December 2013 if the *Profit before tax* is **R23 930 000**. Assume that all adjustments have already been accounted for correctly (i.e. start your EPS calculation with this correct figure provided). (9)

### Note:

- Comparative figures are not required.
- Ignore VAT.
- Show all calculations clearly.
- Where applicable, round off amounts to the nearest Rand.