



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting
Financial Accounting 2B
FAC22B2

Last Assessment Opportunity

1 November 2014

Time: 3 hours

Marks: 100

Assessors: Mr N Ebrahim Mr M Karodia Mr K Morake Dr N Rhodes

Moderator: Mr L Khumalo (Internal)

INSTRUCTIONS:

- This paper consists of 12 pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly.
- Start each question on a new answer sheet / book.
- Silent, non-programmable calculators may be used.
- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.

Question	Topic	Marks	Time
1	Pastel	15	27 minutes
2	Property, Plant and Equipment	15	27 minutes
3	Impairments	15	27 minutes
4	Provisions	15	27 minutes
5	Events after the end of reporting period	10	18 minutes
6	Basic Financial Instruments	15	27 minutes
7	Analysis and Interpretation of Financial Statements	15	27 minutes
		100	180 minutes

QUESTION 1

(15 marks)

Use the Pastel Printouts and Snap shots, to answer the following questions:

- 1.1 Use the Pastel Printout A and provide the journal entry to record the document. (3)
- 1.2 Which document would be used to return the goods in 1.1 (1)
- 1.3 The entity created a provision for warranty claims for R30 000, the accountant recorded the journal entry as in Snap Shot B, provide the **correcting** journal entry if any (2)
- 1.4 AB Limited has a material debtor of R50 000 whose financial position is uncertain at the end of the reporting period. The debtor is declared insolvent before the date of authorisation of the issue of the AFS.
The accountant did not process any journal, provide the journal if any.
Use the table below to record the journal (3)

	Account name	Account type in Pastel	Amount
DR			
CR			

- 1.5 Using Pastel Printout C and D provide and calculate the following ratios: (3)
- 1.5.1 Gross profit ratio as a percentage (3)
- 1.5.2 Current ratio (4.5)

Example of required journal layout:

Dr	Bank (50% x R20 469.12)	Account type	R10 234.56	
Cr	Accounts Receivable(50% x R20 469.12)	Account type		R10 234.56

Journal narrations are not required.**Show all workings next to account description. Work to two decimal places.****Use the format given for each journal.****Insert additional lines if necessary.****The account type is the one used in pastel evolution.****TOTAL 16.5 MAX 15**

PASTEL PRINTOUTS AND SNAP SHOTS**PRINTOUT A****Goods Received Voucher**

Page 1 of 1

Pastel Evolution Educational Version
 Softline Technology Park
 102 Western Services Road
 Gallo Manor Ext 6

Tax Registration
 Telephone **+27 11 304-3000**
 Fax **+27 11 304-3001**
 Delivery Method

To:
 COMPUTER CONNECTION
 COMPUTER CONNECTION

Account	Date	Order No	Supplier Invoice	Our Reference
COMPUTER CONNECTIO	2014/03/06			GRV0008


<u>Item Code</u>	<u>Item Description</u>	<u>Quantity</u> <u>Unit</u>	<u>Price (In)</u> <u>Disc %</u>	<u>Tax</u>	<u>Total (Incl)</u>
KB	Keyboards	10.00	399.00	490.00	3 990.00
Total (Excl)					3 500.00
Tax					490.00
Total (Incl)					3 990.00
Discount					0.00
Total (Incl)					3 990.00

Received by







Date

Signed

SNAP SHOT B

 JB016 (Journal Batch) -- Journal Batch*

Batch View Line Utilities

 Close
  Save
  Post Batch
  New Line
  Insert Line
  Delete Line

Batch Reference Number

Line	Date	Per...	Account	Account Name	Ref...	Description	Debit	Credit	Tax...
1	2014/08/31	41	4875	Warranty repairs	JNL 16	Creation of warranty provision		30 000.00	
2	2014/08/31	41	9150	Provision for Warranty Repairs	JNL 16a	Creation of warranty provision	30 000.00		
3	2014/08/	41	<input type="text" value="Select a General Ledger ..."/>						<input type="text" value=""/>

PASTEL PRINTOUT C**Trial Balance****Pastel Evolution -- Student No. 802038772: Dr Rhodes****For: August 2014**

Trial Balance

Page 1 of 2

<u>Account</u>	<u>Account Type</u>	<u>Branch</u>	<u>Dept</u>	<u>Debits</u>	<u>Credits</u>	<u>PY Debits</u>	<u>PY Credits</u>
<u>Income Statement</u>							
Net Profit					80 709.48		
1000 (Sales)	Trading Income				994 697.72		
2000 (Cost of Goods Sold)	Trading Expense			761 870.56			
3100 (Interest Received)	Income				4 285.00		
4050 (Advertising)	Expense			2 631.58			
4150 (Bank Charges)	Expense			1 374.57			
4300 (Depreciation)	Expense			67 931.11			
4320 (Discount Allowed)	Expense			28 070.18			
4360 (Electricity & Water)	Expense			16 008.78			
4500 (Insurance)	Expense			2 631.58			
4520 (Interest Paid)	Expense			41 666.67			
4620 (Office Supplies)	Expense			1 052.63			
4660 (Printing & Stat.)	Expense			3 666.66			
4720 (Repairs & Maint.)	Expense			4 035.08			
4740 (Salaries & Wages)	Expense			144 000.00			
4780 (Subscriptions)	Expense			2 631.58			
4800 (Telephone)	Expense			1 491.22			
4880 (Loss on Exchange)	Expense			630.00			
				1 079 692.20	1 079 692.20		

Balance Sheet

Net Profit			80 709.48		
5110 (Share Capital Class A)	Capital			800 000.00	
5120 (Share Capital Class B)	Capital			100 000.00	
5200 (Accumulated Profit)	Accumulated Profit			4 077 472.33	
5400 (Loans Payable)	Long Term Liability			1 000 000.00	
5420 (Long term liability:	Long Term Liability			171 000.00	
6000>010 (Buildings>Acc.	Fixed Asset			90 789.33	

QUESTION 2**(15 marks)**

The following information appeared in the books of Candy Crush Ltd. Candy Crush is a registered Vat Vendor. Candy Crush Ltd financial year ended 31 December 2013.

ASSET REGISTER

	<u>Machine</u>	<u>Computer Equipment</u>	<u>Furniture</u>
<u>Asset type code</u>	MC	PC	FU
<u>Description</u>	Machinery	Computers	Furniture and fittings
<u>Depreciation ledger accounts</u>	Acc Dep: 6500>010 Dep: 4300	Acc Dep: 6100>010 Dep: 4300	Acc Dep: 6200>010 Dep: 4300
<u>Depreciation methods: Book and Tax</u>	Straight line 5 years	Straight Line 6 years	Straight line 6years
<u>FA ledger account</u>	6500>020	6100>020	6200>020

<u>ASSET</u>	<u>CODE</u>	<u>NO OF UNITS</u>	<u>PURCHASE DATE</u>	<u>PRICE PER UNIT</u>	<u>TOTAL PRICE</u>
Machine A	MC001	1	1/1/2012	R500 000	R500 000
Machine B	MC002	1	31/5/2013	?	?
Tables	FU001	20	1/1/2012	R2000 each	R40 000
Chairs	FU002	40	1/1/2012	R300 each	R12 000
Filing Cabinet	FU003	10	1/1/2012	R900 each	R9 000
PC	PC001	4	1/1/2012	R6 000 each	R24 000
Printers	PC002	4	1/1/2012	R1 200 each	R4 800
Copier	PC003	2	1/1/2012	R9 000 each	R18 000

Additional information:

- Machine A was sold on the 31 March 2013 for R547 200 incl Vat for cash.
- Machine B:
 - Purchase Price = R600000 excl Vat
 - Transport costs = R20 000 excl Vat
 - Assembly costs = R10 000 excl Vat
 - The machine was brought into use on the 31st July 2013
- The impairment loss on Machine B is R7500 on the 31st December 2013

REQUIRED:

- 2.1 Disclose the plant, property and equipment in the notes to the financial statement of Candy Crush Limited for the reporting period ended 31 December 2013.

(15)

Show all calculations clearly. Accounting policies notes are NOT required.
The total column for the reconciliation note is not required.

QUESTION 3**(15 marks)**

Deli-cream Limited and RB Engineering CC designed an innovative ice-cream production plant. The automated process control unit was imported from Italy at a cost of €110 000 on a FOB shipping point contract on 15 December 2013.

The cooling unit was imported from Switzerland on a FOB destination (CIF) basis at a cost of €50 500. The cooling unit was ordered on 20 December 2013. It arrived at Durban harbour on 15 January 2014 and at the warehouse in Soweto on 18 January 2014.

The remaining parts of the plant were sourced in RSA at a cost of R 1 402 200 including VAT. Transport costs amounted to R330 600 including VAT, Clearing agent fees R35 000 excluding VAT. Additional costs needed to get the ice-cream production plant ready for use were as follows:

1	Assembly costs excluding VAT	R120 000
2	Reinforced flooring excluding VAT	R550 000
3	Payment to RB Engineering CC for design and testing excluding VAT	R230 000
4	Financing of production plant was arranged at 12% per annum. The first interest instalment was due on 1 April. The principle amount was R3 000 000 and the financing agreement commenced on 1 January 2014.	

Additional information:

1. Exchange rates over the period:

Date	R1=€
15 December 2013	15.00
20 December 2013	13.50
15 January 2014	20.00
18 January 2014	18.00

2. The ice-cream production plant was ready for use on 1 April 2014.
3. The ice-cream production plant is expected to have a R414 000 residual value and an estimated useful life of 10 years.
4. The year end of the company is 30 June 2014.
5. At this date the value in use was R4 480 000 and the fair value less costs to sell was R4 890 000.

REQUIRED:

Calculate the impairment loss of Deli-cream Limited for the reporting period ending 30 June 2014.
Show all calculations

(15)

QUESTION 4**(15 marks)**

AB Limited sells electronic transformers and the sales director advised that a provision for warranty repairs be raised in the previous financial year end at an estimate of 20% of sales which created a provision of R350 000. The provision for the current year ended, 30 June 2014, was to be raised to a closing balance of R850 000. During the year R520 000 was utilized for the repairs of returned electronic transformers.

REQUIRED:

- 4.1 What are the recognition criteria for provisions as per Section 21 in IFRS for SMEs? (5)
- 4.2 Provide the journal entry required to raise the closing balance of the provision account to R850 000. (4)
- 4.3 Complete the provision note to the Statement of Financial Position at 30 June 2014 as set out below. The accounting policy note is not required. (6)

Note 20: Provisions	2014 R	2013 R
At the beginning of the year		
Addition		
Utilised during the year		
At the end of the year		

Example of required journal layout:

Dr	Bank (50% x R20 469.12)	SFP	R10 234.56	
Cr	Accounts Receivable(50%x R20 469.12)	SFP		R10 234.56

Journal narrations are not required.

Show all workings next to account description. Work to two decimal places.

Use the format given for each journal.

Insert additional lines if necessary.

Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position

SCI = Statement of comprehensive income

P/L = Statement of profit and loss

SoCE = Statement of changes in equity

(15)

QUESTION 5**(10 marks)**

Gauteng Complex Developers has a 31 December 2013 financial year end. On 17 February 2014 one of the company's customers was declared bankrupt. At 31 December 2013 this client owed Gauteng Complex Developers R1 700 000. The customer has been in financial difficulty for most of the past year. Liquidators have suggested that no payments would be forthcoming. The management of the entity has not yet authorised the issue of the financials to the public.

REQUIRED:

- 5.1 Define an event after the end of a reporting period. (3)
 - 5.2 Discuss the difference in treatment between an **adjusting event** and **non-adjusting event** with regards to accounting records and disclosure in the AFS. (4)
 - 5.3 With regards to the above matter that came to the director's attention. Discuss whether the above matter is an adjusting or non - adjusting event. Give reasons for your answer (3)
- (10)**
-

QUESTION 6**(15 Marks)**

Profitable Investments (Pty) Ltd is an investment company that purchases shares and invests in listed as well as unlisted companies. The financial year for the current year ends on the 31 December 2013. The following transactions took place during the current year

Transaction 1

On the 31 March 2013, Profitable Investments (Pty) Ltd purchased shares in Way – to – Go (Pty) Ltd and paid in cash. The details of the transaction were as follows

- Transaction Date : 31 March 2013
- No. of Shares : 100 000
- Price per Share : R 160 per share
- Transaction fee excl. VAT : 8 % of total purchase

Transaction 2

On the 31 January 2013, Profitable Investments (Pty) Ltd purchased 125 000 shares in Growing Ltd. Transaction cost amounted to R 11 400 incl. VAT. The share are to be valued and fair value through profit and loss. The investment was paid in cash. The price per share during the year was as follows:

- 31 January 2013 : R 10.55
- 30 December 2013 : R 9.23
- 31 December 2013 : R 11.33

Note: Profitable Investments (Pty) Ltd is registered for VAT. Ignore VAT on the purchase of shares only

REQUIRED:

- 6.1 Please provide a definition of a financial instrument. (2)
- 6.2 Give 2 (two) examples of **either** a financial asset or a financial liability (2)
- 6.3 With regards to **transaction 1** and **transaction 2** provide the necessary journals for the above entries. (11)

Example of required journal layout:

Dr	Bank (50% x R20 469.12)	SFP	R10 234.56	
Cr	Accounts Receivable(50%x R20 469.12)	SFP		R10 234.56

Journal narrations are not required.

Show all workings next to account description. Work to two decimal places.

Use the format given for each journal.

Insert additional lines if necessary.

Please use the following abbreviated classifications next to each account name in your journal entries

SFP = Statement of financial position

SCI = Statement of comprehensive income

P/L = Statement of profit and loss

SoCE = Statement of changes in equity

QUESTION 7**(15 marks)****PART A: TRUE OR FALSE**

1. Financial ratios are meaningless unless they are compared to a company standard, or historical or industry data. (1)
2. The liquidity ratios measure how quickly a firm can dispose of inventory. (1)
3. Firms with P/E ratios higher than the overall market ratio are expected to provide greater than normal returns with equal or less risk. (1)
4. Return on assets can be stated as equals to: net income/sales x sales/total assets. (1)
5. The primary emphasis of the profitability ratios is a determination of the firm's ability to pay off short-term obligations as they come due. (1)

PART B: MULTIPLE CHOICE QUESTIONS

6. The major device for measuring the profitability of a firm over a defined period of time is the
A) income statement.
B) balance sheet.
C) statement of cash flow.
D) none of the above. (1)
7. The _____ does not represent continuing operations in any way, but is simply a snapshot of the total worth of a firm at a given point in time.
A) income statement
B) balance sheet
C) sources and uses of funds statement
D) none of the above (1)
8. _____ ratios measure the ability of a firm to earn an adequate return on sales, total assets and invested capital.
A) Asset utilization
B) Liquidity
C) Profitability
D) Debt utilization (1)
9. The method of calculating return on assets which highlights the importance of sales, profit margin and asset turnover is known as
A) the sales method
B) DuPont analysis
C) the Altman model
D) the Gordon model (1)

QUESTION 7 continued

10. The primary purpose of the liquidity ratios is to determine
- A) how much working capital is tied up in inventory.
 - B) the relative level of short-term debt.
 - C) how well a firm is able to pay off short-term obligations.
 - D) more than one of the above.

(1)

PART C: CALCULATE:

- 1. Return on assets as a percentage and
- 2. Return on equity as a percentage

Given the following financial data:

- i) Total Equity of R860 00
- ii) Total Assets of R1 134 000
- iii) Profit after Tax of R400 000

(5)

Provide a formula for each type of ratio calculation.

(15)

TOTAL MARKS [100]