



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Financial Accounting 2A
MODULE CODE	FAC22A2
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity July 2019

ASSESSMENT DATE	July 2019	SESSION	08:30 – 11:30
ASSESSOR(S)	Mr N Ebrahim Mrs N Madliwa Mr K Morake Dr N Rhodes		
MODERATOR(S)	Mr L Khumalo (Internal)		
DURATION	3 hours (180 min)	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	8 pages
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INFORMATION / INSTRUCTIONS:

- 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.

1	Sage + Share Transactions	25	45 minutes
2	Revenue + Inventory	25	45 minutes
3	Forex + Borrowing Costs	25	45 minutes
4	Forex + Inventory	25	45 minutes
TOTAL		100	180 minutes

QUESTION 1**25 marks**

RCP 1 (Pty) Ltd is a new company and a registered VAT vendor. A1 to A6, below, relates to the transactions for the Class A, B and C shares. With reference to A1 to A6 answer questions 1.1 to 1.6. Ignore VAT for transactions A1 to A6.

Trans no	DATE	DETAILS
A1	01/4/2019	3 500 000 shares were offered to the founders of the company at an issue price of R1 per share. All the shares were paid by the founders by 1 April and allotted to them. The directors were offered 1 000 000 shares at an issue price of R2.00 per share. All the shares were taken up by the directors and paid for by 1 April. Share issue costs of R350 000 was paid on 1 April. The shares were allotted on 1 April 2019.
A2	15/4/2019	500 000 Class B shares were offered to the employees at an issue price of R2.50 per share. The shares were underwritten by Angle-Money Ltd at a cost of 3%. The employees applied for 250 000 shares by the 15 April. All 500 000 shares were allotted by 30 April. The underwriter's commission was paid on 30 April and share issue expenses of R35 500 was paid on 30 April.
A3	20/4/2019	200 000 Class C shares were offered to the founders at R5.00 per share and the preference shares were redeemable at the option of the company within a two year period from 1 April 2019 at a redemption price of R2.00 per share. The shares were paid for by the 30 April. The shares were allotted on 30 April 2019
A4	30/4/2019	Write off all share issue costs.
A5	30/6/2019	The directors resolved to redeem the Class C preference shares on 30 June 2019. The guaranteed interest (or dividend) at 10%pa was paid to the shareholders for the months 1 May to 30 June 2019. The shareholders were paid in full, including the dividends on 30/06/2019.
A6	30/6/2019	The directors resolved to declare and pay an interim dividend of 10 cents per share to the Class A shareholders.
Additional Information		The profits for the three months to 30 June 2019 were R2 250 850.

REQUIRED:

- 1.1 What is the account type for the share issue expense account? (1)
 1.2 What module was used for the payment of the underwriter's commission? (1)
 1.3 What module was used for the write off of the share issue costs? (1)
 1.4 Calculate the underwriters commission if the employees had applied for 750 000 of the Class B shares. (1)
 1.5 Prepare all the journal entries for transaction number A5. (10)
 1.6 Prepare the Statement of Change in Equity for the three months ended 30 June 2019 taking into account A1 to A6. (11)

Account classifications and narrations are required for all journal entries.

[25]

QUESTION 2**25 Marks**

Ekhaya Furniture's (Pty) Ltd is a furniture manufacturing company based in Braamfontein Johannesburg. The company manufactures furniture household products include custom built wall units(cupboards) that they install for their customers. They also build free standing cupboards that they sell directly to furniture retailers and the public. Ekhaya Furniture's (Pty) Ltd is a registered VAT vendor and has a 28 February 2019 reporting date. They buy all their boards from a Chinese Supplier and the other materials from a local supplier.

Bears Furniture's ordered 100 free standing kitchen units at R17 500 per unit (exclusive of VAT) on the 2 March 2018 and paid a 50% deposit immediately. The manufacturing of the units was completed in February 2019 due to delays. The kitchen units were delivered on 10 February 2019 and Bears paid the outstanding amount at the end of the month March 2019.

Ekhaya Furniture's received a contract to custom build and install cupboards for the Palazzo Hotel in Montecasino, on the 15 March 2018 for R 4 000 000 (exclusive of VAT) and the installation has to be completed by end of July 2019. At year end the building of the cupboards was complete but the installation was about 60%. Cost to complete the project was estimated to be 80% of all the cost incurred to manufacture the cupboards during the year and 20% was allocated to the building of the Bears Furniture order.

To complete both orders on 28 March 2019 Ekhaya placed an order with their Chinese supplier for 1 000 boards. The cost was CYN 1 745 at an exchange rate of CYN1: R1.50. The boards arrived in South Africa on 25 June 2018.

The following costs were incurred:

- Import duties are 10% of the purchase price.
- Transport costs - R 100 000
- Handling costs - R 250 000 (excluding VAT)
- Insurance costs - R430 000 (excluding VAT)
- Administration Costs - R 300 000

On the 26 March 2018 from the local supplier they purchased their handles and nails for R 260 000 (excluding VAT) and incurred a further R 65 000 (excluding VAT) for the paint. All manufacturing costs were bought in cash. The total direct labour costs amounted to R 768 000 for the whole year.

REQUIRED:

2.1 Discuss when the revenue should be recognized in terms of Section 23 of IFRS for SMEs, for the above mentioned sale of 100 free-standing cupboards made to Bears for the reporting period ending 28 February 2019. (6)

2.2 Calculate the total cost of manufacturing the cupboards. Allocate the manufacturing cost to the 100 Bears Furniture Units and the Palazzo Hotel Installation Contract. (7)

2.3 Prepare the necessary journal entries to record the revenue to be recognized for the contract with Palazzo Hotel in the books of Ekhaya Furniture (Pty) Ltd at 28 February 2019. (8)

Account classifications and narrations are required for all journal entries.

Part B

1. The directors of Ekhaya Furniture's decided to invest in 10 000 non-redeemable preference shares that were purchased at R100 per share. The preferential dividend on the shares was 12% which was paid at the end of the year.
2. Investment of R 1 500 000 was made into interest yielding fund with Saambou Bank on the 1st of March 2018, the interest is earned quarterly at 5%.
3. The remaining funds were invested in rental property. The property was let to the tenant from 1st of June 2018 and the rental was R10 500 per month.

REQUIRED:

Calculate the amount to be presented as other income in the statement of profit or loss for the reporting period 28 February 2019. The classification for each type of other income is required. (5)

[25]

QUESTION 3**25 Marks****PART A: 10 marks**

On 1 May 2018 Great Africa Trading (Pty) Ltd, a business based in Mondeor, sold inventory to a foreign customer located in Botswana for P125 000. The customer settled the debt on 1 June 2018. Great Africa Trading (Pty) Ltd has reporting period ending 31 May.

The following spot exchange rates (1 R = P) may apply:

1 May 2018	1.45
15 May 2018	1.38
31 May 2018	1.56
1 June 2018	1.52
Average 1 May 2018 to 31 May 2018	1.50

IGNORE VAT.

REQUIRED:

- 3.1 Calculate the amount of the Sales to be recognised in May 2018. (2)
- 3.2 Prepare the journal entry at 31 May 2018 for the fair valuation of the foreign receivable. (3)
- 3.3 Calculate the foreign loss or gain on settlement on 1 June 2018. (2)
- 3.4 Prepare the journal entry for the monies received from the foreign customer at 1 June 2018. (3)

Account classifications and narrations are required for all journal entries.

PART B: 15 marks

FOX International Trading (Pty) Ltd entered into the following transactions in order to finance the construction of a new plant. The planned budget for the construction is R3 million and the expected construction time is 15 months. The reporting date of the company is 31 December. The financing of the project takes place as follows:

IGNORE VAT.

Asset description	Amount R	Financing details
New Buildings	2 000 000	80% mortgage loan per annum at 18% per annum at Mzantsi Bank on 1 May 2018

Machinery	700 000	On 1 January 2018 FOX International Trading (Pty) Ltd entered into a lease agreement to lease a machine. The cost of the machinery is R700 000 with an estimated useful of five years with no residual value. The machine was brought into use on the 30 th of September 2018. Instalments payable annually R184 658.24 in arrears on 31 December. Nominal interest rate 10% Lease term 5 years The amortisation table is presented below
Office Equipment	250 000	75% loan from the overdraft facility with Parma Bank. Interest is charged at 1.5% per month. The overdraft was used on 31 July 2018 to buy the equipment.

Amortisation table:

Date	Opening balance R	Interest R	Capital R	Instalment R
31 December 2016	700 000.00	70 000.00	114 658.24	184 658.24
31 December 2017	585 341.76	58 534.18	126 124.06	184 658.24
31 December 2018	459 217.70	45 921.77	138 736.47	184 658.24
31 December 2019	320 481.24	32 048.12	152 610.11	184 658.24
31 December 2020	167 871.12	16 787.11	167 871.12	184 658.24

REQUIRED:

- 3.5 Dividends on non-redeemable Class B shares form part of borrowing costs. Is this TRUE or FALSE and substantiate your answer. (3)
- 3.6 If redeemable preference shares are redeemable at the option of the **shareholder** they are liabilities and not equity. Is this TRUE or FALSE and substantiate your answer. (2)
- 3.7 IFRS for SME's requires an entity to recognise all borrowing costs as part of the cost of an asset. Is this TRUE or FALSE and substantiate your answer. (2)
- 3.8 Prepare the journal entry for the accrual of interest for the year ended 31 December 2018 based on the assumption that ***no interest was paid during the year.*** (8)

Account classifications and narrations are required for all journal entries (15)

Show ALL workings [25]

QUESTION 4**25 Marks**

Speed Freak (Pty) Ltd, a local manufacturer, imports and assembles "Go – Karts" for resale to the local toy shops across the country. Speed Freak (Pty) Ltd year end is 30 June 2019

PART A: 17 marks

The following costs are incurred to assemble and complete the Go – Kart

Raw Material**1. Engines**

100 units were purchased from a German Supplier. The order was placed on the 1 August 2018. The supplier accepted the order and the units were loaded onto the ship on the 15 September 2018. The units arrived in South Africa on the 10 October 2018 and arrived at the premises on the 1 November 2018. The unit were FOB Shipping and total invoice amounted to \$130 000. This invoice was paid on 30 November 2018

Other costs incurred included delivery charges of R 23 000 (incl. VAT) and insurance cost of R 10 000 (excl. VAT). Paid storage costs of R 5 000 due to the delivery company being a day late

The exchange rates for the for the reporting period where as follows

- 01 August 2018 - R 12.50 : \$ 1
- 15 September 2018 - R 11.50 : \$ 1
- 10 October 2018 - R 13.70 : \$ 1
- 01 November 2018 - R 13.90 : \$ 1
- 30 November 2018 - R 14.50 : \$ 1

2. Tyres

Purchased 500 tyres from a local supplier. The total cost amounted to R 100 625 (incl VAT). Each Go – Kart requires four tyres each

3. Steering wheel and brake kit

Purchased 120 steering wheel and brake kits. The total invoice before any discount and rebate amounted to R 69 000 (incl. VAT), the supplier granted us a 10% trade discount

Labour

Speed Freak (Pty) Ltd has 2 employees involved in the assembly and completion of the Go – Karts. They earned a combined salary of R 5 000 per month. Labour costs are charged to the product based on units produced in the month. 50 units were produced for the month

Other overheads

Monthly overhead costs amount to R 10 000 per month. 20% relates to the administration function of the company and the remaining 80% relates to manufacturing. The manufacturing overheads costs are charged to the product based on the units produced in the month. 50 units were produced for the month

REQUIRED:

4.1 From the information provided above, discuss with reasons, which date the purchase of inventory items from a foreign supplier should be recorded. (3)

4.2 From the above information, **calculate the cost per unit** for each “Go - Kart” assembled (11)

4.3 From the information provided above, provide the journals entries required to for the settlement of invoice on 30 November 2018 (3)

Account classifications and narrations are required for all journal entries.

PART B: 8 marks

The following information regarding the inventory balances was provided for the reporting period ending 30 June 2019. **Ignore** all information provided in PART A above.

	Cost per unit	Units
Engines	R 15 500	25
Tyres	R 150	50
Steering wheel and brake kit	R 550	20
Partly assembled Go-Karts	R 16 500	5
Completed Go-Karts	R 17 000	10

On 30 June 2019, one of the company's competitors launched a superfast Go- Kart. This had a significant impact on the company's sales a decline in the selling price. Similar Go – Karts in the market could be sold for R 17 500 and the cost to sell would be commission of R 500 per smartphone and advertising of R 500 per smartphone

REQUIRED:

4.4 Prepare the inventory disclosure note for Speed Freak (Pty) Ltd for the reporting period ended 30 June 2019. (8)

[25]

[Total marks 100]