



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting
Financial Accounting 2A
FAC22B2 / FAC2BB2

Last Assessment Opportunity

10 November 2017

Time: 3 hours

Marks: 100

Assessors: Mr N Ebrahim Mrs L Mathebula Mr K Morake Dr N Rhodes

Moderator: Mr L Khumalo

INSTRUCTIONS:

- This paper consists of **13** 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.
- Use **ONLY BLUE OR BLACK INK. NO PENCIL WORK WILL BE MARKED**

Question	Topic	Marks	Time
1	Integrated Question	25	45 minutes
2	PPE and Impairment	25	45 minutes
3	Provisions & Contingencies and Events after the end of the reporting period	25	45 minutes
4	Financial Instruments	25	45 minutes
		100	180 minutes

QUESTION 1**(25 MARKS)****Multiple Choice Questions**

Select the correct answer

Part A: PPE**(5 marks)****1.1. The value to be presented for PPE on the Statement of financial position is**

- A. The total carrying value less the total accumulated depreciation plus total accumulated impairment
- B. The total cost less the total accumulated depreciation less total accumulated impairment
- C. The total carrying value less the total accumulated depreciation less accumulated impairment
- D. The total cost less the total accumulated depreciation plus total accumulated impairment
- E. None of the above

1.2. Depreciation on an asset is stopped when

- A. When an asset is re-classified as available-for-sale
- B. When an asset is sold or scrapped
- C. When an asset has been fully depreciated
- D. All of the above
- E. None of the above

1.3. Residual Value is an estimation of the amount

- A. That the entity would obtain from the disposal of the asset plus the estimated costs of the disposal
- B. That the entity would obtain from the disposal of the asset less accumulated depreciation up to date of sale
- C. That the entity would obtain from the disposal of the asset less the estimated costs of the disposal
- D. That the entity would obtain from the disposal of the asset less depreciation up to date of sale
- E. None of the above

1.4. The profit or loss on disposal recognized in the statement of comprehensive income for an asset that had a cost of R150 000, with accumulated depreciation of R105 000 and accumulated impairment of R15 000 and sold for R45 600 (inclusive of VAT) is

- A. R10 000 loss
- B. R15 600 loss
- C. R10 000 profit
- D. R15 600 profit
- E. None of the above

1.5 The journal entry for the payment of R216 600 (inclusive of VAT) for the re-painting of the exterior of business premises is

- A. Debit Buildings cost (SFP) R190 000; Debit Input VAT (SFP) R26 600 and Credit Bank (SFP) R216 600.
- B. Debit Maintenance-Building (P/L) R190 000; Debit Output VAT (SFP) R26 600 and Credit Bank (SFP) R216 600.

C. Debit Buildings cost (P/L) R190 000; Debit Output VAT (SFP) R26 600 and Credit Bank (SFP) R216 600.

D. Debit Maintenance-Building (P/L) R190 000; Debit Input VAT (SFP) R26 600 and Credit Bank (SFP) R216 600.

E. None of the above.

Part B: Impairment**(5 marks)**

A machine manufacturing plastic bins was bought on 01/04/2012 at a cost of R136 800 (inclusive of VAT). The machine was estimated to have a zero residual value and an estimated useful life of 10 years. The fair value of the machine on 31/03/2017 was R55 000 (exclusive of VAT) and the costs of selling the machine included sales commission of R5 500 (exclusive of VAT) and advertising costs of R10 250 (exclusive of VAT). The value in use is considered to be R40 000 (exclusive of VAT).

1.6. The impairment loss at 31/03/2017 is

(3 marks)

A. R20 000

B. R20 750

C. R28 400

D. R29 150

E. None of the above

1.7. The journal entry for the recognition of the impairment loss at 31/03/2017 is

(2 marks)

A. Debit Impairment loss (SFP) and Credit Accumulated Impairment (SFP)

B. Debit Impairment loss (P/L) and Credit Accumulated Impairment (P/L)

C. Debit Impairment loss (SFP) and Credit Accumulated Impairment (P/L)

D. Debit Impairment loss (P/L) and Credit Accumulated Impairment (SFP)

E. None of the above

Part C: Provisions and Contingencies:**(5 marks)**

Classify the next five occurrences scheduled for the end of the reporting period 31 December 2017 as either a liability, provision, contingent liability, contingent asset or none of the classifications listed:

1.8 The payment of the monthly salaries and wages on 15 December 2017 by EFT of R222 500.50.

A. Liability

B. Provision

C. Contingent Liability

D. Contingent Asset

E. None of the above

1.9. Payment of warranty repairs of approximately R110 000 based on November 2017 Sales expected to occur during December 2017.

A. Liability

B. Provision

C. Contingent Liability

D. Contingent Asset

E. None of the above

1.10 An invoice received for legal fees of R15 500 due on 31 January 2018 for consultations held in November 2017 with the entity's attorneys for a pending court case scheduled for May 2018.

- A. Liability
- B. Provision
- C. Contingent Liability
- D. Contingent Asset
- E. None of the above

1.11. Possible legal fees payable due to a past client dispute of R2 000 000 which will be due in approximately 18 months for a possible court case. The outcome is dependent on the court's decision.

- A. Liability
- B. Provision
- C. Contingent Liability
- D. Contingent Asset
- E. None of the above

1.12. Payment of performance bonuses for work excellence in 2017 of approximately R150 000 due on 25 January 2018.

- A. Liability
- B. Provision
- C. Contingent Liability
- D. Contingent Asset
- E. None of the above

Part D: Events after the end of the reporting period 30 June 2017: True or false (2 marks)

1.13 An urgent and unscheduled shut down of a power plant for emergency repairs with a total loss of R12 000 000 in August 2017 is an adjusting event as it was known before the authorization of the financial statements which is expected to occur on 30 November 2017.

- A. True
- B. False

1.14. Legal fees of R15 000 paid in July 2017 for consultations on a client dispute that occurred in April 2017 is an adjusting event as it was known before the authorization of the financial statements which is expected to occur on 30 November 2017.

- A. True
- B. False

Part E: Basic financial instruments: Complete the sentence. (2 marks)

In your answer book write the only missing words for A, B and C

All financial assets that are classified as equity instruments should be tested for impairment every year. When it appears that an impairment loss previously recognized in an asset no longer exists the entity should _____ (A) _____ such impairment but not to more than what the ____ (B) ____ ____ (C) ____ would have been had no impairment been recognized.

Part F: Sage**(8 marks)**

Complete the missing fields labeled A, B, C and D in the screenshot below. Ledger account numbers are NOT required. In your answer book write the only missing words for A, B, C and D

Add New Inventory Transaction Type

Transaction Type

Code: RTS

Description: A

Debit / Credit

☒ Debit

☐ Credit

☐ Link another Transaction Type

Tax

☒ Tax

Tax Group: Select a Tax Group

General Ledger Accounts

Debit Ledger Account: Select a General Ledger Account B

Credit Ledger Account: Select a General Ledger Account C

Credit Tax Account: Select a General Ledger Account D

☐ Always Prompt for Credit Ledger Account

☐ Always split Credit Ledger Account

Other

☐ Sales Transaction Type

OK Cancel

Complete the missing fields labeled E, F, G and H in the screenshot below. Ledger account numbers are NOT required. In your answer book write the only missing fields for E, F, G and H.

Add New Inventory Transaction Type

Transaction Type

Code: CRN

Description: E

Debit / Credit

☐ Debit

☒ Credit

☐ Link another Transaction Type

Tax

☒ Tax

Tax Group: Select a Tax Group

General Ledger Accounts

Credit Ledger Account: Select a General Ledger Account F

Debit Ledger Account: Select a General Ledger Account G

Debit Tax Account: Select a General Ledger Account H

☐ Always Prompt for Debit Ledger Account

☐ Always split Debit Ledger Account

Other

☐ Sales Transaction Type

OK Cancel

QUESTION 2**(25 MARKS)**

Awesome Construction (Pty) Ltd is a leading construction firm in South Africa. The company using a wide variety of assets, including assets built specifically for Awesome Construction (Pty) Ltd, when busy on site. The company's current reporting period ends 31 December 2016. Below is a fixed asset register as at 1 January 2016

Class	Quantity	Useful life	Depreciation Method	Total Cost	Accumulated depreciation	Carrying amount
Mixing Equipment	2	5	Straight Line Method	R 3 600 000	R 820 000	R 2 780 000
Drilling Equipment	0	6	Straight Line Method	R 0	R 0	R 0
Rubble Trucks	4	5	Diminishing Balance Method	R 2 400 000	R 950 000	R 550 000

Additional Information

On 1 September 2016, one Rubble Truck from the above register experienced severe damage and could not be used. An expert was called in to assess the damage and a report was received from the expert indicating that the truck could not be repaired. Management decided that the rubble truck should be sold for scrap. The following information was available on the day the rubble truck was scrapped

- Date asset scrapped – 1 September 2016
- Cost of asset – R 600 000
- Accumulated Depreciation – R 300 000 (01/01/2016)
- Amount Received – R 159 600 (including VAT)

During the current reporting period, Awesome Construction (Pty) Ltd obtained a contract that required specialized Drilling Equipment. The equipment could not be purchased from a local supplier. The company imported the Drilling Equipment from an American supplier. The following costs were incurred:

- Purchase price R 1 210 000
- Custom Duties R 50 000
- Insurance R 25 000 (excl VAT)

In order for the Drilling Equipment to operate effectively the following costs needed to be incurred

- Modification Costs R 15 000 (excl VAT)
- Salaries for Modification R 10 000
- Testing R 12 000 (excl VAT)

The machine was ready for use on the 30 November 2016

On 31 December 2016 one of the Mixing Equipments was operating at half of its mixing capacity. The Mixing Equipment was purchased on 1 August 2014. The cost price amounted to R 2 400 000 excluding VAT and a residual value of R 171 000 including VAT. Management determined the following

- Value in Use = R 1 120 000
- Fair Value = R 1 205 000
- Cost to sell = R 90 000

Required

2.1 Define Impairment Loss (1 mark)

2.2 Provide 2 circumstances that indicate as asset may be impaired (1 mark)

2.3 Provide the journal entry for the scrapping of the Rubble Truck (8 marks)

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

2.4 Calculate whether the Mixing Equipment above needs to be impaired (8 marks)

Show detailed calculations

2.5 Disclose all of the above in the Plant, Property and Equipment Note to the Annual Financial Statements. Show detailed calculations (7 marks)

QUESTION 3**(25 MARKS)**

Azania Pty Ltd ('Azania') is a manufacturing company based in Johannesburg. The company manufacture phones and sell them to dealerships and individuals around the country. Their current reporting date is 31 March 2017.

Part A**(18 marks)**

On 01 March 2017, the company sold 100 phones to a customer for cash, with a warranty, which was part of the contract. It was stipulated in the warranty that should the customer experience problems with the phones within 7 days of purchase, the company will fully refund the customer. The phones were sold for R4000 each; the phones cost R2000 each.

On 04 March 2017, the customer came back and stated that 5 of the phones had problems and were not working properly. The company investigated the claim on the same date and concluded that there is no way the phones will ever work properly so they will have to refund the customer. They are not really sure when this will happen, but they commit to refund the customer within 6 months.

The opening balance of other provisions as at 01 February 2016 was R100 000, R80 000 was utilized during the current year.

Required

3.1 Define a liability in terms of IFRS for SME's (2 marks)

3.2 State whether the above transaction give rise to a legal or constructive obligation, state your reason (1 mark)

3.3 Discuss whether the above transaction meets the definition of a liability (5 marks)

3.4 Prepare the journal entries to account for the provision in the books of Azania on 04 March 2017 (2 marks)

3.5 Prepare the provision note for the year ended 31 march 2017, the accounting policy note IS REQUIRED. (8 marks)

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

**IGNORE VAT
PART B****(7 marks)**

Azania (Pty) Ltd has a material debtor 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 annual financial statements. At 31 March 2017 this client owed Azania R120 000, of which only 10% will be repaid to Azania.

REQUIRED

3.6 Discuss the effect of the above event on the 31 March 2017 financial statements with reference to Section 32 of IFRS for SMEs relating to Events after the Reporting period (4 marks)

3.7 Prepare the journal entry to account for the above transaction in the books of Azania (3 marks)

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

QUESTION 4**(25 MARKS)****PART A**

(6 marks)

CHOOSE THE CORRECT ANSWER FROM THE FOLLOWING

1. A **puttable instrument** gives the holder the option to sell the instrument back to the company at a predetermined price.
 - a. TRUE
 - b. FALSE
2. A **redeemable share** at the option of the issuing company is deemed to be a liability instrument in the books of the issuing company
 - a. TRUE
 - b. FALSE
3. A **Financial Liability** is a contractual right to deliver cash or another financial asset to another entity exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity
 - a. TRUE
 - b. FALSE
4. **Recognition** of a Financial Instrument occurs when there is a transfer of risks and rewards. Once the risks and rewards have been transferred, accounting for it will begin.
 - a. TRUE
 - b. FALSE
5. **Fair value** is defined as the amount for which a Financial Instrument could be sold or settled in an arm's length transaction between two connected parties.
 - a. TRUE
 - b. FALSE
6. The **reversal of an impairment loss** on a financial instrument should be written up but not to more than what the carrying amount would have been had no impairment been recognised
 - a. TRUE
 - b. FALSE

PART B

(3 marks)

CHOOSE THE CORRECT ANSWER FROM THE FOLLOWING

1. **A financial instrument is:**
 - a. A type of contract
 - b. A type of asset
 - c. A type of liability
 - d. A type of asset or liability

2. **Redeemable preference shares (redeemable at the option of the shareholder) should be classified (from the issuing company's point of view) as:**
 - a. An equity instrument
 - b. A financial asset
 - c. A financial liability
 - d. A compound financial instrument

3. **The amortised cost of a financial asset is equal to:**
 - a. The amount at which the asset was originally recognised
 - b. The fair value of the asset
 - c. The amount at which the asset was originally recognised, plus interest earned to date
 - d. The amount at which the asset was originally recognised, plus interest earned to date, less repayments received to date

PART C

(6 marks)

On 1/01/2015, Kenilworth Properties (Pty) Ltd took a 4 year home loan (bond) with Stand Bank. The details of the loan are as follows:

- Amount of bond = R550 000
- Transaction cost = R37 000
- Instalment = R240 208 per year
- Mandatory redemption date = end of year 3

Armotisation Table

<u>Year</u>	<u>Opening Balance</u>	<u>Interest</u>	<u>Instalment</u>	<u>Closing Balance</u>
Year 1	587,000	64,570	(240,208)	411,362
Year 2	411,362	45,250	(240,208)	216,404
Year 3	216,404	23,804	(240,208)	0

Required:

1. Provide the reason(s) why Kenilworth Properties (Pty) Ltd capitalised brokerage fees instead of expensing them off into the statement of profit or loss (2 marks)
2. Prepare the journal entries relating to the home loan bond in the books of Kenilworth Properties (Pty) Ltd for year 3 (4 marks)

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

PART D**(10 marks)**

On 01 August 2015, Khumo International (Pty) Ltd purchased 6 500 shares of Mzantsi Forex Investments Ltd. Mzantsi Forex Investments Ltd's shares are currently trading on a listed exchange market. At the date of purchase the shares traded at R15 per share. In addition Khumo International (Pty) Ltd incurred R2 500 (excluding VAT) as brokerage fees. At year end the shares traded at R23 per share. Khumo International (Pty) Ltd has a 31 December year end.

Required:

1. What measurement model should Khumo International (Pty) Ltd use to recognise this investment in its books? (1 mark)
2. Prepare ALL the journal entries on all the transactions for the year ending 31 December 2015. (9 mark)

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

TOTAL MARKS

100