FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Financial Accounting 3A
MODULE CODE	FAC33A3/FAC3AA3
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity July 2019

ASSESSMENT DATE	July 2019	**SESSION**	
ASSESSOR(S)	Mrs S Adam Mr L Khumalo Ms L Mbhalati		
MODERATOR)(Internal)	Ms B Madikizela		
MODERATOR)(external)	Mr M Malinga		
DURATION	3 hours	**TOTAL MARKS**	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	9

UNIVERSITY OF JOHANNESBURG

INFORMATION/INSTRUCTIONS:

- Answer all questions. **Show all calculations and workings clearly.**
- Start each question on a new page in your answer book.
- Silent, non-programmable calculators may be used.
- Where applicable, round all calculations to the closest Rand.

Question	Topic	Marks	Time
1	Concepts and pervasive principles	10	18 minutes
2	Property, Plant and Equipment	35	63 minutes
3	Intangible Assets	10	18 minutes
4	Borrowing costs	10	18 minutes
5	Financial Instruments	20	36 minutes
6	Leases	15	27 minutes
		100	**180 minutes**

Question 1 **[10 Marks]**

Rebo (Pty) Ltd is a property renovations and interior design services company, with a financial reporting period ending 31 March**.** Besides performing renovations and interior design services, the company also sells designer furniture directly to customers. On 01 April 2018 Rebo (Pty) Ltd entered into a service agreement to perform interior design services for a client at a total contract price of R2 500 000 (excluding VAT) and total estimated costs of R 2 012 500 (including VAT).

Upon signing the service contract on 01 April 2018, the client made an up-front payment of 35% (including VAT) of the total contract price, the balance is payable upon completion. The entity is a registered VAT vendor. The directors of the company don't have experience in accounting and they suggested that the 35% deposit be recognised as revenue immediately.

REQUIRED:

1.1 State what is meant by substance over form and give an example. **(3)**

1.2 Discuss how the 35% upfront payment will be recognised in the books of Rebo (Pty) Ltd. **(4)**

1.3 Show the effect of the above transaction in the accounting equation as follows:

Assets	**=**	**Equity**	**+**	**Liabilities**

(3)

Question 2 **[35 Marks]**

Graduate (Pty) Ltd, a registered VAT vendor, has prepared the following disclosure for its property, plant and equipment:

Graduate (Pty) Ltd				
Notes to the financial statements for the reporting period ended 30 June 2017				
Property, plant and equipment consists of:				
	Land **R**	**Warehouses** **R**	**Vehicles** **R**	**Fridges** **R**
Carrying amount at the beginning of the period	**30 000 000**	**21 600 000**	**9 000 000**	**1 500 000**
Cost	30 000 000	24 000 000	15 000 000	3 000 000
Accumulated depreciation	-	-2 400 000	-6 000 000	-1 500 000
Additions/ acquisitions		6 000 000		500 000
Disposals			-500 000	
Depreciation	-	-940 000	-2 633 333	-162 500
Impairment	-5 500 000			
Carrying amount at the end of the period	**24 500 000**	**26 660 000**	**5 866 667**	**1 837 500**
Cost	30 000 000	30 000 000	14 000 000	3 500 000
Accumulated depreciation/ impairment	-5 500 000	-3 340 000	-8 133 333	-1 662 500

Additional information:

- A vehicle was sold for R750 000 (Excluding VAT).
- On 1 July 2017 an independent appraiser provided the following fair values for the fridges:
    - A gross replacement value of R550 000 (Excluding Vat) for the fridge purchased during the reporting period ended 30 June 2017. This fridge had been purchased on 1 April 2017.
    - A net replacement value of R1 600 000(Excluding VAT) for all the other fridges combined.
    - Fridges are depreciated at 10% per annum using the diminishing balance method.

REQUIRED:

2.1 Prepare the journal entries that would have led to the property, plant and equipment reconciliation of Graduate (Pty) Ltd for the reporting period ended 30 June 2017 as noted above. **(24)**

2.2 Prepare the journal entries related to the revaluation on 1 July 2017. **(11)**

Journal narrations are required.

VAT is applicable at 15%

Question 3 **(10 Marks)**

Irma (Pty) Ltd has a reporting date of 31 December. On 1 January 2015 the entity acquired a franchise licence for R2 000 000. Management estimates the useful life of the licence at 5 years. At 31 December 2018 in response to the entry into the market of a competing franchisor the entity established that the licence could possibly be impaired.

Upon further investigation, it was determined that the fair value is R500 000 and the costs to sell is R55 000. Management also calculated the value in use to be R480 000.

REQUIRED:

3.1 Prepare ALL the journal entries for Irma (Pty) Ltd for the reporting period ended 31 December 2018. **(10)**

IGNORE VAT

Question 4 **[10 Marks]**

Winner (Pty) Ltd is a growing manufacturing entity based in Soweto. The company decided to expand its business and build a new plant in Roodepoort. At the beginning of the current year, 2018, the company had 2 existing loans as follows:

- R1 000 000 12% annually, existing general loan outstanding, the capital is repayable in full after 5 years;
- R 500 000 3.5% quarterly, existing general loan outstanding, the capital is repayable in full after 2 years.

A specific loan of R600 000 was raised on 01 October 2018 at an interest rate of 2% monthly. Construction of the plant started on 30 April 2018.

The following payments in relation to the construction of the plant were made:

- 01 March 2018: R1 200 000
- 31 August 2018: R300 000
- 01 October R600 000

The company's reporting date is 31 December.

REQUIRED:

4.1 Calculate the borrowing costs to be capitalised on 31 December 2018. **(6)**

Note: round percentages to two decimal places where applicable

4.2 Prepare the finance cost note for the reporting period ended 31 December 2018. **(4)**

Question 5 **[20 Marks]**

Rainy Ltd is a retailer based in Auckland Park. The company has a 31 December financial reporting period end. During the current year, 2018, the following transactions took place:

Transaction 1

On 01 March 2018, Rainy Ltd bought a government bond for R2 000 000. The transaction costs paid in cash amounted to R50 000. The bond has a face value of R2 500 000 and a coupon of 10% per annum, payable at the end of every year. The full capital is repayable in 5 years' time. The effective interest rate that discounts the future cash flows is 11.0664%.

Transaction 2

On 1 January 2018 Rainy Ltd resolved to make a capitalisation issue of 100 000 Class A shares to existing shareholders at R1.50 each. On this date, the company had 600 000 issued class A shares, at R2 each. The company had authorised share capital of 800 000 Class A shares and 200 000 class B shares. On 01 April 2018, the company resolved to issue all its class B shares at R3.00 per share. The share issue costs amounted to R20 000. All the shares on offer were subscribed for.

The retained earnings were as follows:

01 January 2018	R1 500 000
31 December 2018	R1 800 000

No other transaction were affected retained earnings except for the above transaction.

The shares were issued on 31 January 2018.

REQUIRED:

5.1 State whether redeemable preference shares at the option of the shareholder would be classified as equity or liability, give a reason for your answer. **(2)**

5.2 Prepare the journal entries to record the above transactions in the books of Rainy Ltd for the financial reporting period ended 31 December 2018. **(11)**

5.3 Prepare the statement of changes in equity of Rainy Ltd for the financial reporting period ended 31 December 2018. **(7)**

<u>Question 6</u> **(16 Marks)**

Riccardo Ltd leased a machine under a finance lease. Details of the lease agreement are given below:

Start of lease	1 April 2017
Lease period	5 years
Useful life of machine	4 years
Lease rentals	R250 000 per annum payable on 31 March
Present value of minimum lease payments	R999 820
Fair value of machine	R1 000 000
Interest rate implicit in agreement	8%

REQUIRED:

6.1 **Present** the above lease in the statement of financial position for Riccardo Ltd for the financial reporting period ended 31 March 2019.

Comparatives are required.