UNIVERSITY OF JOHANNESBURG

# DEPARTMENT OF ACCOUNTANCY

# ACCOUNTING 1B

# AUCKLAND PARK AND SOWETO CAMPUS

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Mr B Sibiya

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|---|---|---|
| **FINAL ASSESSMENT OPPORTUNITY** | **18 November 2017** | **MARKS: 125**<br>**TIME: 2 ½ HOURS** |

- THE ASSESSMENT OPPORTUNITY PAPER CONSISTS OF 4 QUESTIONS AND 11 PAGES (front page included).
- YOU MUST ANSWER ALL THE QUESTIONS
- START EVERY NEW QUESTION AT THE TOP OF A PAGE
- WRITE IN BLUE OR BLACK INK – NO PENCIL
- A NON-PROGRAMMABLE, SILENT CALCUTATOR MAY BE USED
- CROSS OUT OPEN SPACES AND EMPTY PAGES
- NO PENCIL OR TIPPEX MAY BE USED.
- PLEASE ANSWER IN THE CORRECT COLOR BOOK AS INDICATED AT TOP OF EACH QUESTION

| QUESTION | TOPIC | MARKS | TIME |
|---|---|---|---|
| 1 | Revenue (Blue Book) | 22 | 26 minutes |
| 2 | Statement of profit or loss (Green Book) | 37 | 44 minutes |
| 3 | Statement of financial position (Orange Book) | 34 | 41 minutes |
| 4 | Statement of Cash Flows (Annexure A) | 32 | 39 minutes |
| | | **125** | **150 minutes** |

**QUESTION 1 – (Blue Book)** **(22 MARKS)**
**(26 MINUTES)**

Wololo Ltd (a registered VAT vendor) launched a "dance your heart out" promotion during the month of January 2017, in order to boost sales after the December holiday. Wololo sent emails to all of their dance customers on their database and also advertised the special in the Sun Daily newspaper. The special offered customers a very good deal that was only available during the month of January 2017. For R17 100 (incl. VAT), customers would receive a dance video with a manual, an energy drink mixer and a voucher to attend dance classes on different genres. The sales values and cost of the elements of the special are as follows:

| **Item** | **Sales value (incl. VAT)** | **Cost price for Wololo (excl. VAT)** |
|---|---|---|
| Video and manual | R10 260 | R3 000 |
| Energy drink mixer | R1 140 | R300 |
| Dance classes | R5 700 | R1 800 |
| | **R17 100** | **R5 100** |

On 31 January 2015, Wololo sold 50 promotions for cash to customers. The dance classes were not offered on that specific day. Customers could either take the classes during February or March 2017. 30 customers chose to attend the classes during February 2017, and the remaining 20 during March 2017. The customers were able to take the video and manual with them immediately after they had paid for the promotion. The energy drink mixer included in the special would however only be handed over to them on the first day when they attended the dance classes.

**REQUIRED:**

a) Discuss only step 1 of the recognition and measurement of revenue from contracts with customers in the records of Wololo Ltd for the year ended 28 February 2017. (14)

b) Provide the journal entries required to account for the revenue from contracts with customers for the year ended 28 February 2017 (**<u>show dates clearly</u>**). (8)

**QUESTION 2 – (Green Book)** **(37 MARKS)**
**(44 MINUTES)**

The current reporting period of Cooper (Pty) Ltd, a successful company, ends on 31 December 2016. The following balances, amongst others, appear in the company's financial records as at 31 December 2016:

| | Dr | Cr |
|---|---|---|
| | R | R |
| Sales | | 35 750 000 |
| Cost of sales | 10 250 000 | |
| Other income | | 3 440 000 |
| Distribution costs<br>Administrative expenses<br>Other expenses | 12 050 000 | |
| Interest expense on bank overdraft | 95 000 | |
| Interest expense on finance lease loan | 235 000 | |
| Interest expense on bank loan | 128 000 | |
| Auditors' remuneration | 900 0000 | |
| Directors' remuneration | 1 200 000 | |
| | | |
| Ordinary issued shares - 4 000 000 shares | | 22 000 000 |
| Retained earnings – 31 December 2015 | | 32 750 000 |
| Financial investment (in listed shares) – 31 December 2015 | 3 250 000 | |
| Trademarks: | | |
| - Cost price | 2 400 000 | |
| - Accumulated amortisation – 31 December 2015 | | 400 000 |
| SARS – Provisional tax paid for 2016 | 1 950 000 | |
| | | |

**Additional information**

1 Cost of sales was appropriately debited with R286 000 in respect of certain inventory items that were written off to the net realisable value thereof.

2 Detail of other income is as follows:

| | R |
|---|---|
| Dividends received from subsidiary | 950 000 |
| Management fees from subsidiary | 160 000 |
| Dividends received from financial investment- listed | 800 000 |
| Interest on term deposit | 280 000 |
| Recoupment from insurer iro inventories destroyed in a fire | 1 250 000 |
| | 3 440 000 |

3 The following items, amongst others, are included in distribution costs, administrative expenses and other expenses:

| | R |
|---|---|
| Depreciation on plant | 1 600 000 |
| Infringement of patent rights– lawsuit settlement amount | 450 000 |
| Salaries and other benefits to employees | 7 200 000 |
| Write-off of inventories destroyed in a fire | 1 500 000 |

**QUESTION 2 (continued)**

| | | |
|---|---|---|
| 4 | Auditors' remuneration comprises the following: | R |
| | Interim audit for 2016 | 680 000 |
| | Tax advice services | 220 000 |
| 5 | Directors' remuneration comprises the following: | R |
| | Remuneration to non-executive directors for attending directors' meetings | 200 000 |
| | Salaries to executive directors | 1 000 000 |
| 6 | The authorised share capital of Cooper (Pty) Ltd consists of 5 000 000 ordinary shares. | |
| | Detail of the issued share capital is as follows: | R |
| | 01/01/2016 – 2 000 000 ordinary shares at R4 each | 8 000 000 |
| | 01/07/2016 – a further 2 000 000 ordinary shares at R7 each | 14 000 000 |

7 The following transactions/events still have to be recognised for the reporting period ended 31 December 2016:

7.1 The income tax expense for 2016 was reliably calculated as R2 050 000 and still has to be recognised.
7.2 On 15 December 2016, Cooper (Pty) Ltd declared an ordinary dividend of R2.50 per share. This dividend will be paid to the shareholders on 15 January 2017.
7.3 There were no purchases or sales in respect of financial investments during 2016. On 31 December 2016, the fair value of the investment in listed shares amounted to R4 000 000.
7.4 Up to 31 December 2015, trademarks were amortised over a total estimated useful life of 12 years on the straight-line method. Management decided to adjust the remaining useful life of trademarks as from 1 January 2016 to 8 years.
Amortisation of trademarks for 2016 still has to be recognised.
7.5 The allowance for doubtful debts still has to be increased with R65 000.

**REQUIRED:**

a) Present the relevant amounts in the statement of profit or loss of Cooper (Pty) Ltd for the reporting period ended 31 December 2016. The presentation of Earnings per share is not required. (14)

b) Present the relevant amounts in the statement of changes in equity of Cooper (Pty) Ltd for the reporting period ended 31 December 2016. The presentation of Dividends per share is not required. (5)

c) Disclose **ONLY** the following notes to the statement of profit or loss of Cooper (Pty) Ltd for the reporting period ended 31 December 2016.

- Income from subsidiary (2)
- Income from financial investments (2)
- Finance costs (3)
- Profit before tax (12)

**QUESTION 3 – (Orange Book)** **(34 MARKS)**
**(41 MINUTES)**

Multipla (Pty) Ltd's current reporting period ends on 31 December 2017. It is expected that the 2017 financial statements will be approved on 20 February 2018.

Multipla (Pty) Ltd as well as all of Multipla (Pty) Ltd's suppliers are registered VAT vendors in accordance with the VAT Act.

On 31 December 2017 the following balances, amongst others, appeared in Multipla (Pty) Ltd's accounting records:

| | Additional information | Dr R | Cr R |
|---|---|---|---|
| Equipment | 1, 2 & 7 | 25 502 000 | |
| Accumulated depreciation – equipment | 1 & 2 | | 10 757 700 |
| Accumulated impairment – equipment (31 Dec 20.6) | 1 & 2 | | 330 000 |
| Vehicles | 1 & 3 | 5 600 000 | |
| Accumulated depreciation – vehicles | 1 & 3 | | 3 460 000 |
| Term deposit | 4 | 1 339 000 | |
| Trade inventories | 5 | 8 405 500 | |
| Trade receivables | 6 | 13 028 525 | |
| Allowance for doubtful debts | | | 325 700 |
| VAT input | | 2 740 200 | |
| Retained earnings – 1 Jan 20.7 | | | 24 500 000 |
| Ordinary share capital – 1 800 000 ordinary shares | | | 64 000 000 |
| Share issue costs | | 132 000 | |
| Ordinary dividend – distribution (final dividend declared on 30 April 20.7 iro the 20.6 reporting period) | | 960 000 | |
| Bank loan | 2.2 & 7 | | 1 376 411 |
| VAT output | | | 3 650 900 |
| Trade payables | | | 9 770 300 |
| SARS – income tax payable | 9 | | 425 000 |
| | | | |

**Additional information**

1 Multipla (Pty) Ltd's property, plant and equipment are measured at cost price less accumulated depreciation and accumulated impairment losses.

2 Equipment

2.1 The depreciation expense for equipment in respect of the 2017 reporting period has been correctly calculated and recognised in accordance with the straight-line method at 10% per year at an amount of R2 550 200.

2.2 On 25 November 2016, Multipla (Pty) Ltd ordered an equipment item from Divisor Ltd. The contract between Multipla (Pty) Ltd and Divisor Ltd contained the following stipulations, amongst others:

- The invoice price amounts to R2 014 380.
- The delivery, installation and mounting will be performed by Divisor Ltd at an agreed cost of R324 900 (including VAT).

**QUESTION 3 (continued)**

- On 2 January 2017 the equipment item has to be available for use in the manner intended by Multipla (Pty) Ltd.
- The amount due has to be paid on the day on which the equipment item is available for use in the manner intended by Multipla (Pty) Ltd. (For this purpose, Multipla (Pty) Ltd incurred a loan with its bank, BNF Bank. Refer to additional information 9 for more detail in respect of the bank loan.)

On 2 January 2017 the equipment item was put into service and was correctly recognised in Multipla (Pty) Ltd's accounting records.

2.3 During December 2017 it was determined that the recoverable amount of a specific equipment item was only R600 000. On 31 December 2017 the asset register reflected the following balances in respect of this equipment item:

| | R |
|---|---|
| Cost price | 1 500 000 |
| Accumulated depreciation | 560 000 |
| Accumulated impairment (31 Dec 20.6) | 100 000 |
| | |

The impairment in respect of this equipment item still has to be recognised.

3 Vehicles

3.1 The depreciation expense for vehicles in respect of the 2017 reporting period has been correctly calculated and recognised in accordance with the straight-line method at 12.5% per year at an amount of R700 000.
3.2 On 31 December 2017 a vehicle with a cost price of R800 000 was sold for R68 400 cash. The profit on the sale of this vehicle amounted to R20 000. The vehicle still has to be derecognised.
3.3 No other vehicles were sold or purchased during 2017.

4 In accordance with Multipla (Pty) Ltd's policy in respect of term deposits, the term deposit is measured on the reporting date at amortised cost. The investment in the term deposit of R1 300 000 was made on 1 July 2017. The interest rate is 6% per year, calculated on a simple basis. (The interest therefore accrued evenly over the term of the deposit.) The deposit is repayable on 28 February 2018.

5 Multipla (Pty) Ltd accounts for trade inventories in the accounting records by means of a perpetual inventory system and uses the FIFO cost formula to determine the cost price of inventories, namely R8 405 500.

5.1 On 31 December 2017 a physical inventory count reflects that there is a shortage in respect of a number of inventory items. The cost of these items amounts to R100 500. This event still has to be recognised.
5.2 The net realisable value of the trade inventories on hand on 31 December 2017 was determined per group of similar inventory items. The calculation indicates that the cost price of certain groups of inventory items exceeds the net realisable value thereof with R305 000 in total.

6 The receivables ledger (debtors ledger) reflects the following in respect of the total trade receivables to the amount of R13 028 525:

| | R |
|---|---|
| Receivables with debit balances | 13 050 800 |
| Receivables with credit balances | (22 275) |
| | 13 028 525 |
| | |

7 On 22 December 2016, Multipla (Pty) Ltd entered into a loan agreement with its bank, B Bank. In accordance with the agreement, B Bank deposited an amount of R2 052 000 into Multipla (Pty) Ltd's bank account on 2 January 2017. This payment has already been appropriately recognised.

8

The equipment item purchased from Divisor Ltd on 2 January 2017 serves as security for this loan. (Refer to additional information 2.2 above.) The most important remaining conditions of the loan between Multipla (Pty) Ltd and BNF Bank, can be seen from the following repayment schedule:

| | | Instalment | | | |
|---|---|---|---|---|---|
| **Date** | | **Total** | **Capital** | **Interest at 12% per year** | **Amortised cost** |
| 02/01/20.7 | Loan | | | | 2 052 000 |
| 31/12/20.7 | Instalment 1 | 675 589 | 429 349 | 246 240 | 1 622 651 |
| 31/12/20.8 | Instalment 2 | 675 589 | 480 871 | 194 718 | 1 141 780 |
| 31/12/20.9 | Instalment 3 | 675 589 | 538 575 | 137 014 | 603 205 |
| 31/12/20.10 | Instalment 4 | 675 589 | 603 205 | 72 384 | 0 |
| | | **2 702 356** | **2 052 000** | **650 356** | |
| | | | | | |

Instalment 1 was paid on 31 December 2017. This payment was recognised by debiting the bank loan account with R675 589 and crediting the bank account with the same amount.

9 On 1 December 2017, Multipla (Pty) Ltd's auditors commenced with the audit in respect of the reporting period ended 31 December 2017. On 4 January 2018 an invoice to the amount of R48 165 was received from the auditors in respect of audit work performed during December 2017. This transaction still has to be recognised.

10 Multipla (Pty) Ltd's statement of profit or loss for the year ended 31 December 2017 reflects a "Profit before tax" of R14 188 000 (after correctly accounting for all the abovementioned additional information) and an income tax expense (which was reliably calculated and correctly recognised) of R4 256 000.

**REQUIRED:**

a) Disclose ONLY the following notes to the financial statements of Multipla (Pty) Ltd for the reporting period ended 31 December 2017:

i) Property, plant and equipment (**Note**: The total column is not required); and (15)
ii) Long term borrowings. (5)

**QUESTION 3 (continued)**

b) After accounting for the additional information, present the appropriate asset and liabilities balances in the statement of financial position of Multipla (Pty) Ltd as at 31 December 2017. (14)

**Note:**

Journal entries and general ledger accounts are not required.
When accounting for the additional information, some cases have VAT implications.
Amounts must be presented next to the correct line item and under the correct heading.
Show the calculations of all the line items between brackets, either directly after or directly underneath the wording of the relevant line item.
Where applicable, round off amounts to the nearest Rand.

**QUESTION 4 (Annexure A)** **(32 MARKS)**
**(39 MINUTES)**

The accountant of Willcon (Pty) Ltd provides you with the following financial information for the reporting period ended 28 February 2017:

**WILLCON (PTY) LTD**
**STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2017**

| | Additional information | 2017 | 2016 |
|---|---|---|---|
| | | R | R |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment property at fair value | | 1 450 000 | 1 090 000 |
| Machinery at cost price | 3 | 120 000 | 81 000 |
| Accumulated depreciation: Machinery | 3 | (30 310) | (27 820) |
| Vehicles at cost price | 4 | 430 520 | 275 000 |
| Accumulated depreciation: Vehicles | 4 | (68 000) | (95 000) |
| Trademarks at carrying amount | 6 | 123 950 | 115 000 |
| Financial investments (in listed shares) at fair value | 7 | 195 000 | 118 000 |
| **Total non-current assets** | | **2 221 160** | **1 556 180** |
| | | | |
| **Current assets** | | | |
| Inventories | | 721 740 | 657 360 |
| Trade receivables | 8 | 451 150 | 374 760 |
| Other current assets | 5 | 10 290 | 0 |
| Bank | | 2 762 460 | 0 |
| **Total current assets** | | **3 945 640** | **1 032 120** |
| **Total assets** | | **6 166 800** | **2 588 300** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | | 3 160 000 | 1 375 000 |
| Retained earnings | 1 to 4 | 2 101 070 | 641 850 |
| **Total equity** | | **5 261 070** | **2 016 850** |
| | | | |
| **Non-current liabilities** | | | |
| 7% Long term loan | | 150 000 | 200 000 |
| | | | |
| **Current liabilities** | | | |
| Trade- and other payables | 9 | 494 200 | 215 830 |
| Bank overdraft | | 0 | 2 500 |
| Current portion of long term loan | | 50 000 | 50 000 |
| Tax payable | | 84 700 | 57 340 |
| Dividends payable | | 126 830 | 45 780 |
| **Total current liabilities** | | **755 730** | **371 450** |
| **Total liabilities** | | **905 730** | **571 450** |
| **Total equity and liabilities** | | **6 166 800** | **2 588 300** |
| | | | |

**Additional information**

1 The following information is extracted from the statement of profit or loss for the year ended 28 February 2017:

| | Additional information | R |
|---|---|---|
| Revenue/Sales | | 5 890 580 |
| Profit before tax | | 2 604 940 |
| Finance costs | | (14 875) |
| Loss on scrapping of building | | (180 000) |
| Loss on sale of machinery | 3 | (1 650) |
| Profit with fair value re-measurement of investment property | | 28 200 |
| Dividends received – financial investments | | 10 840 |
| Profit on sale of vehicles | 4 | 9 650 |
| Rent income | | 18 470 |
| Directors' remuneration | | (12 950) |
| Amortisation of trademarks | 6 | (18 350) |
| Impairment of trademarks | 6 | (20 000) |
| Depreciation on machinery | 3 | (7 610) |
| Depreciation on vehicles | 4 | (51 630) |
| Profit with fair value re-measurement of financial investments (listed) | 7 | 23 000 |
| Doubtful debts – increase in allowance | | (760) |
| Water and electricity | | (15 730) |
| Income tax expense | | (887 370) |
| | | |

2 Ordinary- and preference dividends were declared during the current financial year and amount to R258 350.

3 During April 2016, machinery with a carrying amount of R32 000 was sold at a loss of R1 650. During the same month, new machinery with a cost price of R23 680 was acquired to replace the sold machinery. Furthermore, additional machinery was purchased as an addition.

4 On 30 May 2016, a vehicle with an original cost price of R128 370 and accumulated depreciation of R78 630, was sold. A portion of the selling price was still receivable at the end of the reporting period (see paragraph 5). The only vehicle purchased during the year, was purchased to replace the sold vehicle.

5 Other current assets consist of an amount of R10 290 that it receivable in respect of the sold vehicle.

6 Intangible assets comprise the following:

| | Additional information | Trademarks |
|---|---|---|
| | | **R** |
| **Carrying amount at the beginning of the year** | | **115 000** |
| Gross carrying amount | | 145 000 |
| Accumulated amortisation | | (30 000) |
| | | |
| Additions | 12 | 47 300 |
| | | |
| Amortisation for the year | | (18 350) |
| | | |
| Impairment | | (20 000) |
| | | |
| Gross carrying amount | | 192 300 |
| Accumulated amortisation | | (48 350) |
| Accumulated impairment | | (20 000) |
| **Carrying amount at the end of the year** | | **123 950** |
| | | |

7 During the course of the current financial year, a portion of the financial investments (in listed shares) which was purchased earlier during the current year (with an original cost price of R28 000), was sold at the fair value thereof, namely R40 000. Furthermore, there were financial investments (in listed shares) purchased during the current reporting period.

8 Trade receivables comprise the following:

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | 458 430 | 381 280 |
| Allowance for doubtful debts | (7 280) | (6 520) |
| | 451 150 | 374 760 |
| | | |

9 Trade- and other payables comprise the following:

| | 2017 | 2016 |
|---|---|---|
| Trade payables | 482 800 | 215 830 |
| Payable: Trade marks | 11 400 | 0 |
| | 494 200 | 215 830 |

**REQUIRED:**

Present and disclose the statement of cash flows for Willcon (Pty) Ltd for the reporting period ended 28 February 2017. **Make use of the Anexure provided**. (32)

**Note:** Clearly show ALL calculations.
Ignore VAT

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