UNIVERSITY OF JOHANNESBURG

# DEPARTMENT OF ACCOUNTANCY

# ACCOUNTING 2B

## FINAL ASSESSMENT OPPORTUNITY
## 17 NOVEMBER 2017


| | | | |
|---|---|---|---|
| **ASSESSORS**: | MS T MAHMOOD | **MARKS:** | 125 |
| | MS T MOHOHLO | **TIME:** | 150 MINUTES |
| | MR Z ALLY | | |
| **MODERATOR:** | MR G BARNES | | |


- *THE ASSESSMENT OPPORTUNITY PAPER CONSISTS OF 3 QUESTIONS AND 8 PAGES (front page included).*
- *SILENT NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.*
- ***SHOW ALL CALCULATIONS**.*
- *START EVERY NEW QUESTION AT THE TOP OF A PAGE.*
- *ANSWERS CONTAINING TIPPEX OR PENCIL WILL NOT QUALIFY FOR REMARKING.*
- *CROSS OUT OPEN SPACES AND EMPTY PAGES.*

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**QUESTION 1** **(50 MARKS)**
**(60 MINUTES)**

You have been presented with the following abridged financial statements of Hadebe Ltd and Segale Ltd for the reporting period ended 31 December 2016.

| STATEMENT OF FINANCIAL POSITION FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2016 | | |
|---|---|---|
| | **Hadebe Ltd** | **Segale Ltd** |
| **ASSETS** | | |
| Buildings | 1 500 000 | 420 000 |
| Plant and equipment | 2 100 000 | 859 500 |
| Cost price | 3 200 000 | 1 480 000 |
| Accumulated depreciation | (1 100 000) | (620 500) |
| Investment in Segale Ltd at cost: | | |
| 180 000 ordinary shares | 1 100 000 | - |
| 90 000 10% preference shares | 150 000 | - |
| Inventories | 825 000 | 420 000 |
| Trade receivables | 358 000 | 247 000 |
| Bank | 220 000 | 40 000 |
| | 6 253 000 | 1 986 500 |
| **EQUITY AND LIABILITIES** | | |
| R5 - ordinary share capital | 5 000 000 | 1 000 000 |
| R1 - 10% preference share capital | - | 300 000 |
| Retained earnings | 1 033 000 | 386 500 |
| Distributable reserve | - | 280 000 |
| Trade payables | 220 000 | 20 000 |
| | 6 253 000 | 1 986 500 |

| STATEMENTS OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2016 | | |
|---|---|---|
| | **Retained earnings** | |
| | **Hadebe Ltd** | **Segale Ltd** |
| Balance at 1 January 2016 | 782 000 | 284 250 |
| Profit for the year | 451 000 | 177 250 |
| Transfer to distributable reserve | | (20 000) |
| Dividend paid - Ordinary dividend | (200 000) | (25 000) |
| - Preference dividend | | (30 000) |
| Balance at 31 December 2016 | 1 033 000 | 386 500 |

| STATEMENTS OF COMPREHENSIVE INCOME FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2016 | | |
|---|---|---|
| | **Hadebe Ltd** | **Segale Ltd** |
| Revenue | 3 982 100 | 677 500 |
| Cost of sales | (2 675 000) | (205 000) |
| Gross profit | 1 307 100 | 472 500 |
| Other income | 316 000 | 32 000 |
| Net operating expenses | (997 000) | (258 500) |
| Profit before tax | 626 100 | 246 000 |
| Tax | (175 100) | (68 750) |
| Profit for the year | 451 000 | 177 250 |

**QUESTION 1 (CONTINUED)**

**ADDITIONAL INFORMATION:**

1. On 1 January 2014 Hadebe Ltd acquired an interest in the ordinary shares of Segale Ltd. On that date the equity of Segale Ltd consisted of:

| | |
|---|---|
| Ordinary share capital (R5 shares) | 1 000 000 |
| Retained earnings | 182 000 |
| Distributable reserve | - |

3. Total intra-group sales for the current reporting period ended 31 December 2016 amounted to R480 000. As at 1 January 2016 Hadebe Ltd had R15 000 worth of inventory on hand that was purchased from Segale Ltd. There was no closing inventory related to intragroup sales on 31 December 2016. Segale Ltd sells inventory to Hadebe Ltd at cost plus 25%.

4. On 3 January 2015, the management of Segale Ltd sold a vehicle with a carrying amount of R75 000 on that date for R96 000 to Hadebe Ltd. Depreciation is written off using the straight line method. The remaining useful life was estimated to be 5 years on date of sale.

5. On 1 November 2016, Hadebe Ltd purchased 90 000 preference shares for R150 000 from Segale Ltd.

6. Segale Ltd declared and paid ordinary and preference dividends during the current reporting period. Hadebe Ltd included their share of the dividends declared and paid by Segale Ltd in “Other income”.

7. Hadebe Ltd accounts for its investments in subsidiaries in accordance with the cost method.

8. It is the accounting policy of Hadebe Ltd to measure non-controlling interest in ordinary shares at their proportionate share of the acquiree’s identifiable net assets at the acquisition date.

9. Assume that the identifiable asset acquired and the liabilities assumed at acquisition date are shown at their acquisition-date fair values, as determined in terms of IFRS 3, *Business Combinations*.

10. You may ignore tax implications

***PLEASE TURN PAGE OVER FOR REQUIRED INFORMATION***

**QUESTION 1 (CONTINUED)**

**REQUIRED:**

1.1 Prepare the necessary pro forma consolidation journal entries relating to the **intra-group transactions ONLY** for the reporting period ended 31 December 2016. **(10)**

1.2 Prepare the analysis of the owner's equity of the ordinary shares of Segale Ltd for the reporting period ended 31 December 2016. **(15)**

1.3 Prepare the analysis of the owner's equity of the preference shares of Segale Ltd for the reporting period ended 31 December 2016. **(5)**

1.4 Prepare the Consolidated Statement of Comprehensive Income of Hadebe Ltd and its subsidiary for the reporting period ended 31 December 2016. **(10)**

1.5 Prepare the Consolidated Statement of Changes in Equity of Hadebe Ltd and its subsidiary for the reporting period ended 31 December 2016. **(10)**

**PLEASE NOTE: *Total columns are NOT required*.**

**(50)**

**QUESTION 2** **(25 MARKS)**
**(30 MINUTES)**

The financial statements of Motors Ltd are in the process of being prepared for publication. The senior accountant has requested you, as the new trainee, to assist with the calculation of earnings per share. You have extracted the following information from the financial records of the entity:

Extract from the Statement of Comprehensive Income for the reporting period ended 28 February 2017

| | **2017** | **2016** |
|---|---|---|
| | **R** | **R** |
| Profit before dividends and tax | 2 000 000 | 1 700 000 |
| Dividends received | 225 000 | 210 000 |
| **Profit before tax** | **2 225 000** | **1 910 000** |
| Tax expense | (623 000) | (534 800) |
| **Profit for the period** | **1 602 000** | **1 375 200** |
| | | |
| **Other comprehensive income** | | |
| Fair value adjustment on financial instrument | - | 180 000 |
| **Total comprehensive profit for the period** | **1 602 000** | **1 555 200** |

**The capital structure of the entity is as follows at the beginning of the current reporting period:**

| | |
|---|---|
| **Ordinary share capital of R3.00 per share** | |
| Authorised (number of shares) | 1 000 000 |
| Issued **1 March 2014** (number of shares) | 275 000 |
| | |
| 10% Preference shares redeemable at the option of the holder issued at R2.5 each on **1 December 2012** | R625 000 |
| | |
| 15% non-cumulative preference shares issued on **31 December 2015** | R425 000 |
| | |
| 12% cumulative non-redeemable preference shares preference shares issued on **31 December 2014** | R300 000 |
| | |

**ADDITIONAL INFORMATION:**

1. On **1 January 2016** Motors Ltd decided to buy back 180 000 ordinary shares at the fair value of R5.00 per share.

2. Motors Ltd made a rights issue of 3 ordinary shares for every 5 shares held on **1 April 2016**. The rights issue was fully subscribed at the fair value on the issue date.

3. Motors Ltd made a capitalisation issue of 2 ordinary shares for every 4 shares held on **1 June 2016**.

4. On **1 January 2017** the company secretary proposed a share consolidation of R3 ordinary shares into R6 ordinary shares in order to “clear” the shareholders register of odd-lots.

5. On **15 March 2017** when finalizing the 2017 financial statements the accountant noticed that he erroneously recorded a sale for R10 000 instead of R100 000. The financial statements were authorized for issue on 30 June 2017

**QUESTION 2 (CONTINUED)**

6. All preference dividends were declared on 28 February for both periods

7. You may assume a tax rate of 28% for the reporting period.

**REQUIRED:**

Present and disclose the earnings per share in the financial statements of Motors Ltd for the reporting period ended 28 February 2017.

**Note:**

- Comparative figures **are** required.
- Your answer should include the necessary calculations. (25)

**QUESTION 3** **(50 MARKS)**
**(60 MINUTES)**

Joe Cologne Ltd is a manufacturer and retailer of women's cosmetics and perfumes. The senior accountant responsible for the preparation of the end of year management accounts has unfortunately taken ill. The financial director, requests your assistance to finalise the reporting period year-end accounts.

**The following balances appeared in the records of Joe Cologne Ltd for the reporting period ended 31 December 2017:**

| | Note | R |
|---|---|---|
| Land at valuation – 1 December 2017 | 1 | 1 160 000 |
| Machinery at carrying amount | 2 | ? |
| Inventory | 3 | ? |
| Accounts receivable | 5 | 135 000 |
| Bank | | 265 000 |

1. It is company policy to revalue the land at replacement value every three years by using an independent appraiser. The following information is available:

| | R |
|---|---|
| Purchase price – 25 December 2011 | 1 000 000 |
| Revaluation - 25 December 2014 | 160 000 |
| Revaluation - 25 December 2017 | 190 000 |
| | 1 350 000 |

   Between 25 December and year end no significant movements in the value of land had taken place.

2. A machine used to manufacture contour kits to customers was purchased on 1 March 2015 for R1 539 000 (incl. VAT). Installation cost amounts to R125 000 (excl. VAT). On 31 December 2016 the residual value for 10 year old machines was R235 000 (excl. VAT). The machinery can be sold for R342 000 (incl. VAT) at the end of its useful life. During the course of the year, it was decided to change the method of depreciation from the reducing balance method at 15% per annum to the units of production method. This type of machinery is usually replaced when the total units produced amounts to 1 000 000 contour kits.

   The following output was recorded:

| Reporting period end | Units of contour kits produced |
|---|---|
| 1 March 2015 – 31 December 2015 | 125 000 |
| 1 January 2016 - 31 December 2016 | 185 000 |
| 1 January 2017 - 31 December 2017 | 210 000 |

3. Inventories on hand consist of:

| | Cost | Net realisable value |
|---|---|---|
| | R | R |
| Raw materials | 53 000 | 57 000 |
| Work in progress | 64 500 | 59 000 |
| Finished products | ? | ? |

**QUESTION 3 (CONTINUED)**

3.1 The following information is provided with respect to finished products:

| | R |
|---|---|
| Manufacturing cost per unit | 132 |
| Delivery costs to customers per unit | 35 |
| Storage cost per unit | 5 |
| VAT | 18 |
| Abnormal wastage per unit | 4 |
| Selling price per unit | ? |

3.2 There were 2 350 units of finished products on hand at 31 December 2017.

3.3 The selling agents' commission is 20% of the selling price.

3.4 Selling price is marked up 25% on cost.

3.5 Joe Cologne Ltd values its inventories at the lower of cost, measured on the first-in-first-out basis, or net realisable value.

4. It has come to your attention on the 31 December 2017 that the financial manager processed fictitious sales in order to increase company profits. This action resulted in the overstatement of sales and accounts receivable by R175 000 in the 2016 financial year. The carrying amount of trade and other receivables was R576 000 for the reporting period ended 31 December 2016.

5. During February 2018 protest action by employees and labour unions caused a fire in the warehouse. Damage amounted to R375 000, R75 000 of which was for damage to inventory. The rest was damage to the warehouse. The company's insurance policy does not cover such an occurrence and the claim was rejected by the insurance company.

6. Cash on hand amounted to R18 500. Joe Cologne maintains a current account with NAZ Bank Limited. As at 31 December 2017, the account with NAZ Bank Ltd had a favourable balance of R265 000.

7. A meeting will be held on the 31 March 2018 to authorise the current period's financial statements for issue.

**REQUIRED:**

a) Present the **assets only section** as it should appear in the Statement of Financial Position for Angel Ltd for the reporting period ended 31 December 2017. **(5)**

b) **Disclose** the **following notes** to the Statement of Financial Position for Angel Ltd for the reporting period ended 31 December 2017 to comply with *International Financial Reporting Standards (IFRS)*.
- Property, plant and equipment
- Inventory
- Change in Accounting Estimate
- Prior period errors
- Adjusting/non-adjusting events

**(45)**

**Please note:**
- Comparative figures are **not** required.
- Notes on the **accounting policy** are **not** required.
- Show **all** your calculations clearly.