UNIVERSITY OF JOHANNESBURG

FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
CAMPUS(ES)	APK, SWC
MODULE NAME	Accounting 2B
MODULE CODE	ACT02B2/REK2B01/ACC02B2
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity January 2020

ASSESSMENT DATE	7 January 2020	**SESSION**	11:30 – 14:30
ASSESSOR(S)	MR Z ALLY MS T MAHMOOD MRS C MOENG		
MODERATOR(S)	MS B MADIKIZELA		
DURATION	3 hours (180min)	**TOTAL MARKS**	120

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	6

INFORMATION/INSTRUCTIONS:

- The assessment opportunity paper consists of 3 questions.
- Silent non-programmable calculators are allowed.
- Answer each question in a separate book.
- Read the questions carefully and answer only what is required.
- Show all calculations.
- Answers containing tippex or pencil will not qualify for remarking.
- Cross out open spaces and empty pages.

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

Drako Ltd is a manufacturer and retailer of high quality furniture. The senior accountant responsible for the preparation of the end of year management accounts has unfortunately taken ill. The financial director, a friend of yours, has requested your assistance to finalise the end of reporting period accounts.

The following information is provided to you on 31 December 2017:

1. Machinery was acquired on 1 September 2014 from an American supplier for $50 000. Installation costs of R11 400 (including VAT) were incurred. It is the accounting policy of the firm to depreciate machinery at 20% per annum on the straight line method. During the course of the year, at a meeting of the board, a decision was taken to change the depreciation method from the straight line method to the reducing balance method. The rate of depreciation is expected to remain at 20%.

   Applicable rates of exchange were as follows (ZAR to USD):

01/01/2014	R8.90
15/01/2014	R8.28
01/09/2014	R9.40
30/09/2014	R9.30
31/10/2014	R8.70
31/12/2014	R8.50
31/12/2015	R9.70
31/12/2016	R8.79
31/12/2017	R8.90

2. The following information for inventory was provided to you:

	31 December 2016 **R**	**31 December 2017** **R**
Inventories:		
Finished products	10 000	?
Raw material - Mahogany	4 000	3 420
Production costs:		
Invoice - Mahogany (including VAT)		37 620
Salaries and wages (70% for factory)		9 000
Shipment - Mahogany (including VAT)		2 565
Storage costs of finished goods		5 130
Administration costs		21 250
Depreciation (factory)		2 250

   Sales for the period are R71 250 (including VAT). The entity maintains a constant gross profit percentage of 25% on selling price.

   Stationery on hand at the end of the year amounted to R1 360.

QUESTION 1 (CONTINUED)

3. On 1 January 2015, a building was acquired in the inner city of Johannesburg for R1 300 000 (excluding VAT). Buildings are depreciated at 5% per annum on the straight line method. Management has since changed their strategy regarding opening a retail outlet in the CBD and has decided to sell the building instead. A potential buyer has been identified and the sale is expected to be completed within the next six months. A valuation of the building on 1 June 2017 (the date on which the decision to sell was taken) was set at R1 100 000 (excluding VAT). Costs to sell the building are estimated at R38 000. At end of reporting period, transfer of the building had still not taken place. The market value on 31 December 2017 was R1 680 000 and transfer costs were estimated at R39 500.

4. Mr Raccheli has been one of Drako's main clients since the company was formed. His account has been unpaid for the past 18 months, however as he is a trusted family friend the company continued to sell him furniture. As at the end of the reporting period the total amount owed by Mr Rachelli was R340 000. On the 8 January an announcement to all Mr Rachelli's creditors was made stating he had been declared bankrupt and that a liquidation dividend of 15c to the Rand would be paid. Total receivables at end of reporting period amounted to R980 670.

5. Cash on hand at the end of the reporting period amounted to R26 360.

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

7. Assume a VAT rate of 14%

REQUIRED:

Prepare the **assets section only** and the **notes** to the Statement of Financial Position for Drako Ltd for the reporting period ended 31 December 2017 to comply with the minimum requirements of the Companies Act and IFRSs.

(50)

Please note:

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

QUESTION 2 **(50 MARKS)**
(75 MINUTES)

You are presented with the following financial statements for Pierre Ltd and Serge Ltd for the reporting period ended 30 June 2018:

Statements of comprehensive income for the reporting period ended 30 June 2018

	Pierre Ltd	**Serge Ltd**
	R	**R**
Revenue	608 000	188 000
Cost of sales	(304 000)	(94 000)
Gross profit	304 000	94 000
Other income	80 000	50 000
Other expenses	(70 000)	(60 000)
Income from financial assets	25 000	15 000
Income from subsidiary	20 000	-
Profit before tax	359 000	99 000
Income tax expense	(93 340)	(30 690)
Profit for the period	265 660	68 310

An extract of the statements of changes in equity for the reporting period ended 30 June 2018

	Pierre Ltd	**Serge Ltd**
	Retained earnings	
	R	**R**
Balance at 1 July 2017	200 000	150 000
Profit for the period	265 660	68 310
Dividend paid	(30 000)	(25 000)
Balance at 30 June 2018	435 660	193 310

ADDITIONAL INFORMATION:

1. Pierre Ltd acquired 80% of the issued ordinary shares in Serge Ltd on 1 July 2015 and paid R290 000 cash for the investment. On that date, Serge Ltd's equity consisted of the following:

	R
R1 Ordinary share capital	250 000
Retained earnings	100 000
	350 000

2. Serge Ltd acquired non-depreciable equipment from Pierre Ltd on 1 July 2017. The selling company made a profit of R10 000 from this transaction. The selling price of this equipment was below its original cost. The equipment is classified as property, plant and equipment in both companies.

   On 30 June 2018, Serge Ltd sold this equipment to an outside party for a small profit.

QUESTION 2 (CONTINUED)

3. Pierre Ltd purchases all its inventories from Serge Ltd. Serge Ltd sells inventories at cost price plus $33^{1}/_{3}$%. Inventories purchased from Serge Ltd on hand at the beginning of the reporting period amounted to R56 000 and at the end of the reporting period amounted to R70 000.

4. Total intragroup sales for the current reporting period amounted to R250 000.

5. Issued share capital accounts remained the same throughout the reporting periods concerned in both companies and are as follows:

	Pierre Ltd	Serge Ltd
	R	**R**
R1 Ordinary share capital	150 000	250 000
	150 000	250 000

6. Assume an income tax rate of 28%.

REQUIRED:

2.1 Provide all pro-forma journal entries necessary to **eliminate the intragroup profits** contemplated in additional information 2 and 3 above for the reporting period ended 30 June 2018. Also, indicate in the journal entries which company is affected. **(12)**

2.2 Provide all pro-forma journal entries necessary to consolidate Serge Ltd into the group financial statements for the reporting period ended 30 June 2018.

Please note: Dates and journal descriptions are **NOT** required. **(8)**

2.3 Prepare the analysis of equity of Serge Ltd's ordinary shares and preference shares. (Please note: profit before tax has not yet been calculated). **(10)**

2.4 Prepare the group statement of comprehensive income and group statement of changes in equity of Pierre Ltd Group for the reporting period ended 30 June 2018.

Please note: Notes and comparative figures are **NOT** required. Total columns for the group statement of changes in equity are **NOT** required. **(20)**

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QUESTION 3 **(20 MARKS)**
(30 MINUTES)

1. The profit after tax of SEC Ltd for the reporting periods ended 31 December 2018 and 2017 amounted to R2 300 000 and R2 200 000 respectively. Tax per the Statement of Comprehensive Income amounted to R644 000 and R616 000 for the 2018 and 2017 reporting periods respectively.

2. The following dividends were paid on the dates set out below:

	2018	**2017**
Ordinary dividends	R160 000	R175 000
Redeemable preference dividends	R75 000	R75 000

3. The capital structure at the reporting period dates was as follows:

Authorised shares
1 000 000 Ordinary shares
500 000 15% Redeemable preference shares of 100 cents each

Additional notes:

SEC Ltd has the option to redeem the preference shares at par value at maturity date. The maturity date is set to be 31 December 2025.

Issued shares at 31 December:

Number of shares	**2018**	**2017**
Ordinary shares	865 000	450 000
15% Redeemable preference shares	500 000	500 000

The following ordinary share transactions took place during the reporting period ended 31 December 2018:

3.1 On 30 April 2018 SEC Ltd made a capitalisation issue of 3 shares for every 15 shares held.
3.2 On 1 July 2018 SEC Ltd had a rights issue of 1 ordinary share for every 2 shares held. The new shares issued were all taken up at their fair value of R5.00 per share on the issue date.
3.3 On 1 October 2018 the company issued 100 000 shares at their fair value of R5.00 per share.
3.4 On 30 November 2018 the company bought back 45 000 of its issued ordinary shares at fair value of R5.50 per share.

REQUIRED:

3.1 Discuss whether the preference shares should be classified as equity or a liability by making reference to the definitions of IAS 32. **(5)**

3.2 Calculate the Basic Earnings Per Share as it would be disclosed in the financial statements of SEC Ltd for the reporting period ended 31 December 2018 **and** 2017. **(15)**

Notes to the financial statements are **not** required. **(20)**