UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

Financial Accounting 3A

SUBJECT CODE: FAC33A3/FAC3AA3

Final Assessment Opportunity 2016

Date: June 2016

Time: 180 minutes **Marks: 100**

Assessors: S Adam
L Khumalo
L Mphalele

Internal Moderator: T Mahmood
External Moderator: M Mpetshwa

INSTRUCTIONS:
This paper consists of 11 pages (including the cover page).
Answer all questions. **Show all calculations and workings clearly.**
Start each question on a new page in your answer book.
Silent, non-programmable calculators may be used.
Where applicable, round all calculations to the nearest Rand.

Question	Topic	Marks	Time
1	Theory	16	29 minutes
2	Leases	15	27 minutes
3	Property, Plant and Equipment	28	50 minutes
4	Financial Instruments	18	33 minutes
5	Intangible Assets	14	25 minutes
6	Borrowing costs	9	16 minutes
		100	**180 minutes**

Question 1 **(16 marks)**

Part A

1.1 When can an entity commence with capitalisation of borrowing costs?
   A. borrowing costs are being incurred
   B. activities are under way to prepare the asset for its intended use or sale;
   C. expenditure is being incurred by the entity in preparing the asset; and
   D .All of the above

1.2 Which of the following assets are excluded from the definition of PPE
   A. Inventory, Equipment and Land
   B. Building, Investment property and Machinery
   C. Investment property and Inventory
   D. None of the above

1.3 Which of the below costs will not be included when calculating the acquisition cost of an asset?
   A. transports costs, delivery costs and handling costs
   B. Promotional, advertising and launching costs
   C. Legal fees, brokerage fees and professional fees
   D. None of the above

1.4 The following is/are external indicators of impairment:
   A. Evidence that the use of the asset will result in higher benefits,
   B. Significant technological changes have occurred,
   C. The carrying amount of net assets of entity (NAV) is more than the fair value of entity as a whole,
   D. All of the above

1.5 A lease could be classified as:
   A. A finance lease by the lessor and the lessee.
   B. An operating lease by the lessor and the lessee.
   C. All of above
   D. None of the above..

1.6 On 1 January 2010 an entity entered, as lessee, into a ten-year non-cancellable operating lease of a building. In accordance with the lease no amount is payable for the first five years of the lease. The lease payments for years ending 31 December 2015–2019 are R5,000 per year, payable in arrears (ie payable on 31 December each year).In determining profit or loss for the year ended 31 December 2010, the lessee would recognise:
   A. R2, 500
   B. Nil.
   C. R5, 000.

D. R25, 000

1.7 Khumalo ltd operates an airport. The entity's only item of property, plant and Equipment at the moment is an aircraft that it acquired for R10, 400,000. The cost of the aircraft is attributed to its significant parts as follows: the engine (60%), body (20%) and aviation equipment (10%) and furniture and fittings (10%). The aircraft must be inspected every three years. An inspection costs R400, 000 already included in the original cost of the aircraft.
How would the entity initially recognise the cost in the general ledger?

A. R6, 240,000 jet engine, R2, 080,000 body, R1, 040,000 aviation equipment and R1, 040,000 furniture and fittings.
B.R10, 400,000 aircraft.
C.R6, 000,000 engine, R3, 000,000 body and equipment, R1, 000,000 furniture and fittings and R400, 000 inspection.

<u>PART B</u>

An entity purchases, for one combined payment, an existing building and the remaining 80-year interest in a 100-year right to use the land on which the building sits (freehold ownership of land is not possible in that jurisdiction). The building is occupied by the entity's administrative staff.
1.How would the company initially recognise the building and the right to use the land in its books? (4)

2. Identify all the qualitative characteristics of information in financial information (5)

Question 2 **(15 marks)**

On 1 March 2015 Twenty (Pty) Ltd entered, as lessee, into a lease to acquire a motor vehicle. The fair value (selling price) of the car is R23 010 and Twenty (Pty) Ltd incurred R990 legal expenses related to the contract.
The lease term is 36 months and the interest rate implicit in the lease is 0.75 per cent per month. At the end of the lease term the ownership of the motor vehicle is automatically transferred to the lessee. At the time of entering into the lease, it was reasonably certain that Twenty (Pty) Ltd would acquire the leased motor vehicle at the end of the lease.
The lease schedule appended to the lease agreement is set out below.
The useful life of the motor vehicle is four years with nil residual value. Twenty (Pty) Ltd depreciates motor vehicles on the straight-line basis.

Lease schedule

Period	Date	Interest	Principal	Total	Balance to be paid
1	31-03-2015	180.00	583.19	763.19	23,416.81
2	30-04-2015	175.63	587.57	763.19	22,829.24
3	30-05-2015	171.22	591.97	763.19	22,237.26
4	30-06-2015	166.78	596.41	763.19	21,640.85
5	31-07-2015	162.31	600.89	763.19	21,039.96
6	31-08-2015	157.80	605.39	763.19	20,434.57
7	30-09-2015	153.26	609.93	763.19	19,824.64
8	31-10-2015	148.68	614.51	763.19	19,210.13
9	30-11-2015	144.08	619.12	763.19	18,591.01
10	31-12-2015	139.43	623.76	763.19	17,967.25
11	31-01-2016	134.75	628.44	763.19	17,338.81
12	28-02-2016	130.04	633.15	763.19	16,705.66
13	31-03-2016	125.29	637.90	763.19	16,067.75
14	30-04-2016	120.51	642.69	763.19	15,425.07
15	31-05-2016	115.69	647.51	763.19	14,777.56
16	30-06-2016	110.83	652.36	763.19	14,125.20
17	31-07-2016	105.94	657.25	763.19	13,467.95
18	31-08-2016	101.01	662.18	763.19	12,805.76
19	30-09-2016	96.04	667.15	763.19	12,138.61
20	31-10-2016	91.04	672.15	763.19	11,466.46
21	30-11-2016	86.00	677.20	763.19	10,789.26
22	31-12-2016	80.92	682.27	763.19	10,106.99
23	31-01-2017	75.80	687.39	763.19	9,419.60
24	28-02-2017	70.65	692.55	763.19	8,727.05
25	31-03-2017	65.45	697.74	763.19	8,029.31
26	30-04-2017	60.22	702.97	763.19	7,326.34
27	31-05-2017	54.95	708.25	763.19	6,618.09
28	30-06-2017	49.64	713.56	763.19	5,904.53
29	31-07-2017	44.28	718.91	763.19	5,185.62

30	30-08-2017	38.89	724.30	763.19	4,461.32
31	31-09-2017	33.46	729.73	763.19	3,731.59
32	31-10-2017	27.99	735.21	763.19	2,996.38
33	30-11-2017	22.47	740.72	763.19	2,255.66
34	31-12-2017	16.92	746.28	763.19	1,509.39
35	31-01-2018	11.32	751.87	763.19	757.51
36	28-02-2018	5.68	757.51	763.19	0.00

REQUIRED:

Disclose the lease in the financial statements of Twenty (Pty) Ltd for the reporting period ended 31 December 2015. (15)

Accounting policy and Property, Plant and Equipment notes are **NOT** required. Comparatives are not required.

Question 3 **(28 Marks)**

Tamati Logistics (Pty) Ltd is in the business of transporting fresh produce. Their financial year end is on 30 June.

The balances on 30 June 2015 for property, plant and equipment were as follows:

	Land **R**	**Warehouses** **R**	**Vehicles** **R**	**Fridges** **R**
Cost	30 000 000	20 400 000	15 000 000	3 000 000
Accumulated depreciation	-	2 400 000	6 000 000	1 500 000
Carrying amount	30 000 000	18 000 000	9 000 000	1 500 000

Additional information:

1. Land

- The company uses the cost model to measure their land.
- In June 2016 the value in use of the land was R24 500 000.
- The fair value less costs to sell was R23 000 000.

2. Warehouses

- During the current financial year a major refurbishment of warehouses was undertaken. The warehouses were not available for use for two months while the refurbishment was taking place.
- The refurbishment took place in November and December 2015 and the total cost came to R6 000 000. It was available for use on 1 January 2016.
- Warehouses are depreciated at 4% per annum on the straight-line method to a zero residual value.

3. Vehicles

- Vehicles are depreciated at 20% per annum on the straight-line method to a zero residual value.
- Two trucks which were both acquired on 1 November 2013 for R500 000 each were disposed of on 30 April 2016.
- The trucks were sold together for R600 000 in total.

- You may assume that depreciation for vehicles was correctly calculated as R2 633 333 for the year ended 30 June 2016

4. Fridges

- Fridges to the value of R500 000 were purchased on 1 April 2016.
- Fridges are depreciated at 10% per annum on the diminishing balance method.

REQUIRED:

3.1 Prepare all the journal entries related to the "Land" and the "Vehicles" for Tamati Logistics (Pty) Ltd for the period ending 30 June 2016 (11)

Journal narrations are not required.

3.2 Prepare the property, plant and equipment note to the financial statements of Tamati Logistics (Pty) Ltd for the year ended 30 June 2016. Comparative figures are not required. (17)

Ignore all tax implications.

Accounting policy note not required.

[28]

Question 4 **(18 marks)**

Black Collar (Pty) Ltd is in the business of manufacturing suits. The company is performing very well and has a reporting date of 31 March 2016.

The following transactions took place for the reporting period ended 31 March 2016:

Investment in shares – Neil Ltd
The company had surplus cash on hand and decided to invest in Neil Ltd. They purchased 1 000 shares of Neil Ltd (a listed company) on 1 January 2016. At the date of purchase the shares traded at R150 per share. In addition Black Collar (Pty) Ltd incurred R5 700 (including VAT) as brokerage fees. At year end the shares traded at R205 per share.
The investment is classified at fair value with fair value adjustments in profit or loss.

Share capital
Black Collar (Pty) Ltd issued 50 000 Class A shares at R15 per share on the 1st January 2016. On the 1 March 2016 Black Collar (Pty) Ltd had a capitalisation issue of 1 share for every 5 shares held at R20 each. The shares were issued on the same day. On the 31 March 2016 Black Collar (Pty) Ltd declared and paid a dividend of R1 per share. The opening balance of retained earnings on the 1 April 2015 is R1350 000. The balance of share capital on the 31 March 2015 is R 800 000. (80 000 shares issued at R10 each) The total comprehensive income for the reporting period ended 31 March 2016 is R500 000.

REQUIRED:

4.1 Prepare the journal entries for the Investment in Neil Ltd for the reporting period ended 31 March 2016. (8)

4.2 Prepare the statement of changes in equity for the reporting period ended 31 March 2016. (10)

Question 5 **(14 marks)**

On 1 January 2011 Khumalo Ltd acquired a patent for R250, 000. At 31 December 2011 management assessed the patent's useful life at 15 years from the date of acquisition. Management assessed that the entity will consume the patent's future economic benefits evenly over the 15 years from the date of acquisition and completed a survey and is probable the patent can be bought for R35 000 at the end of the 15 years.

On the 31 December 2015 the company realised that the assessment of the useful life of the patent from acquisition was wrong, it was supposed to be 11 years. The active market for the patent is no longer probable but possible at the end of the patent's useful life. The recoverable amount of the patent on 31 December 2015 is R130 000.

REQUIRED:

5.1 When will an entity assume the residual value of an intangible asset not to be zero? (4)

5.2 How much will the patent be disclosed at on the face of the Statement of financial position on 31 December 2014 and 2015? (10)

Question 6 **(9 marks)**

Siyakha (Pty) Ltd (Siyakha) is a medium-sized entity. Siyakha has public accountability, therefore the directors apply full International Financial Reporting Standards (IFRS) in the preparation of its financial statements. A building project commenced in the reporting period ended 28 February 2014. The building to be erected meets the definition of a qualifying asset.

The construction was financed as follows:

Commencement of project	1 March 2015
12% Loan from eJozi Bank taken out for the project from 1 March 2015	R800 000
Interest on loan repayable in arrears on 1 March annually	
Project completed	31 December 2015
Loan repayable	1 March 2017
Interest received in cash on surplus funds invested during construction period	R17 500
Expenditure – 30 June 2015	R650 000
Expenditure – 30 November 2015	R400 000

The overdraft facility was used for additional funds required at a rate of 13% per annum.

The following journal entries had already been passed in relation to the project:

DR	Building	900 000
CR	Bank	900 000
Expenditure on building		
DR	Finance costs	104 125
CR	Loan from eJozi Bank	104 125
Interest on loan from eJozi		
DR	Bank	17 500
CR	Interest income	17 500
Investment income earned		

REQUIRED:

Prepare any remaining journal entry/ies to be processed in the records of Siyakha (Pty) Ltd for the reporting period ended 28 February 2016. Show all workings.

Journal narrations are not required.
Ignore all tax implications.

Total: 100

PRESENT VALUE TABLE

PRESENT VALUE OF R1

PERIOD	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0,952	0,943	0,935	0,926	0,917	0,909	0,901	0,893	0,885	0,877	0,870
2	0,907	0,890	0,873	0,857	0,842	0,826	0,812	0,797	0,783	0,769	0,756
3	0,864	0,840	0,816	0,794	0,772	0,751	0,731	0,712	0,693	0,675	0,658
4	0,823	0,792	0,763	0,735	0,708	0,683	0,659	0,636	0,613	0,592	0,572
5	0,784	0,747	0,713	0,681	0,650	0,621	0,593	0,567	0,543	0,519	0,497
6	0,746	0,705	0,666	0,630	0,596	0,564	0,535	0,507	0,480	0,456	0,432
7	0,711	0,665	0,623	0,583	0,547	0,513	0,482	0,452	0,425	0,400	0,376
8	0,677	0,627	0,582	0,540	0,502	0,467	0,434	0,404	0,376	0,351	0,327
9	0,645	0,592	0,544	0,500	0,460	0,424	0,391	0,361	0,333	0,308	0,284
10	0,614	0,558	0,508	0,463	0,422	0,386	0,352	0,322	0,295	0,270	0,247