



**COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF ACCOUNTING
DEPARTMENT OF ACCOUNTANCY**

SUPPLEMENTARY ASSESSMENT OPPORTUNITY 6

MODULE:	Accounting 100
MODULE CODE:	ACC100
EXAM/TEST PERIOD:	First Semester 2019
DURATION:	150 Minutes (2.5 hours)
TOTAL MARKS:	125
EXAMINER(S):	Prof G Els, Ms T Mohohlo, Ms L Molelekoa
MODERATOR:	Ms Marelize Malan
NUMBER OF PAGES:	10

INFORMATION/INSTRUCTIONS:

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- Please confirm that your question paper consist of 10 pages (including cover page).
 - Read questions carefully and manage your time.
 - Do not write in pencil and do not use tip-ex, as this will not be marked.
 - Cancel open spaces on your answer sheets before handing in, otherwise your script will not be allowed to be handed in for remarking.
 - Hand back unused answer sheet(s) together with your completed answer sheet(s).
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QUESTION 1	[30 MARKS]
QUESTION 2	[15 MARKS]
QUESTION 3	[35 MARKS]
QUESTION 4	[45 MARKS]

QUESTION 1**(30 MARKS)**

This question consists of two independent parts. Ignore VAT for both parts.

PART 1**(13 MARKS)**

Gold Ltd has various mining operations in South Africa and also owns a factory in Pretoria where gold rings and other jewellery is manufactured on order. The company's reporting period ends on 31 March. The company is busy preparing the financial statements for the reporting period ended 31 March 2018 and has requested your assistance and advice on certain matters.

The financial statements will be approved by the board of directors on 20 June 2018, and therefore the accountant still has an opportunity to make adjustments to the financial statements before that date. The following matters arose and the accountant is unsure whether the financial statements should be adjusted or not:

1. On 5 April 2018, Gold Ltd was informed that one of its customers, Fine Jewellery CC, who has jewellery outlets all across South Africa, has been declared insolvent. Gold Ltd will receive 60 cents in the Rand of the outstanding debt of R228 000 that Fine Jewellery CC owes Gold Ltd. Fine Jewellery CC has experienced financial problems since 2016 but Gold Ltd was not aware of the problems and therefore made no allowance for doubtful debts.
2. On 10 April 2018 an earthquake caused major damage to Gold Ltd's mining operations in the Free State. The management of Gold Ltd estimate that the damage amounts to R5 million, which would be an impairment on the plant. Gold Ltd was not insured for this type of damage as insurance companies are not willing to insure mines for earthquake damage.
3. On 20 April 2018 Gold Ltd discovered that some of its inventory items that are included in the inventory value on 31 March 2018 at a cost price of R135 000, can only be sold for R120 000.

REQUIRED

- a) With reference to the concept "events after the reporting date", provide a short definition of adjusting events and non-adjusting events. (2)
- b) In respect of each of the abovementioned events:
 - i) Indicate whether it is an adjusting event or a non-adjusting event, (3)
 - ii) Briefly (one sentence) motivate your answer, (3)
 - iii) Explain what the accounting treatment and/or disclosure requirements are for each event and also provide the amount that the financial statements should be adjusted by if applicable. (5)

PART 2**(17 MARKS)**

Izinkomo (Pty) Ltd (Izinkomo) specialises in farming cattle and selling to meat processors and the general public. The company has a reporting period ending 31 March.

On 20 March 2018 Musa, a successful entrepreneur, requested a quotation from the farm manager of Izinkomo via *Whatsapp* for eight (8) cattle that he wanted to buy to pay for *lobola* (bride price). The farm manager quoted him R88 000 for the 8 cattle. However a condition of the sale is that Musa must pay a deposit of 50% before the cattle can be reserved (set aside) and the balance before the cattle can be delivered. Musa agreed by *Whatsapp* to the conditions and immediately paid R44 000 on 20 March 2018. Subsequently Musa paid the outstanding balance of R44 000 on 7 April 2018 and the cattle were delivered on 10 April 2018.

REQUIRED

- a. Determine whether the arrangement between Izinkomo (Pty) Ltd and Musa satisfies the requirements of a contract in terms of IFRS 15 *Revenue from contracts with customers* in the records of Izinkomo (Pty) Ltd on 31 March 2018. (13)
- b. Identify the performance obligations in the contract. (2)
- c. Determine the date when the revenue should be recognised in the accounting records of Izinkomo (Pty) Ltd according to Step 5 of the *IFRS 15* model. (2)

QUESTION 2**(15 MARKS)**

Zonke (Pty) Ltd sells mobile devices such as tablets and cellular phones. The accountant of Zonke (Pty) Ltd has requested your assistance with two matters in the process of completing the financial reports for the reporting period ended 31 March 2018.

MATTER 1 – Earnings per share

The profit for the current reporting period has been correctly calculated as R15 780 000. However the accountant is struggling to calculate the earnings per share for the period. The following information has been made available to you:

- Zonke (Pty) Ltd has an authorised share capital of 25 000 000 ordinary shares and 6 000 000 7.5% preference shares.
- On 1 April 2017, the issued share capital amounted to 12 000 000 ordinary shares of R5.10 each and 1 200 000 7.5% preference shares of R2.50 each.
- On 1 August 2017, the directors issued a further 2 500 000 ordinary shares for R6.10 each, and 330 000 7.5% preference shares for R3.40 each.
- An ordinary dividend of 500c per share was declared on 31 March 2018.

Required:

Calculate the *earnings per share* of Zonke (Pty) Ltd for the reporting period ended 31 March 2018. Round off the EPS calculation to the nearest cents. (8)

MATTER 2 – Provisions

Zonke (Pty) Ltd sells the mobile devices with a money back guarantee whereby customers are allowed to return the devices to Zonke (Pty) Ltd for a full refund within one month of the transaction taking place. Historically it is the experience of the company that on a consistent basis, approximately 5% of the sales generated are returned for a refund. It is the policy of the company to raise a provision at the end of the reporting period for the returns.

Total sales of mobile devices per month

	R
March 2016	2 320 000
March 2017	2 950 000
March 2018	3 550 000

In April 2017, R105 000 relating to the March 2017 sales were paid out in respect of devices returned. .

Required:

Based on the information provided above, disclose the provisions note in the financial statements of Zonke (Pty) Ltd for the reporting period ended 31 March 2018: (7)

Note:

- Ignore VAT.
- Comparative figures are not required.

QUESTION 3**(35 MARKS)**

Note: VAT must be ignored for purposes of this question.

Naartjie (Pty) Ltd's current reporting period ends on 31 December 2017.

The following transactions and events transpired and are yet to be recorded in the financial records of Naartjie (Pty) Ltd for the reporting period ended 31 December 2017.

1. Investment property

The property was purchased with the purpose to earn rental income from tenants and hopefully, capital growth in the value of the property. It is the accounting policy of Naartjie (Pty) Ltd to carry investment property at fair value. The fair value of investment property is determined by a professional property valuer at the end of each year. Detail of the fair value on 31 December 2017 (and the comparative value on 31 December 2016) is as follows:

	31 Dec 2017	31 Dec 2016
	R	R
Investment property at fair value	8 400 000	9 450 000

Rental income of R790 000 was earned on the investment during the reporting period.

2. Financial investment

The financial investment (750 000 ordinary shares (5%) in PK Ltd) was purchased during 2013 at a cost of R2 250 000. The shares are listed on the JSE Stock Exchange and the detail of the share prices as at 31 December 2017 (together with the comparative value on 31 December 2016) is as follows:

	31 Dec 2017	31 Dec 2016
	R	R
Share prices of 750 000 shares	4.20	3.60

Ordinary dividends of R150 000 were received during the reporting period.

3. Investment in subsidiary

Naartjie (Pty) Ltd owns 55% of the shares in Pie (Pty) Ltd with a carrying value of R5 420 000 on 1 January 2017. The subsidiary has not been performing well and has been reporting substantial losses in the last few years and has not declared a dividend. It is estimated that the recoverable amount on the investment is R5 000 000 on 31 December 2017.

It is the accounting policy of Naartjie (Pty) Ltd to carry this investment using the cost model.

4. Mortgage bond

On 2 January 2016, Naartjie (Pty) Ltd acquired a building that they wish to occupy financed by a mortgage bond.

The written mortgage bond contract contains *inter alia* the following stipulations:

- The term of the bond is 10 years.
- The commencement date of the lease is 2 January 2016, which also represents the date on which the property was registered in the name of Naartjie (Pty) Ltd at the Deeds Office.
- There are 10 equal annual instalments payable at the end of each year.
- The interest rate applicable to the agreement is 11% per annum compounded annually.

- The cost of the building on 2 January 2016 amounts to R3 000 000. The full amount of this purchase price was financed by the mortgage bond.

The accounting policy of Naartjie (Pty) Ltd is to depreciate buildings on straight line basis over 10 years with no residual value.

Required:

- a) Using the definition of investment property according to *IAS40 Investment properties*, substantiate with reasons why the property in 1) above is an investment property. (3)
- b) After accounting for the additional information, present the statement of profit or loss of Naartjie (Pty) Ltd for the reporting period ended 31 December 2017 as far as the information above allows. (7)
- c) Prepare the Profit before tax note to the statement of profit or loss for the reporting period 31 December 2017 as far as the information above allows. (5)
- d) After accounting for the additional information, present the statement of financial position at 31 December 2017 as far as the information above allows. (6)
- e) Disclose the long term borrowings note for the mortgage bond for the reporting period ended 31 December 2017 (14)

Note:

- Accounting policy notes are not required.
- Round all amounts to the nearest Rand
- Comparative figures are not required.
- Show calculations as marks are awarded for these.

QUESTION 4**(45 MARKS)**

Note: VAT must be ignored for purposes of this question.

Ergo Furn (Pty) Ltd is a specialist manufacturer of ergonomic furniture. The company has a reporting period that ends on 31 December.

The following information was extracted from the records of Ergo Furn (Pty) Ltd for the reporting period ended 31 December 2017.

Assets, liabilities and equity as at 31 December 2017 and 31 December 2016:

	Additional information	2017 R	2016 R
Investment in subsidiary - cost	2	575 000	-
Financial investments in listed shares - fair value	3	1 400 000	990 000
Land - cost		1 760 000	1 760 000
Mortgage bond	4	(1 689 000)	(1 550 000)
Plant - cost	5	2 450 000	2 450 000
Loan: ABC Bank	5	(1 755 000)	(1 950 000)
Accumulated depreciation - Plant	5	(1 225 000)	(980 000)
Accumulated impairment - Plant	5	(78 000)	-
Vehicles	6	1 400 000	1 350 000
Accumulated depreciation - Vehicles	6	(975 000)	(950 000)
Trademarks	7	655 000	745 000
Accumulated amortisation - Trademarks	7	(290 000)	(245 000)
Accumulated impairment - Trademarks	7	(37 000)	(29 000)
Bank		1 019 000	1 171 000
Call deposit		167 000	152 000
Trade receivables	8	370 000	245 000
Trade inventories	9	208 000	165 000
Dividends receivable	2	57 000	-
Ordinary share capital		(2 300 000)	(2 050 000)
Retained earnings	10	(980 000)	(545 000)
Trade payables		(345 000)	(315 000)
Income received in advance	11	(24 000)	-
Provision for warranty claims		(105 000)	(75 000)
Shareholders for dividends		(190 000)	(230 000)
Income tax payable		(68 000)	(109 000)

Additional information

- 1 Sales for the reporting period ended 31 December 2017 amounted to R2 350 000.
- 2 On 18 February 2017, Ergo Furn (Pty) Ltd acquired all of the shares in Upholstery Goods (Pty) Ltd. On 31 December 2017, Upholstery Goods (Pty) Ltd declared a dividend of R57 000 which was paid on 15 January 2018.
- 3 On 1 January 2017, the investment in listed shares represents 30 000 shares in a listed company, Fit Furn Ltd. On 15 August 2017, Ergo Furn (Pty) Ltd bought an additional 5 000 shares in Fit Furn Ltd when they were trading at R35 per share. No shares in the listed investment were sold during the year.
Ergo Furn (Pty) Ltd received dividends of R105 000 from Fit Furn Ltd during the year.
- 4 The mortgage bond was used for the financing of the land. The instalment including the interest is payable on 31 December each year. However, due to an oversight, the instalment for 2017 has not been paid and the interest expense for the year has been capitalised to the mortgage bond.
- 5 The plant was financed by a loan from ABC Bank. An instalment of R240 000 was paid on the loan. There were no additions to the loan.
- 6 During the year, a vehicle with a cost price of R350 000 and a carrying value of R50 000 was involved in an accident and was written off. The insurance company paid out R400 000 which was used to buy a replacement the vehicle. No other vehicles were purchased or disposed of during the year.
- 7 A trademark with a cost of R200 000 and a carrying value of R95 000 was sold for a loss of R5 000. No impairments have ever been recorded on this trademark.
- 8 Trade receivables are presented net of the allowance for doubtful debts. The allowance for doubtful debts was decreased by R70 000 during the reporting period.
- 9 On 31 December 2017, it was discovered that trade inventories with a carrying value of R55 000 would only be sold for R40 000 as a result of minor defects.
- 10 Retained earnings on 31 December 2016 reconciles as follows with retained earnings on 31 December 2017:

	Retained earnings
	R
Balance at 31 December 2016	545 000
Profit for the year before tax	1 050 000
Income tax expense for the year	(275 000)
Dividend – ordinary	(340 000)
Balance at 31 December 2017	980 000

The profit before tax accurately reflects all the transactions that transpired during the year.

- 11 Income received in advance relates to an order that was placed by a customer who insisted on paying in advance so that his order would be prioritised.

Required:

Prepare the statement of cash flows of Ergo Furn (Pty) Ltd for the reporting period ended 31 December 2017 together with the note "Cash generated from operations".
(45)

Note:

- Ignore VAT.
- Show ALL calculations clearly

