UNIVERSITY OF JOHANNESBURG

FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Accountancy
CAMPUS(ES)	APK, SWC
MODULE NAME	Accounting 1B
MODULE CODE	ACC01B1/REK1B01
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Final Assessment January 2020

ASSESSMENT DATE	09 January 2020	**SESSION**	11:30 – 14:00
ASSESSOR(S)	Mr M Dlamini Mr B Sibiya Mrs M Ncalo		
MODERATOR(S)	Ms T Mkhumbeni		
DURATION	2h30 (150 min)	**TOTAL MARKS**	125

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

INFORMATION/INSTRUCTIONS:

This is a closed-book assessment.

- There are 4 questions. **Answer all the questions**
- Answer each question in a separate book/Annexure.
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
- Write in blue or black ink – **No pencil or tippex may be used**
- A non-programmable, silent calculator may be used

QUESTION	**TOPIC**	**MARKS**	**TIME**
1.	Provisions (Blue)	25	30 minutes
2.	Statement of profit & loss (Green)	25	30 minutes
3.	Notes to the financial statements (Orange)	35	42 minutes
4.	Statement of cash flows (Annexure A)	40	48 minutes
		125	150 minutes

QUESTION 1 **(25 MARKS)**

A court case

TT entity is involved in a dispute with a competitor, who is alleging that the TT entity has infringed patents and is seeking damages of R100 million. Legal proceedings were started seeking damages from the entity but the entity disputes liability. Up to the date of authorisation of the financial statements for the year to 31 December 2017 the entity's lawyers advise that it is probable that the entity will not be found liable.

REQUIRED:

1.1 Define a contingent liability. (3)

1.2 Distinguish between a provisions and contingent liabilities. (5)

1.3 What are the recognition requirements of a provision? (3)

1.4 Should the entity recognize the law suit in the financial statement for the reporting period ended 31 December **2017**? Provide reasons for your answer. (3)

1.5 When the entity prepares the financial statements for the reporting period ended 31 December 2018, its lawyers advise that, owing to developments in the case, it is more than 50% probable that the entity will be found liable. However their experience shows that the court will not award the full R100m claimed by the complainant, it is more likely that half of that amount will be awarded for damages claimed. They also expect the suit to be finalised within the next 3 months.

Should the entity recognize the law suit in the financial statement for the reporting period ended 31 December **2018**? Provide reasons for your answer. (5)

1.6 Present and disclose provision in the Financial Statements of TT Entity for the reporting period ended 30 December 2018. (6)

QUESTION 2 **(25 MARKS)**

Ongi (Pty) Ltd, a very successful company's current reporting date is 31 December 2018.

The following balances, amongst others, appeared in the financial records of the company and are as at 31 December 2018, except when the date is indicated as 1 January 2018:

	Additional information	Dr	Cr
		R	R
Land & Building	1	11 000 000	
Mortgage bond	1		5 774 718
Rent income			1 762 500
Trademarks	2	4 000 000	
Investment in Take 5 (Pty) Ltd	3	3 625 000	
Management fee from Take 5 (Pty) Ltd	3		880 000
Investment in Bronx Ltd – listed shares (01/01/2018)	4	6 000 000	
Proceed from the sale of shares in BRONX Ltd	4		1 110 000
Gross profit			24 650 000
Retained earnings: 1 January 2018			22 690 000
Ordinary share capital – 12 000 000 shares	5		32 800 000
7% Preference shares: 1 000 000 shares			8 000 000
Dividend distribution – final dividend (declared on 30 April 2018) in respect of 2017 profit		1 280 000	
Distribution costs, administrative and other expenses	7	14 650 000	

ADDITIONAL INFORMATION:

1. On 2 January 2018, the deeds office registered the property in the name of Ongi (Pty) Ltd. On the same date, a bond of R6 million was registered against the property by the issuer of the bond. The cost of the property is allocated as follows: Land R2 000 000 and Building R9 000 000. Buildings are depreciated over their useful life of 30 years. The depreciation still needs to be recognised.

   The mortgage bond is repayable in 25 bi-annual instalments of R469 360 each.

   A portion of the repayment schedule, relating to the mortgage bond, is as follows:

		Instalments			
Date		**Total**	**Capital**	**Interest @12% per annum**	**Outstanding capital**
02/01/2018					6 000 000
30/06/2018	Instalment 1	469 360	109 360	360 000	5 890 640
31/12/2018	Instalment 2	469 360	115 922	353 438	5 774 718
30/06/2019	Instalment 3	469 360	122 877	346 483	5 651 841
31/12/2019	Instalment 4	469 360	130 250	339 110	5 521 591

2. Trademark A was purchased on 1 January 2015 for R2 100 000, it is amortisation on the straight line-basis over its estimated useful life of 12 years. On 1 January 2018 management estimated the <u>remaining useful life</u> of Trademark A, at seven years. The appropriate amortisation in respect of 2018 must still be recognised.

QUESTION 2 (CONTINUED)

3. The number of issued ordinary shares of Take 5 (Pty) Ltd are 500 000 ordinary shares. Ongi (Pty) Ltd obtained the shares in Take 5 (Pty) Ltd as follows:

Date	**Number of shares purchased**	**Total cost**
02/01/2016	300 000 ordinary shares	R3 000 000
30/06/2018	50 000 ordinary shares	R625 000

   On 15 December 2018, Take 5 (Pty) Ltd declared a dividend of R1 per share, payable on 31 January 2019. The appropriate dividend income must still be recognised in the records of Ongi (Pty) Ltd.

   Ongi (Pty) Ltd renders management services to Take 5 (Pty) Ltd at R80 000 per month. The management fee for December 2018 must still be recognised.

4. 750 000 ordinary shares in Bronx Ltd, (approximately 2% of the issued shares) were purchased during 2017. On the reporting date, the investment is stated at the fair value.

   On 30 June 2018, 150 000 ordinary shares in Bronx Ltd, were sold. The sold shares must still be de-recognised. The fair value adjustment on 31 December 2018 must still be recognised.

   On 15 December 2018, Bronx Ltd declared a dividend of 80c per share that will be paid on 31 January 2019. The dividend income must still be recognised by Ongi (Pty) Ltd.

Date	**Fair value per share**
31/12/2013	R8.00
30/06/2014	R7.40
31/12/2014	R7.10

5. The income tax expense for 2018 was reliably calculated as R2 820 000.

6. On 30 June 2018, Ongi (Pty) Ltd issued and allotted 4 000 000 ordinary shares at R4.20 per share. This transaction has already been recognised.

7. On 15 December 2018, Ongi (Pty) Ltd declared an interim dividend of 8c per ordinary share and a preference shares dividend, both will be paid on 31 December 2019. This transaction has not yet been recognised.

REQUIRED:

2.1 With reference to the list of balances and after accounting for the additional information, present the Statement of Profit or Loss of Ongi (Pty) Ltd for the reporting period ending 31 December 2018. (18)
Note: Start with the line item, Gross profit.

2.2 With reference to the list of balances and after accounting for the additional information, present the Statement of Changes in Equity of Ongi (Pty) Ltd for the reporting period ending 31 December 2018. (7)

Note:
- Clearly show all calculations.
- Ignore VAT.

QUESTION 3 **(35 MARKS)**

AMBUR Ltd is a profitable, diversified company. AMBUR Ltd and all its suppliers are registered as vendors in accordance with the VAT Act. **VAT is charged at a rate of 14%.** The company's current reporting date is 31 December 2014.

On 31 December 2014 the following balances, amongst others, appeared in the records of the company:

	Info	Dr	Cr
		R	R
Property at cost price	1	5 600 000	
Machinery at cost price	2	2 890 000	
Accumulated depreciation – Machinery (31/12/2013)	2		1 184 991
Accumulated impairment – Machine B (31/12/2013)			120 000
Proceeds on scrap sold (excluding VAT)	2.3		54 000
Insurance payment (excluding VAT)	2.5		325 000
Delivery vehicles at cost price	3	630 000	
Accumulated depreciation – delivery vehicles (31/12/2013)	3		315 000
Trademarks at cost price	4	5 280 000	
Accumulated amortisation – trademarks (31/12/2013)	4		1 584 000
Investment in subsidiary S (Pty) Ltd at cost price	5	9 250 000	
Investment in Q Ltd at fair value (31/12/2013)	6	7 500 000	

ADDITIONAL INFORMATION:

1 On 30 June 2014, the owner made property available for AMBUR Ltd's exclusive use. The market value of the property was R5 600 000 (excl VAT) on this date. The cost price is allocated as follows: R1 600 000 for the land and R4 000 000 for the buildings.

The useful life of the building is estimated at 20 years. The cost of the building is allocated to an expense over the useful life of the building by using the straight line method.

2.1 Detail of machinery is as follows:

Machinery item	Put into service	Cost price	Accumulated depreciation on 31 December 2013	Total useful life
Machine A	1 Jan 2009	750 000	572 022	8 years
Machine B	1 Jan 2011	650 000	375 781	8 years
Machine C	1 Jul 2012	690 000	237 188	8 years
Machine D	1 Oct 2014	800 000	0	8 years
		2 890 000	**1 184 991**	

2.2 On 30 June 2014, machine A was withdrawn from production and was sold as scrap. On the date of the sale, the VAT was appropriately credited to the VAT output account. Machine A still has to be appropriately derecognised.

QUESTION 3 (CONTINUED)

2.3 On 31 December 2013, it was clear that Machine B not performing according to expectations. It was decided to change the depreciation method on machine B to the units of production method. It is estimated that machine B will only be able to produce another 11 000 units over its remaining life, as follows:

2014 – 4 000 units
2015 – 3 000 units
2016 – 2 400 units
2017 – 1 600 units

2.4 On 30 September 2014, machine C was destroyed in an incident. In this regard, an insurance payment was received. On the date on which the insurance payment was recognised, the VAT was appropriately credited to the VAT output account. Machine C still has to be appropriately derecognised.

2.5 Machine D was purchased for R912 000 (including VAT) to replace machine C.

3 The delivery vehicles were purchased on 1 January 2011. The cost of the delivery vehicles is allocated to an expense over the useful life of the delivery vehicles by using the straight line method. The estimated useful life of the delivery vehicles was estimated at 6 years.

4 Trademarks

4.1 Trademarks comprise two trademarks, of which the detail is as follows:

	Trademarks		
	A	**B**	**Total**
	R	**R**	**R**
Cost price	3 168 000	2 112 000	5 280 000
Accumulated amortisation – 31/12/2013	(1 584 000)	0	(1 584 000)
Total estimated useful life	12 years	12 years	

4.2 Trademark B was purchased on 30 June 2014. This transaction has already been correctly recognised.

4.3 Trademarks are amortised on a straight line basis over the useful life thereof. No residual values are accounted for. The amortisation for 2014 still has to be recognised.

5 Investment in S (Pty) Ltd

5.1 During 2006 AMBUR Ltd purchased 400 000 shares (an 80% interest) of the 500 000 issued ordinary shares in S (Pty) Ltd for R9 250 000. On 31 December 2014, S (Pty) Ltd declared and paid a dividend of 150 cents per ordinary share. AMBUR Ltd still has to recognise the dividend as at 31 December 2014.

5.2 AMBUR Ltd accounts for the investment in the subsidiary in accordance with the cost price model.

QUESTION 3 (CONTINUED)

6 Investment in Q Ltd

6.1 During 2013 AMBUR Ltd made a strategic, long term investment in Q Ltd (shares listed on the JSE) by purchasing 400 000 ordinary shares (a 5% interest) of Q Ltd's issued ordinary shares.

6.2 AMBUR Ltd decided to account for this investment in accordance with the fair value model. The market value of a Q Ltd share was R17.00 per share on 31 December 2014. The fair value adjustment as at 31 December 2014 still has to be recognised.

REQUIRED:

Disclose the following notes to the financial statements of AMBUR Ltd for the reporting period ended 31 December 2014:

i)	Property, plant and equipment	(24)
ii)	Intangible assets	(5)
iii)	Investment in subsidiaries	(3)
iii)	Financial investments	(3)

Note: Journal entries and general ledger accounts are <u>not required</u>.
In some instances, when accounting for the additional information, there are VAT implications.
Where applicable, VAT is charged at 14%.
Where applicable, round off all amounts to the nearest Rand.

QUESTION 4 **(40 MARKS)**

The following information relates to JOY Ltd for the reporting period that ended on 31 December 2018.

Assets, liabilities and equity	**2018**	**2017**
	R	**R**
Investment property at fair value	19 240 000	18 500 000
Plant at cost price	38 320 000	32 500 000
Accumulated depreciation – plant	(12 108 000)	(11 694 000)
Accumulated impairment – plant	(950 000)	0
Delivery vehicles (controlled in accordance with a finance lease)	2 400 000	2 400 000
Accumulated depreciation – delivery vehicles	(800 000)	(400 000)
Trademarks	3 600 000	2 880 000
Accumulated amortisation – trademarks	(1 260 000)	(960 000)
Investment in listed shares at fair value	2 050 000	0
Investment in subsidiary at cost price	9 550 000	0
Trade inventories	21 728 000	17 720 000
Trade receivables	23 207 000	18 429 000
Allowance for doubtful debts	(1 467 000)	(1 125 000)
Bank	5 750 000	6 250 000
Mortgage bond	(7 706 000)	(8 534 000)
Finance lease – delivery vehicles	(1 782 000)	(2 109 000)
Trade payables	(11 520 000)	(9 247 000)
Payable for plant items purchased	(3 000 000)	0
Provision for claim for damages	(1 250 000)	0
Shareholders for dividends	(3 000 000)	(2 500 000)
Income tax payable	(376 000)	(450 000)
Issued share capital – ordinary shares	(55 185 000)	(40 455 000)
Retained earnings – 31 December	(25 441 000)	(21 205 000)
	0	**0**

Items as contained in the statement of profit or loss for the year ended 31 December 2018	
	R
Sales	98 750 000
Cost of sales	(51 450 000)
Gross profit	47 300 000
Dividend income – listed shares (cash received)	100 000
Net profit with fair value adjustments	690 000
Distribution costs, administrative and other expenses (see remark)	(37 355 000)
Finance costs (cash paid)	(1 215 000)
Profit before tax	9 520 000
Income tax expense	(2 284 000)
Profit for the year	**7 236 000**

QUESTION 4 (CONTINUED)

Remark:

Included in the amount in respect of "Distribution costs, Administrative expenses and Other expenses" is, amongst others, depreciation in respect of plant. Further similar expenses can be deferred from the stated set of facts.

1 No non-current assets were sold during the reporting period ended 31 December 2018.

2 Plant

2.1 On 31 December 2018, plant with a cost price of R2 880 000 and accumulated depreciation of R2 808 000 as at this date, was withdrawn and written off.

2.2 On 25 October 2018, an order to the amount of R4 200 000 was placed to replace the abovementioned plant item. A deposit of R1 200 000 was paid with the placement of the order. The replacing plant item was delivered on 29 November 2018 and was put into service by JOY Ltd on 1 December 2018. The outstanding amount of R3 000 000 is payable to the supplier on 25 February 2019.

2.3 During 2018 further plant items were also purchased to expand the entity's capacity.

3 During 2018, listed shares of a specific company were purchased on the JSE. The listed shares were purchased as long term investment with the purpose of capital growth and to earn dividend income. At acquisition of the shares, the shares were recognised at the cost thereof, namely R2 100 000 (excluding transaction costs). The purchase of shares was done by means of the bank account.

4 The investment in the subsidiary was acquired by means of a cash transaction.

5 The increase in the issued share capital is attributable to a rights issue for cash.

6 No investment property was purchased or sold during the current financial reporting period.

REQUIRED:

4.1 Present the statement of cash flows of JOY Ltd for the reporting period ended 31 December 2018. (22)

4.2 Disclose only the note for cash generated from operations to the statement of cash flows of JOY Ltd for the reporting period ended 31 December 2018. (18)

Please note:

- Ignore VAT.
- Show ALL calculations clearly.

QUESTION 4 **ANNEXURE A**

Unique test number:	
Student number:	
Name:	

JOY LTD

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note		
Cash flow from operating activities			
Cash receipts from customers			
Cash paid to suppliers and employees	**30**		
Cash generated from operations			
Dividends received			
Interest paid			
Income tax paid			
Dividends paid			
Net cash inflows from operating activities			
Cash flow from investing activities			
Deposit paid in respect of plant to replace			
Purchase of plant to expand			
Purchase of trademarks to expand			
Purchase of financial investments to expand			
Purchase of investment in subsidiary to expand			
Net cash outflow for investing activities			
Cash flow from financing activities			
Proceeds from shares issued			
Repayment of mortgage bond			
Repayment of finance lease loan			
Net cash inflow from financing activities			
Net decrease in cash and cash equivalents			
Cash and cash equivalents beginning of period			
Cash and cash equivalents end of period			

CALCULATIONS:

1 Plant

Reconstruction of plant

Unique test number:	
Student number:	
Name:	

JOY LTD
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

30 Cash generated from operations

Reconciliation of profit before tax with cash generated from operations:

	R
Profit before tax	
Adjusted with non-cash items accounted for against profit before tax	
Depreciation – plant	
Depreciation – delivery vehicles	
Impairment – plant	
Amortisation – trademarks	
Increase in allowance for doubtful debts	
Profit with fair value adjustment of investment property	
Loss with fair value adjustment of listed investments	
Loss on plant item withdrawn	
Increase in provision for claim for damages	
Adjusted with items that are presented separately in the statement of cash flows or items which form part of other separate line items	
Interest expense	
Dividend income	
Elimination of the effect of the accrual basis of accounting	
Increase in inventories	
Increase in payables	
Increase in receivables	
Cash generated from operations	

CALCULATIONS:

2 Accumulated depreciation – plant

Reconstruction of accumulated depreciation – plant
