



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting
Financial Accounting 2B
FAC22B2 / FAC2BB2

Supplementary Assessment Opportunity

January 2018

Time: 3 hours

Marks: 100

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

Moderator: Mrs T Mphahlele (internal)

INSTRUCTIONS:

- This paper consists of **10** 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 and events after the reporting period	25	45 minutes
4	Basic financial instruments	25	45 minutes
		100	180 minutes

Question 1**25 Marks****Part A: Complete missing fields (8 mark each)**

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 Accounts Receivable Transaction Type

Transaction Type
Code PM
Description A

Debit / Credit
☐ Debit
☒ Credit
☒ Link another Transaction Type
Transaction Type DS (Discount)

Tax
☒ Tax
Default Tax Type Select a Tax Type
Tax Group Select a Tax Group

General Ledger Accounts
Credit Ledger Account Select a General Ledger Account B
Debit Ledger Account Select a General Ledger Account C
Debit Tax Account Select a General Ledger Account D

Other
☐ Always Prompt for Debit Ledger Account
☐ Always split Debit Ledger Account
☒ Rep
☐ Settlement Discount
☐ 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 Accounts Receivable Transaction Type

Transaction Type
Code DS
Description E

Debit / Credit
☐ Debit
☒ Credit
☒ Link another Transaction Type
Transaction Type

Tax
☒ Tax
Default Tax Type Select a Tax Type
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

Other
☐ Always Prompt for Debit Ledger Account
☐ Always split Debit Ledger Account
☒ Rep
☐ Settlement Discount
☐ Sales Transaction Type

OK Cancel

Part B: True or False section**(9 marks)**

- 1.1 The journal entry for Loss on exchange is debit the general ledger account: Loss on exchange (P/L) and credit the general ledger account: Receivables Control (SFP)
- 1.2 The accounting periods in Sage Evolution are available under Common>>Maintenance>>Company details.
- 1.3 The account type for "Purchases" is Other expense.
- 1.4 It is not possible to change your password under the icon "Common" in the General Ledger.
- 1.5 The report option for the Trial Balance is in the Inventory module and it is a requirement for the POE submissions that the income statement accounts are printed first.
- 1.6 A General ledger journal batch may not be created in the fixed assets module.
- 1.7 The take-on balances of the individual suppliers in the Accounts payables module are captured with a journal batch in accounts payable module.
- 1.8 The journal entry for the take-on balances of the individual customers in Accounts receivable is as follows:
Debit: Trade receivables suspense account and Credit: Trade receivables control account.
- 1.9 The Purchases accrual account in the general ledger will be credited with the accumulation of the relevant costs to be capitalized for the acquisition of a fixed asset.

Part C**(8 Marks)**

1.10 Explain the purpose of the following concepts used in Platica Ltd and Sage Evolution as the accounting software being implemented:

- a. The purchases accrual account (1)
- b. The need for the selection of account types when opening a general ledger account (1)
- c. The use of the Inventory suspense account for the taking on of balances (3)

1.11 Calculate the accumulated depreciation balance at 31/03/2017 for the following fixed asset:

Twenty tables bought at a cost of R2000 each, exclusive of VAT, on the 1 January 2015. The depreciation method for furniture is: straight line for 6 years with no residual value. (3)

(25 Marks)

Question 2**25 Marks****PART A**

Sweets “R” Us (Pty) Ltd is a local manufacturing company that produces different types of sweets locally. The success of the company was based on Sweets “R” Us using the most updated machinery to produce sweets. During the current reporting period Sweets “R” Us purchased a machine from USA. The following relates to the costs and components purchased.

- The control unit was imported from USA at a cost of \$135 000. The unit was ordered on the 1 January 2016, it was loaded onto the ship on the 15 February 2016 and was received at the Durban Harbour on the 1 March 2016. According to the shipping agreement the unit purchased was shipped FOB – Shipping. The purchase price was settled on the date risk and rewards transferred to Sweets “R” Us
- A boiling unit was also imported from Switzerland on a FOB destination (CIF) basis at a cost of €25 000. The cooling unit was ordered on 20 December 2015. It was loaded onto the ship on the 17 January 2016 and it arrived at Durban harbour on 20 March 2016. This unit needed to be assembled onto the control unit in order for the machinery to work effectively. This amount was still outstanding at year end.
- Additional costs were incurred to get the machinery ready for use were as follows:

1	Assembly costs including VAT and was paid in cash	R198 365
2	Reinforced flooring including VAT and was paid in cash	R760 000
3	RB Engineering CC for design and testing excluding VAT this amount is still owing at the end of the reporting period	R250 000
4	Borrowing Cost as a result of the loan taken to purchase the machine	R 145 000
5	The accountant indicated that a portion of his salary should be taken into account for capturing of the invoices. He estimated that this portion	R 15 000

Additional Information

1. Exchange rates over the period:

Date	R1=€	R1=\$
20 December 2015	15.30	13.10
01 January 2016	15.35	13.08
15 January 2016	15.32	13.04
17 January 2016	15.29	13.02
15 February 2016	15.26	13.40
01 March 2016	15.30	13.45
20 March 2016	15.40	13.43

2. The machinery is expected to have a residual value of R 186 000 inclusive of VAT
3. The machinery is depreciated using the Diminishing Balance method and has an estimated useful life of 6 years
4. The company has a reporting period ending 31 December 2016

REQUIRED

- 2.1 Discuss the difference between a Maintenance Cost and an Improvement Cost and discuss how each cost is accounted for in the accounting records (2)
- 2.2 Calculate the total cost of the asset purchased (5)
- 2.3 Provide the journal entry for the capitalisation of the asset calculated above (5)

Example of required journal layout:

		Account Debited	Account Credited
Bank (50% x R20 469.12)	SFP	R10 234.56	
Accounts Receivable (50% x 20 469.12)	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

P/L = Statement of profit and loss

SOCE = Statement of changes in equity

PART B

Quick Time (Pty) Ltd is a courier company that makes door to door delivery nationwide. The following was obtained from the fixed asset register as at 1 January 2016. The company has a reporting period of 31 December 2016

Class	Note	Quantity	Useful life	Depreciation Method	Total Cost	Accumulated depreciation	Carrying amount
Delivery Vehicles	3	10	4	Diminishing Balance Method	R 5 600 000	R 3 150 000	R 2 450 000
Computer Equipment	1	5	5	Straight Line Method	R 1 360 000	R 820 000	R 540 000
Buildings	2	1	20	Straight Line Method	R 2 400 000	R 950 000	R 550 000

Additional Information

Note 1: On the 1 April 2016, one of the computer systems from the above, experienced severe damage due to a power surge and could not be used. The computer system was written off. The following information was available on the day the computer system was written off

- Date asset scrapped – 1 April 2016
- Cost of asset – R 350 000
- Accumulated Depreciation – R 150 000 (01/01/2016)

Note 2: During the current reporting period, improvements were made to the existing building to increase the work space required to effectively operate the business. The following cost were incurred

- Contractor costs = R 1 150 000 (excl VAT)
- Building materials = R 350 000 (excl VAT)

The improvements were completed on the 1 September 2016, the building was ready for use on the 1 October 2016 but was only occupied and used on the ready for use on the 30 November 2016

Note 3: On the 31 December 2016 one of the Delivery Vehicles suffered damaged and is operating at half of its delivery capacity. The Delivery Vehicle was purchased on the 1 March 2014. The cost price amounted to R 490 000 excluding VAT. Management determined the following

- Value in Use = R 130 000
- Fair Value = R 147 000
- Cost to sell = R 15 000

2.4 Disclosure all of the above in the Plant, Property and Equipment Note to the Annual Financial Statement. Show detailed calculations (13)

(25 Marks)

Question 3**25 Marks**

Lunga Ltd ('Lunga') is a car manufacturing entity based in Pretoria. The company's current reporting date is 31 December 2016. The accountant is not sure how to account for the below issues and need your assistance.

ISSUE 1

During the current financial reporting period, the company contaminated a local river. The authorities notified the company of the contamination but the company is adamant that it was not their fault. The environmental law in South Africa requires that companies should clean up the river, if it can be proved, beyond reasonable doubt that they were the ones responsible for the contamination. The estimated cost to clean the river will be R2 000 000. The applicable interest rate is 8%.

The company decided to take the matter to court, and based on previous similar cases, the case can take up to 5 years to finalise.

ISSUE 2

Lunga sells cars under a warranty if they are returned in the first year of sale. It is estimated that 75% of cars sold will have no defects and 25% of the cars will have defects. Total sales for the year is expected to be R3 500 000 and based on experience it is estimated that the costs of making repairs on the defects will be 15% of sales with defects.

ISSUE 3

The annual financial statements for the reporting period ended 31 December 2016 were approved and signed by the management of the entity on the 16 of February 2017. On the 28th of February 2017 the following came to the directors' attention:

On 28 February 2017 one of the company's customers was declared bankrupt. At 31 December 2016 this client owed Lunga R800 000. The customer has been in financial difficulty for most of the past year. Liquidators have estimated that Muzi will only recover 10% of the total amount owed by the client.

REQUIRED

- 3.1 Explain the difference between a legal and a constructive obligation in terms of section 21 of IFRS for SMEs (3 marks)
- 3.2 State whether the environmental claim give rise to a legal or constructive obligation and state the reason (2 marks)
- 3.3 Discuss whether the accountant should recognize a provision for the **environmental claim** or not by applying the definition of a liability and provision (10 marks)
- 3.4 Prepare the journal entry in respect of the **warranty claim** in the financial statements of Lunga for the year ended 31 December 2016 (4 marks)
- 3.5 Present the provision in the statement of financial position for the year ended 31 December 2016 (Only taking into account the warranty claim) (3 marks)
- 3.6 Discuss whether the **ISSUE 3** is an adjusting or non- adjusting event (3 marks)

Example of required journal layout:

		Account Debited	Account Credited
Bank (50% x R20 469.12)	SFP	R10 234.56	
Accounts Receivable (50%x 20 469.12)	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.

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(25 Marks)

Question 4**25 Marks****PART A****(6 marks)**

- 4.1 Discuss the initial recognition criteria of Financial Assets and Liabilities. (2 marks)
- 4.2 List the two measurement models that Section 21 of International Financial Reporting Standards for SME's allows for the measurement of financial assets (2 marks)
- 4.3 Discuss the accounting treatment of the transaction costs for the two measurement models identified in 1.2 above (2 marks)

PART B**(4 marks)**

4.4 Identify the type of instrument using the table below

	Financial Asset	Financial Liability	Equity Instrument
Current Tax Payable			
Bank Overdraft			
Investment in Redeemable Preference Shares at the option of the company			
Issue of Non – Redeemable Preference Shares			

PART C**(15 marks)****TRANSACTION 1**

Khumo International (Pty) Ltd is an investment company based in South Africa. Khumo International (Pty) Ltd buys listed shares that are publicly traded. On the 31 March 2016, Khumo International (Pty) Ltd purchased shares in Success Ltd and paid in cash. The details of the transaction were as follows:

- Transaction Date : 31 March 2016
- 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 2016, Khumo International (Pty) Ltd purchased 125 000 shares in Growing Ltd. Transaction costs 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 2016 : R 10.55
- 31 December 2016 : R 11.33

TRANSACTION 3

In 2016, the management of the business decided to diversify its portfolio by investing in property developments. It needed cash to buy rental property in the south of Johannesburg. Khumo International (Pty) Ltd has a 31 December financial year end. As at 1 January 2016, Khumo International (Pty) Ltd held 110 000 shares in Alpha Ltd, a company listed on the JSE. On 14 August 2016, Khumo International (Pty) Ltd sold all the shares held in Alpha Ltd.

The share price on the JSE was as follows

- 1 January 2016 R 160 per share
- 14 August 2016 R 162 per share
- 31 December 2016 R 155 per share

Note: Khumo International (pty) Ltd is registered for VAT. Ignore VAT on the purchase of shares only.

REQUIRED:

4.5 With regards to **Transaction 1, Transaction 2 and Transaction 3** provide the necessary journals for the above entries. (15 marks)

Example of required journal layout:

		Account Debited	Account Credited
Bank (50% x R20 469.12)	SFP	R10 234.56	
Accounts Receivable (50% x 20 469.12)	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:

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(25 Marks)