



**PROGRAM** : NATIONAL DIPLOMA  
BUILDING

**SUBJECT** : **CONSTRUCTION ACCOUNTING 3**

**CODE** : **CONA331**

**DATE** : SUMMER EXAMINATION  
20 NOVEMBER 2017

**DURATION** : (X-PAPER) 08:30 - 11:30

**WEIGHT** : 50 : 50

**TOTAL MARKS** : 100

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**EXAMINER** : MR J. DE BEER

**MODERATOR** : MR K. DALY

**NUMBER OF PAGES** : 9 PAGES INCLUDING THE COVER PAGE

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**INSTRUCTIONS** : STUDENTS MAY RETAIN THE QUESTION PAPER.  
ANY SILENT CALCULATOR MAY BE USED.  
ANSWER ALL THE QUESTIONS.

**REQUIREMENTS** : 2 EXAMINATION SCRIPTS PER STUDENT.

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**QUESTION 1****PART A**

The following relate to Brand Trading Ltd for the reporting period ended 31 December 2016.

- 1.1 A company owing Brand Trading Ltd R65 000 relating to 2016 was declared insolvent. In January 2017 it was decided to write off this amount as irrecoverable retrospectively.
- 1.2 Office premise rental for January 2017 amounting to R94 000 was paid in December 2016.
- 1.3 A cash sale of R155 000 was recorded in December 2016. The goods were only delivered in January 2017.
- 1.4 In January 2017 it was discovered that a credit sales invoice of R369 000 relating to December 2016 was not recorded in December 2016.

**REQUIRED**

The adjustment journal entries in the books of Brand Trading Ltd relating to (1.1, 1.2, 1.3, and 1.4 - ignoring VAT) for the reporting period ended 31 December 2016.

(8)

**PART B**

The following relate to Aggri Ltd a farming company, for its VAT-cycle ended 30/09/2017.

	<u>R</u>
<b>Taxable supplies made - subject to output VAT :</b>	
Revenue / sales (inclusive of VAT)	6 250 000
Zero-rated supplies included in revenue / sales	<u>2 930 000</u>
<b>Taxable supplies received - subject to input VAT :</b>	
Purchases (inclusive of VAT)	4 380 000
Zero-rated supplies included in purchases	1 760 000
Overhead expenses (inclusive of VAT)	1 380 000
Exempt supplies included in overhead expenses	110 000
Delivery vehicle acquired (inclusive of VAT)	<u>520 000</u>

**REQUIRED**

Determine the VAT (@14%) payable by / (refundable to) Aggri Ltd on 25/10/2017 relating to the VAT-cycle ended 30/09/2017.

(6)

3/...

**QUESTION 1 (continued)****PART C**

The following relate to Baron Ltd for the reporting period ended 31/12/2016.

31/12/2015	Gross carrying amount (cost price) : old machine	R789 360
31/12/2015	Accumulated depreciation : old machine	R552 552
01/05/2016	Proceeds on disposal : old machine	<u>R157 500</u>
	Depreciation rate : 20% p.a. straight line ignoring any future residual value.	

**REQUIRED**

Determine the profit / (loss) on disposal of the old machine sold by Baron Ltd  
for the reporting period ended 31/12/2016.

(6)  
[20]

**QUESTION 2****PART A**

Bulldozer Ltd commenced with contract C51 on 1 January 2016.

The total contract price is R6 480 000, and total cost is estimated at R4 860 000. The company uses the percentage of completion method, based on cost to date compared with total estimated cost, to recognise construction income.

On 31 December 2016 work certified on the contract amounted to R3 888 000, of which 10% should be regarded as retentions. At this date, a total of R3 240 000 had been received from the contract debtors (receivables).

The following are the expenses incurred for the year ended 31 December 2016.

	<u>R</u>
Machinery	1 600 000
Accounting fees	7 200
Building materials	2 320 400
Rent paid for administrative offices	41 400
Subcontractors	291 600
Telephone and postage	9 000
Quantity surveying fees	48 600
Salaries for administrative staff	401 400
Hiring of equipment	16 200
Bank charges	3 600
Wages for site workers	324 000
Interest on bank overdraft	<u>7 200</u>

The value of machinery and building materials on site at 31 December 2016 amounted to R1 084 000 and R114 800 respectively.

**REQUIRED**

- 2.1 Calculate the profit taken (recognised) on contract C51 for the reporting period ended 31 December 2016.
- 2.2 Show construction account C51 in the general ledger of Bulldozer Ltd for the reporting period ended 31 December 2016.

(9)

(6)

{15}

**QUESTION 2 (continued)****PART B**

The following information was obtained from the accounting records of **Chrome Ltd** for the reporting period ended 31 December 2016.

<u>Details</u>	<u>R'000</u>
Revenue	144 000
Ordinary dividends paid	1 800
Cost of sales	93 600
Retained earnings (31 December 2015)	20 466
Other income	270
Property, plant and equipment (net carrying amount)	43 675
Distribution costs	5 400
Long term borrowings	14 760
Administrative expenses	23 400
Inventory (31 December 2016)	12 870
Other expenses	9 000
Trade and other payables	9 720
Finance costs	2 214
Trade and other receivables	14 040
Income tax expense	3 197
Bank overdraft	1 980
Share capital	18 000

**REQUIRED**

Prepare the following for the reporting period ended 31 December 2016.

- |     |   |             |
|-----|---|-------------|
| 2.3 | Statement of profit or loss.                            | (6)         |
| 2.4 | Statement of changes in equity.                         | (3)         |
| 2.5 | Statement of financial position as at 31 December 2016. | (6)         |
|     |   | {15}        |
|     |   | <b>[30]</b> |

**QUESTION 3****PART A**

An investor considers making the following investments :

- 3.1 Invest a R95 000 lump sum at an interest rate of 7.6% (compounded annually) for 4 years.
- 3.2 Invest R75 000 per annum at the beginning of each year for 3 years at an interest rate of 8.4% (compounded annually).

**REQUIRED**

Determine the future values of the investments under consideration for 3.1 and 3.2.

(5)

**PART B**

An investor is expecting the following returns on investments made today :

- 3.3 A lump sum of R80 000 payable at the end of 5 years assuming a rate of return of 6.8% per annum.
- 3.4 An annuity of R90 000 payable annually in arrears for 3 years assuming a rate of return of 7.4% per annum.

**REQUIRED**

Determine the net present values (NPV's) of the expected returns on the investments made for 3.1 and 3.2.

(5)

**PART C**

The following appeared in the Statement of financial position of Gold Ltd as at 31/12/2016.

50 000 7.8% Cumulative redeemable Debentures of R100 each : R5 000 000

The current interest rate for similar debentures is 9% per annum.

**REQUIRED**

Determine the **total value** of the debentures at **31/12/2016** assuming that :

The debentures are redeemable in 2 instalments, the first R2 000 000 on **31/12/2018** and the balance of R3 000 000 on **31/12/2020**.

(10)

**[20]**

**QUESTION 4****PART A**

The following information relates to Quantum (Pty) Ltd

		April 2017 Actual <u>R</u>	May 2017 Actual <u>R</u>	June 2017 Estimated <u>R</u>
Trade receivables / debtors for sales	(1)	-	3 181 360	-
Cash at bank	-	-	106 900	-
Trade payables / creditors for purchases	(2)	-	1 369 800	-
VAT owing	(3)	-	154 450	-
Overhead expenses owing	(4)	-	427 700	-
Sales (12% for cash ; 88% on credit)	(1)	2 850 000	3 100 000	3 700 000
Purchases (10% for cash ; 90% on credit)	(2)	-	1 522 000	1 663 000
Salaries	(5)	-	-	1 211 750

**Additional information / notes :**

- (1) Credit sales are collected as follows : 58% in the month following the month of sale ; 40% in the 2<sup>nd</sup> month following the month of sale and 2% is estimated to be written off as irrecoverable.
- (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 25<sup>th</sup> 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 **June 2017**.

(13)

**QUESTION 4****PART B**

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

<b><u>Assets</u></b>	<b><u>R'000</u></b>
Non-current assets : Property, plant and equipment	71 519
<b>Current assets</b>	32 641
Inventory	16 252
Trade receivables (trade debtors)	16 389
<b>Total assets</b>	<b>104 160</b>
<b><u>Equity and liabilities</u></b>	<b><u>R'000</u></b>
<b>Total equity</b>	72 280
Ordinary share capital (990 000 shares)	24 750
11% preference share capital	11 300
<b>Retained earnings</b>	36 230
Revenue (cash sales represents 15% of total sales)	202 651
Cost of sales	(142 050)
Gross profit	60 601
Distribution, administrative and other expenses	(34 600)
Finance costs	(1 551)
Profit before tax	24 450
Income tax expense	(6 919)
Profit for the year	17 531
Preference dividends (paid on 31 December)	(1 243)
Ordinary dividends (paid on 31 December)	(5 445)
Balance at beginning of year	25 387
Non-current liabilities : Long-term borrowings	13 730
<b>Current liabilities</b>	18 150
Trade payables (trade creditors)	15 209
Other payables	1 165
Bank overdraft	1 776
<b>Total equity and liabilities</b>	<b>104 160</b>

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**QUESTION 4 (continued)****PART B (continued)****Additional information**

On 31 December 2016 **Prima Ltd**'s ordinary shares traded at **8765 cents** per share on the JSE.

**REQUIRED**

Calculate the following for 2016 :

- 4.1 Current ratio.
- 4.2 Acid test ("Quick") ratio.
- 4.3 Trade receivables / debtors collection period (in "**days**" based on **365** days).
- 4.4 Inventory / stock holding period (in "**days**" based on **closing inventory**).
- 4.5 Trade payables / creditors settlement (payment) period (in "**days**" based on **cost of sales** and **365** days).
- 4.6 Trade cycle (in "**days**").
- 4.7 Mark-up percentage on cost.
- 4.8 Gross profit margin.
- 4.9 Net profit margin.
- 4.10 Basic earnings per ordinary share.
- 4.11 Earnings yield (based on **market value**).
- 4.12 Price-earnings ratio.
- 4.13 Ordinary dividend per share.
- 4.14 Ordinary dividend yield (based on **market value**).
- 4.15 Ordinary dividend cover.
- 4.16 Net asset value (based on statement of financial position figures).
- 4.17 Debt equity ratio.

(17)

**[30]**

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**TOTAL MARKS : 100**