



UNIVERSITY
OF
JOHANNESBURG

PROGRAM : NATIONAL DIPLOMA
BUILDING

SUBJECT : CONSTRUCTION ACCOUNTING 3

CODE : CONA331

DATE : SUMMER SSA EXAMINATION
9 JANUARY 2017

DURATION : (X-PAPER) 08:00 - 11:00

WEIGHT : 50 : 50

TOTAL MARKS : 100

EXAMINER : MR J. DE BEER

MODERATOR : MR K. DALY

NUMBER OF PAGES : 9 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 SCRIPTS PER STUDENT.

QUESTION 1

The elements directly related to the financial position in the statement of financial position are assets, liabilities and equity, and the elements directly related to the measurement of performance in the statement of profit or loss comprise income and expenses.

REQUIRED

Explain each of the following :

- 1.1 Assets ;
- 1.2 Liabilities ;
- 1.3 Equity ;
- 1.4 Income ;
- 1.5 Accrued revenue ;
- 1.6 Income received in advance ;
- 1.7 Expenses ;
- 1.8 Accrued expenses ;
- 1.9 Prepaid expenses ;
- 1.10 VAT output tax ;
- 1.11 VAT input tax.

[19]

QUESTION 2

On 1 December 2016 Mr. Cement, a civil engineer, started his own business, **Cementation Consulting Services**. The enterprise entered into the following transactions during December 2016 :

<u>Transaction</u>	<u>Details</u>
2.1	Mr. Cement deposited R95 000 into the firm's CAPITEC bank account as start-up capital.
2.2	Purchased furniture on credit from ELLERINES for R65 000 repayable in 24 monthly instalments over 2 years.
2.3	Purchased stationery consumables (paper, ink etc.) from WALTONS to the value of R5 800 on credit.
2.4	Sent an account for R54 000 to LTA relating to services rendered.
2.5	Paid R1 400 for an advertisement placed in THE STAR newspaper.
2.6	Paid WALTONS on account, R2 900 (refer 2.3 above).
2.7	Paid staff salaries, R15 500.
2.8	Paid an instalment of R3 580 to ELLERINES (refer 2.2 above).
2.9	Paid rent, R4 550.
2.10	Received R29 000 on account from LTA via internet banking transfer (refer 2.4 above).

REQUIRED

Show the journal entries (including cash transactions) relating to the above for December 2016 in the books of **Cementation Consulting Services**. Ignore VAT.

[10]

QUESTION 3

Construct Ltd commenced with contract B52 on 15/01/2016.

The total contract price is R9 720 000, and total cost is estimated at R6 760 000.

The company uses the percentage of completion method, based on cost to date compared with total estimated cost, to recognise construction income.

On 31/12/2016 work certified on the contract amounted to R5 832 000, of which 10% should be regarded as retentions. At this date, a total of R4 860 000 had been received from the contract debtors (receivables).

The value of machinery and building materials on site at 31/12/2016 amounted to R1 693 000 and R95 000 respectively.

The following are the expenses incurred for the reporting period ended 31/12/2016.

	<u>R</u>
Machinery	2 385 000
Accounting fees	15 000
Building materials	3 452 000
Rent paid for administrative offices	63 000
Subcontractors	436 000
Telephone and postage	14 000
Quantity surveying fees	72 000
Salaries for administrative staff	598 000
Hiring of equipment	27 000
Bank charges	6 000
Wages for site workers	486 000
Interest on bank overdraft	<u>12 000</u>

REQUIRED

Calculate the profit taken / recognised on contract B52 for the reporting period ended 31/12/2016.

[10]

QUESTION 4

The following balances for 31 December 2016 were taken from the books of **Aggri Ltd** an entity that manufactures poultry cages :

	<u>Notes</u>	<u>R'000</u>
Machinery and equipment at net carrying amount - 31/12/2015	(1)	37 400
Vehicles at net carrying amount - 31/12/2015	(2)	<u>9 240</u>

Additional information / notes :

- (1) Machinery and equipment were purchased on 1 April 2015. Depreciation is provided for at 20% per annum on the reducing balance method.
- (2) The vehicles were purchased on 1 July 2014. Depreciation is provided for at 20% per annum on the straight-line method.

REQUIRED

Prepare the plant and equipment note to the statement of financial position of **Aggri Ltd** for the reporting period ended 31 December 2016. Comparative figures are not required.

[14]

QUESTION 5

The following information relates to **QS (Pty) Ltd** :

		October 2016 Actual <u>R</u>	November 2016 Actual <u>R</u>	December 2016 Estimated <u>R</u>
Trade receivables / debtors for sales	<u>Note</u> (1)	-	5 190 480	-
Cash at bank	-	-	145 800	-
Trade payables / creditors for purchases	(2)	-	1 656 000	-
VAT owing	(3)	-	210 600	-
Overhead expenses owing	(4)	-	503 200	-
Sales (10% for cash ; 90% on credit)	(1)	-	4 212 000	5 022 000
Purchases (20% for cash ;80% on credit)	(2)	-	-	2 268 000
Salaries	(5)	-	-	1 656 000

Additional information / notes :

- (1) Credit sales are collected as follows : 60% in the month following the month of sale ; 38% in the 2nd month following the month of sale ; 2% is estimated to be written off as irrecoverable in the 3rd month following the month of sale.
- (2) Credit purchases are paid in the month following the month in which the purchases were made subject to a 2.5% settlement discount.
- (3) VAT owing is payable on the 25th of the month following the month in which the liability was incurred.
- (4) Overhead expenses are paid in the month following the month in which they are incurred.
- (5) Salaries are paid on the last day of each month.

REQUIRED

Prepare a cash budget for **December 2016**.

[16]

QUESTION 6

The following appeared in the financial statements of **Superior Ltd** (a listed company) for the reporting period ended 31 December 2016 :

<u>Assets</u>	<u>R'000</u>
Non-current assets : Property, plant and equipment	59 599
Current assets	27 201
Inventory	13 543
Trade receivables (trade debtors)	13 658
Total assets	86 800
<u>Equity and liabilities</u>	<u>R'000</u>
Total equity	60 233
Ordinary share capital (1 800 000 shares)	20 625
11% preference share capital	9 400
Retained earnings	24 203
Revenue (cash sales represents 15% of total sales)	135 101
Cost of sales	(94 700)
Gross profit	40 401
Distribution, administrative and other expenses	(23 066)
Finance cost	(2 056)
Profit before tax	15 279
Income tax expense	(4 430)
Profit for the year	10 849
Preference dividends (paid on 31 December)	(1 240)
Ordinary dividends (paid on 31 December)	(4 950)
Balance at beginning of year	19 544
Non-current liabilities : Long-term borrowings	11 442
Current liabilities	15 125
Trade payables (trade creditors)	12 674
Other payables	971
Bank overdraft	1 480
Total equity and liabilities	86 800

QUESTION 6 (continued)**Additional information**

On 31 December 2016 **Superior Ltd's** ordinary shares traded at **3078 cents** per share on the JSE.

REQUIRED

Calculate the following for 2016 :

- 6.1 Current ratio.
- 6.2 Acid test ("Quick") ratio.
- 6.3 Trade receivables / debtors collection period (in "**days**" based on **365** days).
- 6.4 Inventory / stock turnover ratio (based on **closing inventory**).
- 6.5 Inventory / stock holding period (in "**days**" based on **closing inventory**).
- 6.6 Trade payables / creditors settlement (payment) period (in "**days**" based on **cost of sales** and **365** days).
- 6.7 Mark-up percentage on cost.
- 6.8 Gross profit margin.
- 6.9 Net profit margin.
- 6.10 Basic earnings per ordinary share.
- 6.11 Earnings yield (based on **market value**).
- 6.12 Price-earnings ratio.
- 6.13 Ordinary dividend per share.
- 6.14 Ordinary dividend yield (based on **market value**).
- 6.15 Ordinary dividend cover.
- 6.16 Return on total equity.
- 6.17 Net asset value (based on statement of financial position figures).
- 6.18 Net asset turnover (revenue to net assets).
- 6.19 Debt equity ratio.

[19]

QUESTION 7

Lever Ltd has the following budgeted information :

- Fixed costs (FC) of R2 074 000 ;
- Variable costs (VC) of R77 per unit ;
- Selling price (SP) of R184 per unit ;
- Interest expense of R466 000.

Required

Determine the following for **Lever Ltd** based on an expected minimum demand of 44 000 units :

- 7.1 The break-even units.
- 7.2 Earnings / profit before interest expense and tax (EBIT).
- 7.3 Net income / profit before tax.
- 7.4 Degree of operating leverage (DOL).
- 7.5 Degree of financial leverage (DFL).
- 7.6 Degree of combined / total leverage (DCL).

[12]

TOTAL MARKS : 100