Financial Accounting 1B

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This is prepared for UNISA undergraduate students undertaking the module FAC1601. The past exam papers used as a way of practicing the concept emphasized in the study guide for this module

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"Inspired to impact with a difference"

All the questions in this pack were taken from previous exam papers. We hope it will help you in preparing for your exams. May God grant you the Spirit of understanding; we wish you all the best. Amen.

Contents

CHAPTER 1: INTRODUCTION

This study guide provides brief notes on the topics covered in FAC1601. The topics covered include the following:

- Preparation of Financial Statements of Partnerships;
- Changes in the ownership structure of Partnerships;
- Liquidation of Partnerships;
- Financial Statements of Close Corporations;
- Introduction to Company Accounts;
- Statement of Cash Flows;
- Analysis and Interpretation of Financial Statements;
- Branches;
- Time value of money.

Financial Accounting

This course mainly covers the Financial Accounting side of broad Accounting. The two main branches of Accounting are Financial Accounting and Management Accounting. Management Accounting is mainly used for internal purposes whilst Financial Accounting is mainly produced for external purposes.

Users of Financial Statements

In this course, focus will mainly be based on the preparation of Financial Statements. These are supposed to be prepared in terms of International Financial Reporting Standards (IFRSs) as set out by the International Accounting Standards Board (IASB), of which the South African Institute of Chartered Accountancy is a member. IFRs are the generally accepted accounting practices by Accountants throughout the whole world. The final accounts which shall be the main focus are prepared in terms of International Accounting Standards (IAS) 1.

These accounts are prepared for various users who have differing needs. Examples of users and their needs are as follows:

1. **Investors**: to assess the profitability of the entity in order to make a decision on whether to invest or divest from the entity.
2. **Management**: to evaluate their performance as guardians of the owners wealth and sometimes to measure their rewards where there are performance based bonuses.
3. **Employees**: to gauge the security of their jobs and assess the ability of the entity to pay. The profitability of the firm can also be used as a basis for collective bargaining.
4. **Government**: to assess tax and the general economy and to compile national statistics.
5. **Financial analysts**: to make informed conclusions on their analysis.
6. **Banks**: to assess the ability to repay loans and overdrafts and to measure their likely liquidity positions as businesses are the major providers of money to banks through their deposits.

7. **Creditors and Loan Financiers:** to assess the ability of the entity to repay loans.
8. **Media**: to make informed reports.
9. **Customers**: to assess the entity`s ability to provide services and goods.
10. **Suppliers**: to assess the ability of the firm to pay for goods and services and to assess the continuity of relationships.
11. **General Public**: to see what the firm is spending on social responsibility.

Qualities of Accounting Information

Financial information should always meet the following characteristics:

1. **Relevance:** Financial information should be relevant or required by the intended user to aid him/ her to make the required decision. Unnecessary information should be eliminated.
2. **Completeness:** the information should be enough in terms of accounting standards and enough to aid the decision at hand to avoid bad decisions being made from incomplete information.
3. **Accuracy:** information should be accurate enough for it`s purpose to prevent damaging consequences.
4. **Timeliness:** accounting information should always be made in time, otherwise if provided late, it might not be of any help for the decision at hand.
5. **Channel of communication:** the appropriate channel of communication should be used when conveying accounting information.
6. **Reliability:** the information should inspire confidence in the users. There should be no doubt on the truthfulness of the information conveyed.
7. **Cost/ benefit analysis:** the cost of obtaining the information should be reasonable as compared to the benefit to be derived from the information, otherwise it will be useless to provide the information unless for example, it is a requirement of law or it concerns an issue of social responsibility.

Concepts of Accounting

Accounts are prepared based on what are known as the concepts of Accounting. Some of them are summarized as follows:

1. **Fair presentation**: the accounts should as far as possible be presented in a reasonable and reliable manner.
2. **Going concern**: the accounts are prepared assuming that the entity will continue operating in the foreseeable future, that is, in the short run, the business will not be closed.
3. **Accrual basis of accounting/ matching concept**: the accounts are periodically prepared, meaning only expenses and incomes for the period under consideration should be included in profit statements. Any accruals should be brought into account or added and prepayments should be eliminated or subtracted when preparing financial statements.
4. **Materiality concept**: accounting information should only be included or disclosed if their exclusion will impair the decision of users of the financial statements.
5. **Frequency of reporting/ periodicity concept**: there should be a clear reporting cycle.

6. **Comparative information**: information should be prepared in a manner which affords comparability of financial information from one period to another and within one accounting period.
7. **Consistency**: similar items should be treated in a similar manner within one financial period and from one period to another.

FINANCIAL STATEMENTS OF A PARTNERSHIP

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

1. MAY/JUNE 2010 EXAMINATION

QUESTION 1 (25 marks)(30 minutes)

Amanda and Sphindile are in a partnership trading as A&S Supermarket. The following information pertains to the partnership: 1.

List of balances as at 31 December 2009

	R
Capital: Amanda (1 January 2009)	350 000
Capital: Sphindile (1 January 2009)	250 000
Current account: Amanda (1 January 2009) (cr)	60 000
Current account: Sphindile (1 January 2009) (dr)	40 000
Land and buildings at cost	494 000
Vehicles at cost	198 000
Accumulated depreciation: Vehicles (1 January 2009)	42 000
Debtors control	145 560
Creditors control	106 300
Bank (dr)	26 582
Fixed deposit: Third National Bank	19 000
Drawings: Amanda	64 800
Drawings: Sphindile	43 200
Loan to Sphindile	40 800
Loan from Amanda	170 000
Allowance for credit losses	2 500
Sales	650 000
Purchases	304 000
Inventory (merchandise) (1 January 2009)	70 800
Salaries and wages	132 960
Water and electricity	4 700
Interest expense: Loan from Amanda	5 400
Settlement discount granted	3 800
Interest income: Fixed deposit	1 710
Stationery consumed	5 000
Telephone expenses	26 208
Insurance on purchases	4 500
Freight on sales	3 200

QUESTION 1 (continued)

2. Partnership agreement:
The partnership agreement stipulates the following:
2.1 The partners Amanda and Sphindile share the profits or losses in the ratio of 3:2 respectively.
2.2 Interest at 10% per annum is allowed on the opening balances of the partners' capital accounts.
2.3 Amanda is entitled to a 10% commission on sales.

3. Year-end adjustments:
3.1 Inventory on hand at 31 December 2009:

	R
Merchandise	83 000
Stationery (stationery purchased is recorded in the stationery consumed account)	850

3.2 On 30 September 2009, a delivery vehicle was purchased for R85 000 cash. All the necessary entries were made in the books.

3.3 Depreciation must be provided on vehicles at 10% per annum according to the straight-line method.

3.4 The loan from Amanda was obtained on 1 September 2007 at 5% interest per annum. The loan will be repaid in five equal annual installments, starting from 31 December 2010. The interest must be paid to Amanda annually.

3.5 During the financial year Sphindile was granted an interest free loan which she agreed to settle in full on 30 June 2010.

3.6 The water and electricity account of R400 for December 2009 was received on 10 January 2010.

3.7 A debtor owing the business R5 560 has for the past financial year defaulted on his payments and his account must be written off as irrecoverable. The allowance for credit losses must be adjusted to R3 200.

3.8 During the financial year R40 000 was paid to Amanda as commission on sales. These payments were recorded in the salaries and wages account.

3.9 The fixed deposit at Third National Bank was made on 1 January 2008 for a period of 5 years at 9% interest per annum. The interest is receivable at the end of each borrowing year.

REQUIRED:

1.1 Prepare the statement of profit or loss and other comprehensive income of A&S Supermarket for the year ended 31 December 2009. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership (notes and comparative figures are not required). (20)

1.2 Prepare the current account of Amanda in the general ledger of A&S Supermarket for the year ended 31 December 2009. The profit/loss for the year need not be appropriated and do not balance the account. Each entry must disclose the correct contra ledger account. (5)

[25]

NB: Show all calculations.

SOLUTION

Question 1

This is the statement in which we calculate the total comprehensive income for the period or the profit or loss for the just ended period. This is presented in accordance to the requirements IAS1.

A and S Supermarket

Statement of Profit / Loss and other comprehensive Income for the year ended 31 December 20.9

Revenue (650 000-3 800)	646 200
Less cost of sales	(296 300)
Opening inventory	70 800
Add: Purchases	304 000
Less: Purchases Returns	-
Less: Settlement discount received	-
Add: Carriage on purchases / Insurance on Purchases	4 500
Less: Closing Inventory	(83 000)
Gross Profit	349 900
Add: Other Income	
Interest Income	1 710
Total Income	**351 610**
Expenditure	
Administrative , distributive & Other expenses (151305)	**(151 303)**
Freight on Sales	3 200
Telephone Expenses	26 208
Stationery (5000 - 850)	4 150
Water & electricity (4700+400)	5 100

Salaries & wages (132 960 – 40000)	92 960
Depreciation: vehicles (**Calculation 1)**	13 425
Credit losses (5560+700)	5 560
Increase in allowance for credit losses (2500 – 3200)	700
Finance costs	(8 500)
Interest on loan from Amanda (170 000 x 5%)	8 500
Profit for the year	191 807
Other comprehensive income for the year	-
Total comprehensive Income for the year	191 807

Calculation 1 : Depreciation on vehicles

R(11 300+2 125) = R13 425

In possession for the whole year R(198 000^ - 85 000^) = R113 000 x 10%^	11 300
Purchased during the year R(85 000^ x 10%^) x 3/12^	2 125
Total	**R13 425**

NOTES

1. All costs incurred during the accounting period goods for putting the merchandise or the goods intended for resale into a saleable condition should always be added to the purchases. These costs include carriage on purchases, import duty on purchases, railage on purchases, insurance on purchases, freight on purchases etc.
2. The inventory subtracted on the calculation of cost of sales excludes stationery or any other stores of consumables. It only includes merchandise or goods bought for resale.
3. Interest income: When preparing final accounts, always recalculate the interest even when it's given in the trial balance. The income in the trial balance normally represents the actual amount received. This can sometimes be different to the actual income. If the recalculation of the income gives a higher figure than the one in the trial balance, then there is an accrued income equal to the difference of the two amounts. If the recalculation gives a lesser figure than the one in the trial balance, then the income was prepaid. In this case the recalculation (9% x 19000) gives the same amount with that in the trial balance, therefore, there is no accrual or prepayment. The amount to be recorded as income is the amount as per calculation. This also applies on the interest expense.
4. As opposite to carriage on purchases, carriage on sales, railage on sales, freight on sales etc are expenses. These should not be adjusted on the sales.
5. The commission to partners is an appropriation expense which is subtracted under the appropriation section and not an expense on the profit statement proper.

6. Interest expense on partner's loans is a finance charge in the statement and not an appropriation.

1.2 **Current Account: Amanda**

Drawings (64800+40000)	104800	Balance b/d Interest on capital account (350000x10% Commission (650000x10%)	60 000 35000 65000

NOTES

(a) Total amounts already paid to partners with respect to salaries, commission and bonuses should always be added to drawings on the debit side of the current account, whilst the total benefits are credited to the current account.

OCTOBER-NOVEMBER 2011

QUESTION 1 (24 marks) (29 minutes)

Go4Gold Trading is a partnership with Hilda and Gabby as partners. The information below pertains to the business activities of the partnership for the year ended 31 August 2011.

GO4GOLD TRADING BALANCES AS AT 31 AUGUST 2011

	R
Capital: Hilda	282 500
Capital: Gabby	144 000
Land and buildings at cost	180 000
Vehicles at cost..	144 000
Accumulated depreciation: Vehicles (1 September 2010)	12 000
Equipment at cost	130 000
Accumulated depreciation: Equipment (1 September 2010).........................	24 000
Long-term loan...	108 000
Bank	94 840
Creditors control	47 070
Debtors control	59 680
Sales..	536820
Purchases..	302 530
Salaries and wages...	123 600
Interest on long-term loan	4 320
General expenses...	38 720
Water and electricity	41 160
Depreciation (28 February 2011)	75
Settlement discount received	2 400
Settlement discount granted	2 000
Credit losses recovered	3 000
Telephone expenses..	23 160
Allowance for settlement discount granted	1 305
Property rates	17 010

QUESTION 1 (continued)

Additional information:

Abstract from terms of the partnership agreement:

1. Interest on capital is calculated at a rate of 10% per annum on opening balances of the capital accounts.
2. Each partner is entitled to a monthly salary of R5 000 per month.
3. Hilda and Gabby share profits and losses in the ratio of 2:3 respectively.

Year-end adjustments:

1. On 31 August 2011, salaries for services rendered according to the partnership agreement were paid to the partners as follows:
   Hilda: R36 000
   Gabby: R38 000

Both these amounts were debited to the salaries and wages account.

2. The only transaction involving equipment occurred on 28 February 2011 when equipment with a cost price of R15 000 and accumulated depreciation of R14 000 on 1 September 2010, was traded in for a new one. The new machine was purchased at a cost of R25 000 and the supplier thereof allowed R1 500 as a trade-in value on the old equipment and the difference was paid in cash.

3. Depreciation is to be provided for as follows:

   Vehicles: 20% per annum according to the straight-line method

   Equipment: 15% per annum according to the diminishing balance method.

4. The long-term loan was obtained from Casha Bank on 1 March 2011 at an interest of 12% per annum, payable on 30 June of every year. The capital amount of the loan must be repaid on 1 September 2012.

6. Included in the amount of water and electricity is R10 400 relating to advertising expenses paid during the year. Advertising expenses are payable in advance in equal amounts and the September 2011 payment is included in this figure.

7. An invoice for an amount of R5 280 relating to delivery expenses in respect of purchases delivered on 31 August 2011 was received on 2 September 2011.

8. On 31 August 2011 the inventory on hand amounted to R28 080.

Required:

Prepare the statement of profit or loss and other comprehensive income of Go4Gold Trading for the year ended 31 August 2011 to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate comparative figures are NOT required.

SOLUTION

GO 4 GOLD TRADING

Statement of Profit or Loss & other comprehensive income for the year ended 31 August 2011

Revenue (536820-2000)	534 820
Less: Cost of sales	**(277 330)**
Opening inventory	-
Purchases (302530-2400)	300 130
Delivery expenses on purchases	5 280
Closing inventory	(28 080)
Gross profit	**257 490**

Other Income	**3 575**
Credit losses recorded	3 000
Profit on sale of equipment (**Calculation** 1)	575
Total Income	**261 065**
Administrative, Distributive & Other expenses	**(213 850)**
Salaries & wages (123600-36000+38000)	49 600
Water & electricity (41160-10400)	30 760
Property rates	17 010
General expenses	38 720
Telephone expenses	23 160
Advertising expenses (10400-(10400÷ 13)	9 600
Depreciation (Calculation2)	45 000
Finance cost	**(6 480)**
Interest on long term loan (108 000x12% x $\frac{6}{12}$	6 480
Profit for the year	**40 735**
Other comprehensive income	-
Total comprehensive income for the year	**40 735**

CALCULATIONS

Calculation 1: Profit on Sale of Equipment

	R
Cost of equipment sold:	15 000
Accumulated Depreciation of equipment sold at start of year:	(14 000)
Depreciation for the year (15%*1000*6/12):	(75)
Carrying amount on disposal:	**925**
Trade in value on disposal:	1 500
Carrying amount on disposal:	925
Profit on disposal	**575**

Calculation 2: Depreciation

Vehicles (20%*144 000)	15 000
Equipment: Existing old 15%*(130 000-24 000)-(25 000-14 000)	14 250
Existing new equipment: (25000*15%*6/12)	1 875
Disposed Equipment:	75
Total	**45 000**

NOTES

1. Settlement Discount Granted

This refers to discounts granted to customers for prompt payment as per agreed credit terms. These are supposed to be deducted from revenue because they reduce the amount recoverable from the initial sales.

2. Settlement Discount Received

This refers to discounts granted to the business by its suppliers for prompt payment. This reduces the amount payable on the initial purchases; as a result, these should be deducted from purchases.

3. Inventory

- Before preparation of any part of the Statement of Profit or Loss and Other Comprehensive Income, the opening inventory will be the one shown in the trial balance and the closing inventory will be on the adjustments / additional information.
- After the preparation of the Statement of Profit or Loss and other Comprehensive Income, the closing inventory will now be the one appearing in the trial balance.

4. Other Income

This includes the day to day income of the business from minor activities other than revenue (the income from the main activities of main business of the entity). This includes rent receivable, dividends receivable, commission earned, interest earned, credit losses recovered, profit on sale of non-current assets e.t.c.

Credit losses recovered: this refers to customers who have previously been written off as irrecoverable who have now turned up and paid their debts. As they had been deducted as expenses (credit losses) when they were written off, they are now reversed by being recorded under other income.

5. Profit on sale of Non – Current Assets

When an asset is sold or disposed at a value that is greater than the carrying amount of the asset, there is a profit on disposal, which is recorded under other income.

6. Loss on Sale of Non- Current Assets

When an asset is sold or disposed at a value that is lower than the carrying amount, there is a loss on the disposal, which is then recoded under administrative and other expenses.

7. Depreciation

- Depreciation is calculated on a month by month or proportional basis unless told otherwise. Non-current assets existing from beginning up to end of year should have a full year's depreciation charged on them.
- Non – current assets disposed of during the year should only be depreciated up to the date of disposal.
- Non – current assets bought during the year should have depreciation charged against them from date of purchase.

8. Accruals and Prepayments.

- Financial Statements are always prepared on an accrual basis of accounting (Matching Concept). All accruals should be added when preparing the profit statements as they belong to the current period although not yet settled. Accrued expenses will then be recorded under current liabilities as they are normally due within twelve months whilst accrued incomes are current assets as they also fall due within twelve months.
- Prepayments should be subtracted because although they have been paid, they do not belong to this period, they belong to future periods. Prepaid income will only become income of the business in the next financial period whilst prepaid expenses become our expenses in the next financial period.

9. Expenditure

(a) Administrative and Other Expenses

Expenditure refers to the day to day operating expenditure such as rent, salaries and wages, stationery, water and electricity, insurance, credit losses, depreciation e.t.c.
All expenditure is classified under administrative and other expenses except finance charges are classified separately.

(b) Finance Charges

This refers to interest on all loans for the period, including that on the partners loans, interests on bank loans and interest on other long term and short term borrowings for the current financial period.

(10) Other Comprehensive Income

Other comprehensive income is those revenues, expenses, gains, and losses under both Generally Accepted Accounting Principles and International Financial Reporting Standards that are excluded from net income on the income statement. This means that they are instead listed after net income on the income statement.

Revenues, expenses, gains and losses appear in other comprehensive income when they have not yet been realized. Something has been realized when the underlying transaction has been completed, such as when an investment is sold. Thus, if your company has invested in bonds, and the value of those bonds changes, you recognize the difference as a gain or loss in other comprehensive income. Once you sell the bonds, you have then realized the gain or loss associated with the bonds, and can then shift the gain or loss out of other comprehensive income and into a line item higher in the income statement, so that it is a part of net income.

Examples of items that may be classified in other comprehensive income are:
Unrealized holding gains or losses on investments that are classified as available for sale;
Foreign currency translation gains or losses;
Pension plan gains or losses;
Pension prior service costs or credits.

It is acceptable to either report components of other comprehensive income net of related tax effects, or before related tax effects with a single aggregate income tax expense or benefit shown that relates to all of the other comprehensive income items.

Other comprehensive income is designed to give the reader of a company's financial statements a more comprehensive view of the financial status of the entity, though in practice it is possible that it introduces too much complexity to the income statement.
Total comprehensive income is the combination of profit or loss and other comprehensive income.

This refers to income earned outside the ordinary day to day operating activities of the business.
They are incomes earned from extraordinary items such as profit from disposal of an arm of the business that has been closed. This happen once in a long time.

(11) Expenditure previously taken as Drawings
If a partner takes out money for personal use and later uses the money to pay business expenses, these amounts should be deducted from drawings and added to expenses.

(12) Expenditure incurred on partners
Expenditure paid to partners for their services to the business or performance such as salaries, bonus, commission etc, should be subtracted on the appropriation section in the statement of changes in Equity.
Expenditure related to the business activities incurred on the partners is included with other administrative expenses e.g. training and education of partners.
Interest on loans from partners is included under the finance charges.

B. PARTNERSHIPS

STATEMENT OF CHANGES IN EQUITY

OCTOBER-NOVEMBER 2010

A statement of changes in equity can be created for sole proprietorships, partnerships or corporations. Sole proprietorships and partnerships follow a similar format for their statements of changes in equity, while the corporation format is slightly different. The purpose of the statement is to summarize the activity in the equity accounts for the period.

QUESTION 1 (25 marks)(30 minutes)

The following information pertains to the partnership of Phuza and Khemisi, trading as PK Pharmacy:

List of balances as at 30 June 2010, before the relevant additional information was taken into account:

	R
Capital: Phuza	100 000
Capital: Khemisi	100 000
Current account: Phuza (1 July 2009) (Dr)	14 080
Current account: Khemisi (1 July 2009) (Cr)	43 520
Long-term loan	79 080
Furniture and equipment at cost	270 000
Accumulated depreciation: Furniture and equipment	48 600
Drawings: Phuza	30 360
Drawings: Khemisi	29 320
Inventory	234 360
Debtors control	321 000
Allowance for credit losses	16 568
Creditors control	131 160
Bank (overdraft)	18 600
Profit or loss account (Cr)	361 592

Additional information:

1. On 1 January 2010 Phuza contributed a further R40 000 as capital to the partnership. This transaction was correctly recorded.

2. The partnership agreement stipulates that:

2.1 The partners are entitled to the following salaries:

Phuza: R65 000 per annum
Khemisi: R65 000 per annum

2.2 Interest on capital must be provided for at 12% per annum.

2.3 Interest on the current accounts of the partners must be provided for at 5% per annum, calculated on the opening balances.

2.4 The partners share in the profits or losses equally.

3. During the financial year R65 000 and R50 000 were paid as salaries to Phuza and Khemisi respectively. These amounts were erroneously debited to the debtors control account. The bank account was correctly credited.

REQUIRED:

Prepare the statement of changes in equity for the year ended 30 June 2010 of PK Pharmacy, to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership. Omit the total column of this statement. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

8. OCTOBER/NOVEMBER 2010 MEMORANDUM

QUESTION 1 (25 marks)
PK Pharmacy "
Statement of changes in equity for the year ended 30 June 2010 "

	Capital		Current accounts		Appropriation
	Phuza	Khemisi	Phuza	Khemisi	
	R	R	R	R	R
Balances at 1 July 2009	„60 000	,100 000	,(14 080)	,43 520	
Capital contribution	,40 000				
Total comprehensive income for the year					,361 592
Salaries to partners			,65 000	,65 000	,(130 000)
Interest on capital W			„9 600	,12 000	,(21 600)
Interest on current accounts			,(704)	,2 176	,(1 472)
Partners' share of total comprehensive income			,104 260	,104 260	,(208 520)
Drawings			. „(95 360)	„(79	
320) Balances at 30 June 2010	100 000	100 000	68 716	147 636	–

Calculations

W Interest on capital

Phuza: (12% "x R60 000") + [(12% x R40 000) " x 6/12 "] = R(7 200 + 2 400) = R9 600
Khemisi: 12% " x R100 000 " = R12 000

Interest on current accounts

Phuza: 5% " x R14 080 " = R704
Khemisi: 5% " x R43 520 " = R2 176

Partners share of total comprehensive income

R(361 592 - 130 000 - 21 600 - 1 472) = R208 520

Phuza: 50% " x R208 520 " = R104 260
Khemisi: 50% " x R208 520 " = R104 260

Drawings

Phuza: R(30 360 ,+ 65 000 ,) = R95 360
Khemisi: R(29 320 ,+ 50 000 ,) = R79 320

- Benefits to the partners such as interest on capital, bonuses, commission, share of comprehensive income, interest on credit balance current account are added to current account and are subtracted under the changes in equity as they are expenses to the business.
- Charges against partners such as interest on drawings, interest on current accounts debit balances are subtracted from current accounts and added to appropriation as they represent income to the business.
- Drawings is subtracted together with interest charged on drawings in the current accounts. Drawings, however is subtracted from the total investment and not the appropriation.
- A debit balance on the current account means that the partner owes money to the business and this will be a negative under the section of the partner in the current account. Whilst a credit balance is a normal positive balance on the current account and it reflects that the partner has extra funds in the entity.
- The interests should be calculated based on the months of the capital amount. Any contributions made partway through the year entitle the partners to interest on a proportional basis.

Example

Year end 31 December 2013	**31 December 2013**
Additional Capital Contributed	10 000
Date contributed	30 September 2013
Capital on 01 January 2013	50 000
Interest on the opening capital	10% p.a
Interest on the opening capital is calculated for the whole year, that is :10% x 50 000 = 5000	**5000**
Interest on additional capital will be for only three months – October – December 10%x 10 000 x $\frac{3}{12}$	**250**
Total Interest 5000 + 250	**5 250**

NB Interest is not realized for September as the contribution was only made on the last day of the period.

When the partner’s current account has a credit balance, he will earn interest on drawings whilst a partner with a debit balance will be charged interest on drawings. This means interest on a debit current account balance a negative or is subtracted from the current account whilst interest on a credit current account balance is a positive or is added to the current account.

MAY-JUNE 2012

QUESTION 1 **(30 marks) (36 minutes)**

The following information is taken from the accounting records of B&B Travel, a partnership with Bok and Bafana as partners, at 29 February 2012 –the financial year end of the partnership.

B&B TRAVEL
BALANCES AS AT 29 FEBRUARY 2012

	R
Capital: Bok	200 000
Capital: Bafana	300 000
Current account: Bok (Dr)	15 000
Current account: Bafana (Cr)	9 000
Drawings: Bok	75 000
Drawings: Bafana	82 000
Asset replacement reserve	61 000
Land and buildings at cost	800 000
Vehicles at cost	401 000
Accumulated depreciation: Vehicles (1 March 2011)	40 000
Mortgage	121 500
Long-term loan from Bafana	50 000
Bank overdraft	58 000
Creditors control	75 000
Debtors control	78 000
Profit for the year (before year-end adjustments)	536 500

Additional information:

Abstract from terms of the partnership agreement:

1. Each partner is entitled to an annual salary of R60 000.

2. Interest of 5% per annum is to be allowed on the opening balances of the partners' capital and current accounts.

Year-end adjustments:

1. The long-term loan from Bafana was acquired on 1 January 2012. Interest is calculated at 12% per annum and must be paid on 30 June of every year.

2. During the year Bafana received R12 000 as an entertainment allowance which was correctly debited to his drawings account. Bafana used the allowance to buy four private suite tickets to a soccer match at Orlando stadium at a cost of R2 000 per ticket. All of the tickets were awarded to clients of B&B Travel.

3. Due to cultural differences that nearly split the partnership into two factions, the partners decided to go for a cultural diversity programme. Each partner received R10 000 from the partnership to pay for the programme. These amounts were incorrectly included in the salaries paid to the partners during the year.

QUESTION 1 (continued)

4. Provision must still be made for depreciation on vehicles at 25% per annum according to the diminishing-balance method.

5. The accountant of the partnership inadvertently forgot to record the sale of a vehicle costing R60 000. The vehicle was sold for R30 000 on 1 December 2011. On 1 March 2011 this vehicle had an accumulated depreciation amounting to R24 000.

6. The partners decided that an amount of R16 000 from the comprehensive income must be transferred to the asset replacement reserve.

REQUIRED:

With regard to B&B Travel:

1.1 Calculate the total comprehensive income for the year ended 29 February 2012. (12)
1.2 Prepare the statement of changes in equity for the year ended 29 February 2012. (18)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership. Notes and comparative figures are NOT required.

NB: Show all calculations. **[30]**

11. MAY/JUNE 2012 MEMORANDUM

QUESTION 1 **(30 marks)**

1.1 Calculation of the total comprehensive income:

	R	
Profit for the year (before year-end adjustments)	536 500	,
Year end adjustments	(116 250)	
Interest on long-term loan	(1 000)	(,A)
Entertainment allowance	(8 000)	"
Training expenses (Diversity workshop)	(20 000)	,
Depreciation	(88 000)	(4%)
Profit on sale of vehicle		
Comprehensive income for the year	420 250	
		[12]

Calculations:

Interest on long-term loan:

R50 000**A** x 12%**A** x 2/12**A** = R1 000

Depreciation:

Sold vehicle: R[(60 000**A** -24 000**A**) x 25%**A** x 9/12**A** = R6 750
Remaining vehicles: R[(401 000**A** - 60 000**A**) - (40 000**A** - 24 000**A**)] x 25%**A** = R81 250
Total depreciation: R(6 750 + 81 250) = R88 000

Profit on sale of vehicle:

R30 000**A** -R[60 000**A** -(24 000**A** + 6 750**A**)] = R750

Profit on sale of Vehicle

Cost	60 000
Accumulated Depreciation: 1 March 2011	24 000
Carrying amount- 1March 2011	36 000
Depreciation for the year (see calculation above)	6 750
Carrying amount on sale	**29 250**
Disposal value	30 000
Carrying amount on sale	29 250
Profit on disposal	**750**

Interest on loan

This is calculated on a month by month or proportional basis. In this case the loan from Bafana was only obtained on the 1st of January 2012 whilst the year end is 29 February 2012. As a result the interest chargeable for this financial period is only for two months (January 2012-February 2012). The fact that the interest is to be paid on the 30th of June does not affect the expense since the accounts are prepared on an accrual basis. This only has an effect in the Statement of Financial position, where the owing interest should be entered under current liabilities since it will be repaid in less than twelve months.

Entertainment Allowance

Part of the amount of R12 000 taken by Bafana was used to entertain our customers as a sign of appreciating their allegiance to us. As a result this should be an expense as this was not a personal activity but one directly linked to the business. The amount to be taken as expenses is R8 000 (R2 000*4) only. The other R4 000 which was not used for business issues remains as drawings. Only R8 000 will be deducted from drawings and entered under expenses.

Training expenses

This is an expense of the business since the training was necessitated in order to ensure continuity and harmony in the running of the business.

Transfers to reserves

This are not subtracted on the statement of Profit or Loss and other comprehensive income but they are rather deducted under the appropriation section in the Statement of Changes in Equity.

1.2
B&B TRAVEL A
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 29 FEBRUARY 2012 A

	Capital		Current accounts		Asset Replace-mentt reserve	Appro-priation	Total
	Bok	Bafana	Bok	Bafana			
	R	R	R	R		R	R
Balances at 1 March 2011	A200 000	A 300 000	A (15 000)	A 9 000	A61 000		555 000
Total comprehensive income for the year						A 420 250	418 250
Salaries to partners			,60 000	,60 000		A (120 000)	
Interest on capital W			,10 000	,15 000		A (25 000)	
Interest on current accounts			,(750)	,450		A 300	
Drawings			,(65 000)	,A (64 000)			(129 000)
Transfer to asset replacement reserve					,16 000	A (16 000	
Partners' share of total comprehenive income			, 103 820	, 155 730		A (259 550)	
Balances at 30 June 2010	200 000	300 000	93 070	176 180	77 000	-	846 250

[18]

Calculations

W **Interest on capital**

Bok: R200 000**A** x 5%**A** = R10 000
Bafana: R300 000**A** x 5%**A** = R15 000

Interest on current accounts

Bok: R15 000**A** x 5%**A** = R750 (Dr)
Bafana: R9 000**A** x 5%**A** = R450 (Cr)

Partners share of total comprehensive income

Bok: R249 550**A** x 2/5**A** = R 99 820
Bafana: R249 550**A** x 3/5**A** = R149 730

Drawings

Bok: R(75 000**A** - 10 000**A**) = R65 000
Bafana: R(82 000**A** - 10 000**A** - 8 000**A**) = R64 000

Total Comprehensive income to be shared

420 250-120 000-25 000+300-16 000= 259 550

Share of Comprehensive income:

Bok : 259 550/2= 129 775
Bafana : 259 550/2= 129 775

Interest on loan

This should not be subtracted in the Statement of changes in Equity as this will have already been deducted under the Statement of Profit or Loss and other Comprehensive Income.

Drawings

The drawings of Bafana should be reduced by the amount of the expenses incurred on issues pertaining to the business such as the entertainment allowance used on the business` clients as a customer care gesture. The drawings of both partners should also be reduced by R10 000 each which was used to undertake a training course to harmonise the business as this was wrongfully included in the salaries paid to partners. Any salaries paid to the partners are normally include as drawings made by the partners in the books of a partnership.

Transfer to reserves

These should be added under the respective reserves in theStatement of Changes in Equity, in this case Asset Replacement Reserve and the amount will be deducted under the appropriation section as the transfer is made from profits. There will be no effect on the total section since there was a positive on the reserve and a negative on the appropriation which then cancel each other.

Profit Sharing Ratios

By profit sharing ratio in a partnership firm, we mean the ratio in which the profits and losses of the firm are to be distributed amongst the partners.

The basis for arriving at the ratio is the agreement between the partners. If there is a partnership deed, the ratio should be ascertained from the provisions in the partnership deed. In the absence of a partnership deed and where there is no indication as to the agreement between the partners in this aspect, it should be considered as equal share for all partners.

The ratio may be a specified as absolute values or it may be taken as the ratio fo their Capital account balances or it may be based on anything else as agreed upon by the partners. Deriving this ratio (if it is not given) would be one important requirement in problem solving.

C. STATEMENT OF FINANCIAL POSITION

MAY-JUNE 2011

Definition Statement of Financial Position, also known as the Balance Sheet, presents the financial position of an entity at a given date. It is comprised of three main components: Assets, liabilities and equity. Statement of Financial Position helps users of financial statements to assess the financial soundness of an entity in terms of liquidity risk, financial risk, credit risk and business risk. A Statement of Financial Position is prepared under the format prescribed by IAS 1 Presentation of Financial Statements.

Classification of Components

Statement of financial position consists of the following key elements:

Assets

An asset is something that an entity owns or controls in order to derive economic benefits from its use. Assets must be classified in the balance sheet as current or non-current depending on the duration over which the reporting entity expects to derive economic benefit from its use.

Non- current assets: these are assets which will deliver economic benefits to the entity over the long term, usually more than a year such as land and buildings, plant and machinery, office furniture, investments and motor vehicles.

Current assets: these are assets that are expected to be realized within one year from the reporting date and examples include inventory, debtors, short term investments, expenses prepaid and cash and cash equivalents.

Assets are also classified in the statement of financial position on the basis of their nature:

- Tangible & intangible: Non-current assets with physical substance are classified as *property, plant and equipment* whereas assets without any physical substance are classified as *intangible assets*. Goodwill is a type of an intangible asset.
- Inventories balance includes goods that are held for sale in the ordinary course of the business. Inventories may include raw materials, finished goods and works in progress.
- Trade receivables include the amounts that are recoverable from customers upon credit sales. Trade receivables are presented in the statement of financial position after the deduction of allowance for bad debts.
- Cash and cash equivalents include cash in hand along with any short term investments that are readily convertible into known amounts of cash.

Liabilities

A liability is an obligation that a business owes to someone and its settlement involves the transfer of cash or other resources. Liabilities must be classified in the statement of financial position as current or non-current depending on the duration over which the entity intends to settle the liability.

Non-current liability: these are liabilities which will be settled over the long term such as long term borrowings.

Current liabilities: these are those liabilities that are expected to be settled within one year from the reporting date such as trade creditors, accrued expenses, non-current portion of long term liabilities, financial liabilities such as a bank overdraft.

Liabilities are also classified in the statement of financial position on the basis of their nature:

- Trade and other payables primarily include liabilities due to suppliers and contractors for credit purchases. Sundry payables which are too insignificant to be presented separately on the face of the balance sheet are also classified in this category.
- Short term borrowings typically include bank overdrafts and short term bank loans with a repayment schedule of less than 12 months.
- Long-term borrowings comprise of loans which are to be repaid over a period that exceeds one year. Current portion of long-term borrowings include the installments of long term borrowings that are due within one year of the reporting date.
- Current Tax Payable is usually presented as a separate line item in the statement of financial position due to the materiality of the amount.

Equity

Equity is what the business owes to its owners. Equity is derived by deducting total liabilities from the total assets. It therefore represents the residual interest in the business that belongs to the owners.

Equity is usually presented in the statement of financial position under the following categories:

- Share capital represents the amount invested by the owners in the entity
- *Retained Earnings* comprises the total net profit or loss retained in the business after distribution to the owners in the form of dividends.
- *Revaluation Reserve* contains the net surplus of any upward revaluation of property, plant and equipment recognized directly in equity.

Rationale - Why the balance sheet always balances?

The balance sheet is structured in a manner that the total assets of an entity equal to the sum of liabilities and equity. This may lead you to wonder as to why the balance sheet must always be in equilibrium.

Assets of an entity may be financed from internal sources (i.e. share capital and profits) or from external credit (e.g. bank loan, trade creditors, etc.). Since the total assets of a business must be equal to the amount of capital invested by the owners (i.e. in the form of share capital and profits not withdrawn) and any borrowings, the total assets of a business must equal to the sum of equity and liabilities.

This leads us to the **Accounting Equation**: Assets = Liabilities + Equity

Purpose & Importance

Statement of financial position helps users of financial statements to assess the financial health of an entity. When analyzed over several accounting periods, balance sheets may assist in identifying underlying trends in the financial position of the entity. It is particularly helpful in determining the state of the entity's liquidity risk, financial risk, credit risk and business risk. When used in conjunction with other financial statements of the entity and the financial statements of its competitors, balance sheet may help to identify relationships and trends which are indicative of potential problems or areas for further improvement. Analysis of the statement of financial position could therefore assist the users of financial statements to predict the amount, timing and volatility of entity's future earnings.

MAY- JUNE 2011

QUESTION

QUESTION 1 (30 marks) (36 minutes)

The following information was obtained from the accounting records of T Super and B Man, trading as Superman Traders:

1. Balances as at 28 February 2011:

	R
Profit for the year (before depreciation)	574 420
Asset replacement reserve (1 March 2010)	30 000
Capital: T Super	775 000
Capital: B Man	775 000
Current account: T Super (Dr - 1 March 2010)	9 750
Current account: B Man (Cr - 1 March 2010)	4 340
Drawings: T Super	10 000
Drawings: B Man	7 630
Long-term loan: US Bank	660 000
Inventories	835 600
Debtors control	288 850
Creditors control	159 650
Land and buildings	1 500 000
Equipment at cost	280 000
Accumulated depreciation: Equipment (30 November 2010)	80 000
Vehicles at cost	170 000
Accumulated depreciation: Vehicles(1 March 2010)	24 000
Bank (Cr)	15 130
Allowance for credit losses	3 600
Allowance for settlement discount	5 250
Depreciation (Equipment as at 30 November 2010)	1 860
Prepaid expenses (Insurance)	2 700

2. Additional information:

2.1 Land and buildings consists of:

Land - Erf 529 Midrand, bought on 1 March 2008 for R900 000.
Building - The building was erected during the year at a total cost of R600 000 and was only occupied on 1 January 2011.

2.2 On 30 November 2010 equipment with a cost price of R35 000 was sold at a loss of R3 000. At that date, the accumulated depreciation on the equipment sold amounted to R12 060. All the transactions regarding the sale were recorded correctly.

2.3 Depreciation must still be provided for as follows:
Buildings: 2% per annum on the straight line method.
Equipment: 10% per annum on the diminished balance method.
Vehicles: 20% per annum according to the straight line method.

2.4 Inventories consist of:

Merchandise, R830 000
Stationery, R5 600

QUESTION 1 (continued)

2.5 The long-term loan was acquired on 1 May 2009 from US Bank and bears interest at a rate of 12% per annum. The loan is secured by a first mortgage over land and is repayable in 5 equal instalments as from 1 January 2012.

2.6 An amount of R10 000 must be transferred to the asset replacement reserve.

2.7 The remainder of the total comprehensive income for the year must be distributed between the partners in their profit sharing ratio.

REQUIRED:

With regard to Superman Traders:

1.1 Prepare the statement of financial position as at 28 February 2011. (13)

1.2 Prepare ONLY the note in respect of property, plant and equipment.
The total column can be omitted. (17)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership. Comparative figures are not required.

[30]

NB: Show all calculations.

SOLUTION

Superman Traders

Statement of Financial Position as at 28 February 2011

ASSETS	
Non Current Assets	**1 790 000**
Property, Plant and Equipment (see 1.2)	**1 790 000**
Current Assets	**1 118 300**
Inventories (830 000+5 600)	835 600
Trade and Other Receivables (288 850-3 600-5 250)	280 000
Prepaid Expenses	2 700
	2 908 300
EQUITY AND LIABILITIES	
Equity	**2 073 520**
Capital (775 000+775 000)	1 550 000
Current Accounts (calculation 1)	483 520
Other Components of Equity (30 000+10 000)	40 000
Non- Current Liabilities	**528 000**
Long-term borrowings (660 000-(660 000/5)	528 000
Current Liabilities	**306 780**
Trade and Other Receivables	159 650
Current portion of long-term borrowings (660 000/5)	132 000
Other Financial Liabilities	15 130
	2 908 300

Calculation 1

	T. Super	**B. Man**	**Total**
Balances at the beginning of year	**(9 750)**	**4 340**	**(5 410)**
Drawings	(10 000)	(7 630)	(17 630)
Share of total comprehensive income (shared equally)	253 280	253 280	506 560
Balances at end of year	**233 530**	**249 990**	**483 520**

Profit before Depreciation	574 420
Depreciation for the year	(57 860)
Transfer to reserves	(10 000)
Remainder to be shared equally	**483 520**

1.2 Note: Property, Plant and Equipment

	Land and Buildings	Equipment	Vehicles	Total
Carrying amount- 1 March 2010	**900 000**	**224 800**	**146 000**	**1 270 800**
Cost	900 000	315 000[1]	170 000	1 385 000
Accumulated Depreciation	-	(90 200)[2]	(24 000)	(114 200)
Additions	600 000	-	-	600 000
Disposals at carrying amount	-	(22 940)[3]	-	(22 940)
Depreciation for the year	(2 000)[4]	(21 860)[4]	(34 000)[4]	(57 860)
Carrying amount- 28 February 2011	**1 498 000**	**180 000**	**112 000**	**1 790 000**
Cost	1 500 000	280 000	(170 000)	1 950 000
Accumulated Depreciation	(2 000)	(100 000)	(100 000)	(160 000)

(1) 280 000+ 35 000= **315000**
The disposed of asset was there at the beginning of the year, therefore it should form part of the carrying amount at the beginning of the year.

(2) 80 000+12 060-1 860=**90 200**
The accumulated depreciation on the disposed of asset should be included in the accumulated depreciation at the beginning of the year as the asset was still there at the beginning of the year. Current year`s depreciation is eliminated in the accumulated depreciation at start because at that moment, the assets had not yet been used for the year, therefore, no depreciation had taken place for this year.

(3) Disposals at carrying amount

Cost	35 000
Accumulated Depreciation	12 060
Carrying amount	**22 940**

The disposed of asset is eliminated at it`s carrying amount.

(4) Depreciation

(a) Buildings 2%*600 000*2/12= **2 000**

Depreciation on non-current assets begins when the asset is ready for use in the intended state by management.

(b) Equipment

From 1 March 2010-30 November 2010	1 860
From 1 December 2010-28 February 2011 10%*(280 000-80 000)	20 000
Total	**21 860**

(5) Vehicles 20%*170 000=**34 000**

OTHER NOTES

Property, Plant and Equipment

1. It starts with the situation a t the beginning of the year.
   This is done by showing the carrying amount of the non-current assets at the beginning of the year. Only assets existing at start will be shown, that is, additions made during the year should be eliminated whilst disposals done during the year are included in the carrying amount at beginning of year.
2. The disposals are eliminated a t carrying amount and they should not be part of the carrying amount at the end of the year.
3. Depreciation for the period is subtracted. The total amount including that on disposals is included in depreciation for the period.
4. Carrying amount at end of year only includes only those assets still existing at the end of year.

Inventories

In the SFP, all inventories are bunched together, that is, stock of goods, consumables, stationery etc. The breakdown is then shown under the notes.

Trade and other Receivables

- This includes trade debtors such as accrued incomes e.g. interest receivable accrued, commission receivable accrued, dividends receivable accrued, rent receivable accrued etc.
- Allowance for credit losses and allowance for discounts are subtracted from debtors. This is in line with the prudence concept where it is recommended that losses should be bought

into our accounts as long as we have reasonable basis to assume that these will be incurred in the future.

- Allowance for credit losses. This measures an estimation of the total amount that might be irrecoverable from our debtors due to non-payment. There is an inherent risk in selling on credit which makes it reasonable to assume that some of the debtors might not pay. This allowance is distinct from the actual credit losses. Actual credit losses represents debtors already assessed and it is considered that a reasonable man can conclude that evidence is there to assume that these are irrecoverable.

Allowance – no sufficient evidence, only estimation due to the inherent risk involved.
Credit losses - sufficient evidence available to assume that the debt is irrecoverable e.g. Debtor has died, debtor has been declared insolvent, a reasonable amount of time has elapsed since the disappearance of the debtor etc.

Allowance for discounts: this is an estimation of the amount that might not be recovered on the carrying amount because of settlement discounts granted to customers due to early payment of debts as set out in the credit terms.

Prepaid Expenses
This represents expenses for future periods paid during this year or in previous years. The argument for recording them under assets is that they are still our money until the time when the beneficiaries provide us with the goods/ services paid for. They will only become expenses when they fall due.
Example

Year- End 31 December 2013

Monthly rental	R 1 000
Rental paid	R15 000
Year's rent = R1000X12months =	R12 000

Rental paid – Year's rent = Prepaid rent
15 000 – 12 000 = Prepaid rent
R3000

The R3000 rental paid is an asset to the business as although the money has been paid over to the landlord, it still belongs to us until we have used the building for three months (R1000X3). That is when the current asset will be converted to an expense.

Other components of Equity

This refers to the savings made by the business which belong to the owners. These are in the form of reserves or amounts set aside for future use e.g. asset replacement reserve, general reserve etc.

Long term borrowings
This represents obligations to pay money after more than one year. All long term loans to be repaid after twelve months fall in this category. Any portions or installments due within the next twelve months should be transferred to non- current portion of long term borrowings under the current liabilities.

Other Financial Liabilities
Includes items like bank overdraft or other short term loans to be repaid within twelve months.

OCTOBER-NOVEMBER 2012

QUESTION

QUESTION 1 (19 Marks) (23 Minutes)

Billy and Kid decided to start a business, trading as Outlaw Traders. The following information pertains to the business activities of the partnership for the year ended 30 June 2012:

1. Trial balance as at 30 June 2012:

	R
Capital: Billy	150 000
Capital: Kid	150 000
Current Account: Billy (Cr; 1 July 2011)	11 100
Current Account: Kid (Dr; 1 July 2011)	8 700
Drawings: Billy	71 500
Drawings: Kid	87 300
Asset replacement reserve	45 000
Mortgage	150 000
Long-term loan: Billy	40 000
Creditors control	30 000
Bank (Cr)	13 500
Land and buildings at cost	620 000
Equipment at cost	86 000
Vehicles at cost	98 500
Accumulated depreciation: Equipment	25 900
Accumulated depreciation: Vehicles	50 000
Inventory	10 000
Debtors control	22 000
Allowance for credit losses	1 750
Petty cash	500
Profit for the year	337 250

2. Terms of the partnership agreement:

2.1 Interest is calculated at 10% per annum on the opening balances of the partners' capital and current accounts

2.2 Both partners are entitled to a salary of R70 000 per annum

3. Additional information:

3.1 The long-term loan from Lincoln Bank was acquired on 1 July 2011 and bears interest at a rate of 10% per annum. The loan is secured by a first mortgage over land and buildings and is repayable in equal instalments over 10 years. The first repayment is due 2 July 2012.

3.2 Billy granted an unsecured loan to the partnership on 1 May 2012. According to the terms of the loan agreement, interest at 15% per annum will be charged and is payable in December of every year. The total amount of the loan will be repaid in full on 30 April 2015.

3.3 On 30 June 2012, a cheque was made out to Jesse James Computers Ltd for R12 000. This payment was for the rental of a server from 1 July 2012 to 30 June 2013. The transaction must still be recorded in the books of the entity.

3.4 During the year each partner received R55 000 as a salary and these amounts were debited to salaries and wages of the partnership.

REQUIRED

Prepare the **EQUITY AND LIABILITIES** section of the statement of financial position of Outlaw Traders as at 30 June 2012. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership. Notes and comparative figures are NOT required.

NB: Show all calculations.

SOLUTION

Outlaw Traders

Statement of Financial Position (extract) as at 30 June 2012

EQUITY AND LIABILITIES		
EQUITY		**524 850**
Capital (150 000+150 000)	300 000	
Current Accounts (108 715+71 135)(1)	179 850	
Other Components of Equity	45 000	
LIABILITIES		
Non-Current Liabilities		**175 000**
Long-term borrowings(2)	175 000	
Current Liabilities		**71 500**
Trade and other Payables(3)	31 000	
Current portion of long-term borrowings (150 000/10)	15 000	
Other Financial Liabilities (13 500+12 000)	25 500	
		771 350

(1) **Partners Current Accounts**

	Billy	**Kid**
Balances brought down	**11 100**	**8 700**
Drawings (calculation a)	(126 500)	(142 300)
Interest on Capital (calculation b)	15 000	15 000
Interest on Current (calculation c)	1 110	(870)
Salary	70 000	70 000
Share of Comprehensive Income (calculation d)	138 005	138 005
Balances at the end of year	108 715	71 135

(a) Drawings

Billy (71 500+55 000) = 126 500

Kid (87 300+55 000) = 142 300

(b) Interest on Capital

Billy (10%*150 000) = 15 000

Kid (10%*150 000) = 15 000

Total **= 30 000**

(c) Interest on Current

Billy (10%*11 100) = 1 110

Kid (10 %*8700) = (870)

Total **= 240**

(d) Calculation of Total Comprehensive Income

Profit for the year	337 250
Interest on Loan from Billy (10%*40 000*2/12)	(1 000)
Salaries to partners wrongly entered in general salaries 55 000*2	110 000
Interest on capital (a)	30 000
Interest on current (c)	(240)
Salaries (70 000*2)	(140 000)
Total comprehensive income to be shared	**276 010**

Share of Profits

Billy (276 010/2) 138 005

Kid (276 010/2) 138 005

(2) **Long – Term Borrowing**

Mortgage 150 000 - (150 000) ÷ 10)	13 5000
Loan from Billy	40 000
	175 000

(3) **Trade and Other Payables**

Creditors Control	30000
Interest on Loan from Billy (40 000x 15% x $\frac{2}{12}$)	1000
	31000

NOTES

Loans Partners

Interest on Loans from Partners Due

- Loans form partners are not part of the statement of changes in net investment. They are part of either long-term borrowings (non- current liability) if they are to be repaid after more than one year and short term borrowings (current liabilities) if they are to be repaid within one year.
- The interest on partner's loans unpaid at end of year is not recorded in the current accounts but shown as current or noncurrent liabilities depending on whether they are to be repaid within one year or not.

Long-term borrowings

The amount that is repayable on 2 July 2012 should be eliminated from the long-term borrowings since it is now due within one year. It is now transferred to the Current Liabilities as the current portion of long-term borrowings. Since the loan is to be repaid in 10 equal installments, the current liability portion will be (150 000/10)= 15 000.

Interest on loan from Billy

This is calculated on a month by month or proportional basis. In this case the loan from Billy was only obtained on the 1st of May 2012 whilst the year end is 30 June 2012. As a result the interest chargeable for this financial period is only for two months (May 2012- June 2012). The fact that the interest is to be paid in December of June does not affect the expense since the accounts are prepared on an accrual basis. This only has an effect in the Statement of Financial position, where the owing interest should be entered under current liabilities since it will be repaid in less than twelve months.

Other Financial Liabilities

The amount paid to Jesse Computers should increase the bank overdraft because the question says that this cheque had not been recorded in the books.

Salaries paid to the partners

The salaries paid to the partners are not deducted with other general salaries of employees in the Statement of Profit or Loss, therefore the amount included in the salaries which represented payment of salaries to partners should be reversed. As this had been subtracted as an expense when determining profit, this should be added to profit to reverse the transaction. Any amounts paid to partners are supposed to be added to their drawings in the Statement of Changes in Equity.

CHAPTER THREE : PARTNERSHIP CHANGES AND LIQUIDATION

PARTNERSHIP CHANGES

This refers to situations whereby an existing partner leaves the partnership maybe due to illness, retirement, disgruntlement e.t.c or whereby a new partner joins the partnership. When this happens, this is usually accompanied by a valuation of the assets and liabilities of the business. The following examples give the accounting treatment of such scenarios.

MAY-JUNE 2010

QUESTION 2 (16 marks)(20 minutes)

Chris, Brown and Rehanna were in a partnership trading as R&B Entertainment, and shared the profits and losses of the partnership in the ratio of 5:3:2 respectively. Due to claims of a disproportionate allocation of royalties earned from the hit *Umbrero*, which consequently led to a war of words amongst the partners, Rehanna decided to quit the partnership. The last date that she acted as a partner was 30 April 2010, the end of the financial year of the partnership. Chris and Brown decided to continue with the business activities of the partnership and formed a new partnership on 1 May 2010. Chris and Brown agreed to take over Rehanna's profit share equally.

The following information pertains to R&B Entertainment:

1. Balances as at 30 April 2010

	R
Land and buildings	280 000
Furniture and equipment	45 000
Accumulated depreciation: Furniture and equipment	15 000
Debtors control (royalties receivable)	37 500
Bank (dr)	6 000
Capital: Chris	76 000
Capital: Brown	73 600
Capital: Rehanna	60 400
Current account: Chris (dr)	7 400
Current account: Brown (cr)	21 600
Current account: Rehanna (cr)	19 800
Asset replacement reserve	78 000
Creditors control	31 500

2. Additional information:

In preparation for the retirement of Rehanna on 30 April 2010, the following information must be taken into account:

2.1 The land and buildings were valued at R350 000.

2.2 The partners were advised that the royalties due to them were understated by R50 000.

2.3 As a result of the popularity of the *Umbrero* song, the partners resolved that goodwill must be set at R50 000.

2.4 The partners agreed that Rehanna could take a fashionable set of microphones of the partnership with a carrying amount of R5 700 as partial payment of her account and that the outstanding balance on her account will be settled in cash at 31 May 2010.

REQUIRED:

2.1 Prepare the valuation account, properly closed off, in the general ledger of R&B Entertainment. (5)

2.2 Prepare the capital account of Rehanna, properly closed off, in the general ledger of R&B Entertainment for the year ended 30 April 2010. (7)

2.3 Calculate the profit-sharing ratio of Chris and Brown on 1 May 2010. (4)

[16]

NB: Show all calculations.

SOLUTION

R & B Entertainment
General Ledger

2.1 Debit side **Valuation Account** **Credit side**

Date	Details	Amount	Date	Details	Amount
2010			2010		
April 30	Capital Account: Chris[2]	60 000	April 30	Land and Buildings[1]	70 000
	Capital Account: Brown[2]	36 000			
	Capital Account: Rehanna[2]	24 000		Debtors	50 000
		120 000			**120 000**

[1]Land and Buildings = 350 000-280 000= 70 000
[2]Share of Valuation is done according to the profit sharing ratios.

Balance	120 000
Chris (120 000*5/10	60 000
Brown (120 000*3/10)	36 000
Rehanna (120 000*2/10)	24 000

Notes

- When there is a revaluation, increases in the value of assets are credited in the Valuation account and decreases in assets are debited in the Valuation account.
- When liabilities increase, the increase is supposed to be debited in the Revaluation account and any decreases in liabilities are supposed to be credited in the Valuation Account.
- Any expenses arising on the revaluation are debited in the Valuation account and any incomes arising on the valuation are credited in the Valuation account.
- After making all the entries in the Valuation account, if the credit side is larger than the debit side, then there is a profit on Valuation which should be shared by the old partners in their profit sharing ratios by debiting the Valuation account and crediting the Capital Accounts.
- If the debit side is larger than the credit side, then there is a loss on Valuation which should be shared by the old partners in their profit sharing ratios by debiting the Capital accounts and crediting the Valuation Accounts.

Debit side **Valuation Account** **Credit side**

Date	Details	Amount	Date	Details	Amount

	Decreases in assets Increases in Liabilities Expenses			Increases in assets Decreases in assets Income	

2.2 Debit side **Capital Account: Rehanna** **Credit side**

2010 April 30	Equipment (microphones) Loan	 5 700 124 100	2010 April 30	Balance b/d Current Account Asset Replacement Reserve (2/10*78 000) Goodwill (2/10*50 000)	60 400 19 800 15 600 24 000 10 000
		129 800			**129 800**

Goodwill

Goodwill is credited in the capital accounts of the partners in accordance to their profit sharing ratios.

Assets taken over by the partners

All the assets that have been taken over by the partners are debited in the respective capital accounts of the partners involved at the agreed upon values.

2.3 Calculation of profit sharing ratio

Chris = 5/10 + (1/2*2/10) = 6/10=3/5 (in simple terms)
Brown= 3/10 + (1/2*2/10) = 4/10=2/5 (in simple terms)

Rehanna`s share of profit is to be shared equally.

MAY-JUNE 2011

QUESTION 2 (20 marks) (24 minutes)

Manamela and Tsebe are in partnership trading as MaTshebe Catering Services, with a profit sharing ratio of 3:2 respectively. Moshe made an offer to join the partnership which was duly accepted by Manamela and Tsebe. The bookkeeper of the partnership is still battling to pass the module FAC1601 and has no clue on how to prepare accounts necessary to admit a partner to the partnership. The partners have approach you to assist in the preparation of accounts to admit Moshe. The following information is extracted from the accounting records of the partnership on 30 September 2010, the end of the financial year:

	R
Capital: Manamela	140 000
Capital: Tsebe	130 000
Current account: Manamela (Dr)	30 000
Current account: Tsebe	35 000
Asset replacement reserve	71 400
Vehicles at cost	125 000
Accumulated depreciation: Vehicle	31 000
Furniture and equipment at cost	128 000
Accumulated depreciation: Furniture and equipment	27 600
Inventory	64 000
Bank	88 000

Additional information:

1. The partners agreed that Moshe will join the partnership on 1 October 2010 and that the new partnership will trade as MMT Catering Services. Manamela and Tsebe further decided that they would relinquish a third of interest in the profits/losses to Moshe in the ratio of 6:4 respectively. Moshe would contribute a vehicle worth R150 000, catering equipment worth R15 000 and R40 000 cash and thereby acquire a third interest in the equity of the new partnership.
2. In preparation of Moshe's admission an appraiser made the following valuation on 1 October 2010:

Furniture and equipment	R96 400
Vehicles	R80 000
Inventory	R44 000

REQUIRED:

2.1	Calculate the goodwill acquired in MaTsebe Catering Services.	(6)
2.2	Prepare the valuation account, properly closed off, in the general ledger of MaTshebe Catering Services as at 30 September 2010.	(9)
2.3	Calculate the new profit sharing ratio for Manamela, Tsebe and Moshe.	(5)
		[20]

NB: Show all calculations.

SOLUTION

2.1 Calculation of Goodwill

Capital of Moshe multiplied by the inverse of his share (value of the business)		
	(150 000+40 000+15 000) *3/1	615 000
Capital: Manamela(1)		(170 840)
Capital: Tsebe(2)		(205 650)
Capital: Moshe (150 000+40 000+15 000)		(205 000)
Goodwill		**33 510**

(1) Capital Account: Manamela

Current Account	30 000	Balance b/d	140 000
Valuation	41 040	Asset Replacement	
Balance c/d	111 800	Reserve(71400*3/5)	42 840
	182 240		182 840
		Balance b/d	111 800

(2) Capital Account: Tsebe

Valuation	41 040	Balance b/d	130 000
Balance c/d	166 260	Current Account	35 000
		Asset Replacement	
		Reserve (71400*2/5)	28 560
	193 560		193 560

(3) Notes

Goodwill= Value of the business-Owners` Equity (Net Assets)

MaTshebe Catering Services

Valuation Account

2010			2010		
Sept 30	Furniture & equipment[1]	4 000	Sept 30	Capital: Manamela	22 800
	Vehicles[2]	14 000		Capital: Tsebe	15 200
	Inventory[3]	20 000			
		38 000			**38 000**

1. Decrease in Furniture= (128 000-27 600)-96 400= **4 000**
2. Decrease in Vehicles= (125 000-31 000) -80 000= **14 000**
3. Decrease in Inventory= 64 000-44 000= **20 000**

<u>Calculation of new profit sharing ratios</u>

Manamela= 3/5-6/10*1/3=12/30=6/15
Tsebe=2/5-4/10*1/3=8/30=4/15
Moshe=1/3=10/30=5/15
Ratio=6:4:5

<u>LIQUIDATION</u>

This is a situation whereby the partnership ceases to operate and as a consequence, all creditors have to be paid off and the partners are repaid their interests in the business if resources permit. Sometimes, the liquidation happens piecemeal, that is the assets are only sold in phases and the respective partners only receive part of their stake as the assets are sold.

QUESTION 2 (18 marks) (21 minutes)

Bob, Morgan and Arthur were in partnership trading as Zimbabwe Chartered Accountants. The partners conducted their business in South Africa and shared profits/losses in the ratio of 5:3:2. Since the formation of the partnership, Bob and Morgan have been struggling to agree on matters affecting the day to day operations of the business. The partners have consequently agreed to dissolve the partnership piecemeal as from 1 October 2011.

The following information is extracted from the accounting records of the partnership on 30 September 2011:

	R
Capital: Bob	130 000
Capital: Morgan	100 000
Capital: Arthur	80 000
Asset replacement reserve	20 000
Property, plant and equipment	202 000
Investments: Shangai Limited	100 000
Loan from Morgan	12 000
Long-term loan	80 000
Fees receivable (Debtors)	105 000
Bank (Dr)	15 000

Additional information:

1. The partners agreed to distribute the cash received from the sale of assets immediately in such a way that, while maximum distribution was to be made to the partners, under no circumstances would a partner be required to refund to the partnership any amount he had received.
2. The partner's loan account is to be transferred to his capital account.
3. The partnership had taken out an insurance policy on the life of the partners. The surrender value of the policy is currently R25 000 and is to be paid to the partnership on 8 October 2011.
4. The partnership reached an agreement with all its clients (debtors) that if fees owing are settled before 31 October 2011, a discount of 10% will be granted. On 10 October 2011, 80% of clients had settled their accounts.
5. The assets were sold for cash as follows:

		Carrying amount	Proceeds
12 October 2011	Furniture and equipment	R130 000	R130 000
18 October 2011	Investments	R100 000	R110 000
20 October 2011	Furniture and equipment	R 50 000	R 60 000

Required:

Record the liquidation of Zimbabwe Chartered Accountants in columnar format according to the loss-absorption capacity method from 1 October 2011 to 12 October 2011.

NB: Show all calculations

SOLUTION

ZIMBABWE CHARTERED ACCOUNTANTS

GENERAL LEDGER-SUMMARISED IN COLUMNAR FORM

DETAILS	BANK	ASSETS	LIABILITIES	CAPITAL BOB	CAPITAL MORGAN	CAPITAL ARTHUR
Opening Balances[1]	15 000	407 000		(140 000)	(118 000)	
Payment of	(15 000)		(80 000)			
Creditors			15 000			(84 000)
	-	407 000	(65 000)	(140 000)	(118 000)	(84 000)
Insurance Policy[2]	25 000			(12 500)	(7 500)	(5 000)
Payment of	(25 000)		25 000			
Creditors	-	407 000	(40 000)	(152 500)	(125 500)	(89 000)
	75 600	(84 000)		4 200	2 520	1 680
Fees received from	(40 000)		40 000			
clients[3]	35 600	323 000	-	(148 300)	(122 980)	(87 320)
Payment of creditors	(35 600)			-	18 160	17 440
1st interim payment	-	323 000	-	(148 300)	(104 820)	(69 880)
(see below)	130 000	(130 000)				
	(130 000)			51 800	46 920	31 280
	-	193 000	-	(96 500)	(57 900)	(38 600)
Sale of Furniture and	110 000	(100 000)		(5 000)	(3 000)	(2 000)
Equipment	(110 000)			55 000	33 000	22 000
2nd Interim Payment						
(see below)	-	93 000	-	(46 500)	(27 900)	(18 600)
	60 000	(50 000)		(5 000)	(3 000	(2 000)
Sale of Investments[4]	(60 000)			30 000	18 000	12 000
3rd Interim Payment	**-**	**43 000**		**(21 500)**	**(12 900)**	**(8 600)**
Sale of Furniture and						
Equipment[5]						
4th Interim Payment						

INTERIM CASH REPAYMENT (LOSS ABSORPTION-CAPACITY METHOD)

1ST INTERIM PAYMENT

DETAILS	BANK	ASSETS	CAPITAL BOB	CAPITAL MORGAN	CAPITAL ARTHUR
Assets	35 600	323 000	(148 300)	(122 980)	(87 320)
Bob`s capital deficit		(323 000)	(161 500)	96 900	64 600
	35 600	-	13 200	(26 080)	(22 720)
			(13 200)	7 920	5 280
Payment	**(35 600)**		-	**(18 160)**	**(17 440)**

2nd INTERIM PAYMENT

DETAILS	BANK	ASSETS	CAPITAL BOB	CAPITAL MORGAN	CAPITAL ARTHUR
Assets	130 000	193 000	(148 300)	(104 820)	(69 880)
		(193 000)	(96 500)	57 900	38 600
Payment	**130 000**	**-**	**(51 800)**	**(46 920)**	**(31 280**

3rd INTERIM PAYMENT

DETAILS	BANK	ASSETS	CAPITAL BOB	CAPITAL MORGAN	CAPITAL ARTHUR
Assets	110 000	93 000	(101 500)	(60 900)	(40 600)
		(93 000)	46 500	27 900	18 600
Payment	**110 000**	**-**	**(55 000)**	**(33 000)**	**(22 000)**

4th INTERIM PAYMENT

DETAILS	BANK	ASSETS	CAPITAL BOB	CAPITAL MORGAN	CAPITAL ARTHUR
					(20 600)
Assets	60 000	43 000	(51 500)	(30 900)	8 600
Payment		(43 000)	21 500	12 900	
	60 000	**-**	**(30 000)**	**(18 000)**	**(12 000)**

[1]**CALCULATION OF OPENING CAPITALS**

CAPITAL: BOB

Balance c/d	140 000	Balance b/d	130 000
		Asset Replacement Reserve	10 000
	140 000		140 000

CAPITAL: MORGAN

Balance c/d	118 000	Balance b/d	100 000
		Asset Replacement Reserve	6 000
		Loan	12 000
	140 000		140 000

CAPITAL: ARTHUR

Balance c/d	84 000	Balance b/d	80 000
		Asset Replacement Reserve	4 000
	84 000		84 000

NOVEMBER 2010

QUESTION 2 **(17 marks)(20 minutes)**

George and Lisa are in a partnership, selling office furniture. They are trading as GL Office Furniture, and share equally in the profits or losses of the partnership. Due to the economic downfall and the steady decline in customers, they decided to liquidate the partnership simultaneously as from 1 September 2010.

On 31 August 2010 the following list of balances was obtained from the accounting records of GL Office Furniture:

	R
Furniture and equipment at cost	55 600
Motor vehicle at cost	46 200
Accumulated depreciation: Furniture and equipment	27 800
Accumulated depreciation: Motor vehicle	18 480
Asset replacement reserve	4 000
Goodwill	3 000
Creditors control	3 600
Inventory	22 000
Debtors control	24 900
Capital: George	50 000
Capital: Lisa	50 000
Current account: George (Cr)	1 010
Current account: Lisa (Cr)	3 010
Bank (Dr)	6 200

Additional information:

During September 2010 the following transactions took place:

1. The furniture and equipment were sold for R42 000, cash.
2. The motor vehicle was taken over by Lisa at an agreed value of R41 000.
3. All the creditors were paid and a settlement discount of R360 was received.
4. The inventory was sold for R19 000, cash.
5. A debtor with an outstanding balance of R4 200 was declared insolvent. His account must be written off. A 10% settlement discount was offered to all the other debtors if they paid their accounts before 30 September 2010. All of them settled their accounts accordingly.
6. Liquidation costs, amounting to R6 500, were paid.

REQUIRED:

Prepare the following accounts for September 2010, properly closed off, in the general ledger of GL Office Furniture:

2.1 The liquidation account. (13)

2.2 The capital account of Lisa, including the final settlement of the account. (4)
[17]

NB: Show all calculations.

QUESTION 2 (17 marks)

2.1

GL OFFICE FURNITURE
GENERAL LEDGER

Dr **Liquidation account** **Cr**

2010		R	2010		R
Sept 1	Furniture and fittings at cost	**A**55 600	Sept 1	Accumulated depreciation: Office furniture	**A**27 800
	Motor vehicle at cost	**A**46 200		Accumulated depreciation: Motor vehicle	**A**18 480
	Inventory	**A**22 000		Creditors control	**A**3 600
	Debtors control	**A**24 900		Bank (Office furniture) **A**	**A**42 000
	Bank (Creditors control) **A** W	**AA**3 240		Capital: Lisa **A** (Motor vehicle)	**A**41 000
	Bank (Liquidation costs) **A**	**A**6 500		Bank (Inventory) **A**	**A**19 000
	Capital: Lisa **A**	**A**6 035		Bank (Debtors control) **A**	**A**18 630
	Capital: George **A**	**A**6 035			
		170 510			170 510

(13)

Calculations

W Bank (Creditors control)

R(3 600 **A** -R360 **A**) = R3 240

Bank (Debtors control)

R(24 900 **A** -4 200 **A**) x 90% **A** = R18 630

Capital: Lisa and Capital: George

R(170 510 - 158 440) x 1/2 = R6 035

2.2

GL OFFICE FURNITURE
GENERAL LEDGER

Dr **Capital: Lisa** **CR**

2010		R	2010		R
Sept 1	Goodwill W	**A** 1 500	Sept 1	Balance b/d	**A** 50 000
	Liquidation account	**A** 41 000		Asset replacement reserve	**A** 2 000
	Bank **A**	**A** 18 545		Current account: Lisa	**A** 3 010
				Liquidation account	**A** 6 035
		61 045			61 045

(4)

QUESTION 2 (continued)

Calculations

W Goodwill

R3 000 x ½ = R1 500

Asset replacement reserve

R4 000 x ½ = R2 000

[17]

QUESTION 2 (25 marks) (30 minutes)

Sylvester and Kgothatso are in partnership, trading as SK Confectioners and sharing profits/losses of the partnership equally. The partners decided to liquidate the partnership piecemeal as from 1 May 2012 and to repay the creditors in full with a once off payment as soon as sufficient cash is received from the liquidation of assets. The partners further agreed that interim repayment will be made to them as cash becomes available in such a way that, while maximum distribution was to be made to the partners, under no circumstances would a partner be required to refund to the partnership any amount he had received.

The following information is extracted from the accounting records of the partnership on 30 April 2012:

	R
Capital: Sylvester	220 000
Capital: Kgothatso	250 000
Current account: Sylvester (Dr)	43 000
Current account: Kgothatso	20 000
Land and buildings at cost	330 000
Equipment at cost	92 000
Accumulated depreciation: Equipment	8 000
Goodwill	15 000
Inventory	28 000
Creditors control	20 000
Bank (Dr)	10 000

Additional information:

1. On 2 May 2012 the partners took a decision to donate inventory with a cost price of R18 000 to a local charity and the rest was sold on the same day for R9 000 cash.

2. The partners negotiated a settlement discount of 10% with their creditor. The creditor agreed on condition that the account is settled on or before 10 May 2012. The due date for payment was met by the partnership.

3. On 8 May 2012 equipment was sold at a public auction at a profit of R21 000 cash. The auctioneers fee amounted to R5 000.

4. The partners received an offer for the purchase of the land and buildings for R350 000. The offer was accepted by both partners on 10 May 2012.

REQUIRED:

Record the liquidation of SK Confectioners in columnar format according to the loss absorption capacity method from 1 May 2012 to 10 May 2012.

NB: Show all calculations

SOLUTION

QUESTION 2 (25 marks)

SK CREATIONS
GENERAL LEDGER (SUMMARISED IN COLUMNAR FORMAT)

	Bank	Land and buildings	Equipment	Inventory	Creditors	Capital: Sylvester	Capital: Kgotatso
	R	R	R	R	R	R	R
Balance at the commencement of liquidation:	A10 000	A330 000	AA84 000	A28 000	A (20 000)	ج,,(169 500)	ذ,,(262 500)
Liquidation of inventory	A9 000			,(28 000)		د,,9 500	د,,9 500
Sale of equipment	ر,A105 000		,(84 000)			,(10 500)	,(10 500)
Auctioneers fee	,(5 000)					,2 500	,2 500
Settlement of creditors account	,A (18 000)				,20 000	,(1 000)	,(1 000)
	101 000	330 000	-	-	-	(169 000)	(262 000)

ج R[(220 000A 43 000A) – R(15 000A x 50%A)] = R169 500
ذ R[(250 000A + 20 000A) – R(16 000A x 50%A)] = R262 500
د R[(18 000A x 50%)A + (1 000A x 50%A)] = R9 500
ر R(92 000A 8 000A) + R21 000A = R105 000

CHAPTER 4: FINAL ACCOUNTS OF A CLOSE CORPORATION

Close corporations are made up by members who contribute capital, which is known as contributions by the members. This form of business is no longer being incorporated in terms of the Companies Act of 2008 which came into effect on 1 May 2011. The major distinguishing features in the preparation of the accounts of this form of business are some of the items which are not found in Partnerships and Sole Traders. Examples include the following:

1. Loans from members: These are loans obtained from members and should be included under liabilities. If they have to be repaid in more than one financial period, they should be included under non-current liabilities with other long-term borrowings whilst those to be repaid within one accounting period should be shown under current liabilities with other short term borrowings. Interest depends on the agreement made by members.
2. Loans to members: These are loans that are given to members. If they have to be repaid in more than one financial period, they should be included under non-current assets with other financial assets whilst those to be repaid within one accounting period should be shown under current assets with other short-term financial assets. Interest depends on the agreement made by members.
3. Salaries of members and Remuneration of Accounting Officer: These are shown with other expenses in the Statement of Profit or Loss and other Comprehensive income.
4. Distribution to members: these are shares of profits distributed to members in accordance to their shares or interests as agreed by the partners.

OCTOBER-NOVEMBER 2010

QUESTION 3 (29 marks)(35 minutes)

The following information pertains to Riverland CC:
List of balances as at 28 February 2010:

	R
Member's contribution: A Showers	210 000
Member's contribution: J Sparrow	140 000
Member's contribution: R Willow	70 000
Land and buildings at cost	400 000
Furniture and equipment at cost	375 000
Accumulated depreciation: Furniture and equipment	62 320
Debtors control	111 820
Creditors control	31 540
Bank (overdraft)	25 120
Investment at fair value (1 March 2009)	130 000
Long-term loan (Last National Bank)	60 000
Allowance for credit losses	3 000
Retained earnings (1 March 2009)	295 180
SARS (income tax) (Dr)	115 200
Loan to A Showers	50 000
Loan from R Willow	70 000
Distribution to member: A Showers	40 000
Distribution to member: J Sparrow	26 000
Distribution to member: R Willow	14 000
Inventory	147 400
Accrued expenses	6 800
Prepaid expenses	5 920

Additional information:

1. The investment consists of 130 000 ordinary shares of R1 each in Good Company Ltd.

2. The profit before tax was calculated as R441 380 before the valuation of the investment for the current financial year was taken into account. On 28 February 2010 the fair value of the shares was R143 000.

3. During the financial year A Showers experienced personal financial difficulties, resulting in the CC granting her a loan of R50 000 on 31 August 2009. The loan is immediately callable.

4. The long-term loan from Last National Bank is secured by the land and buildings and repayable on 1 March 2015.

5. The loan from R Willow is unsecured and interest free. An amount of R35 000 is repayable on 1 March 2010. The outstanding balance is repayable on 1 March 2012.

6. The income tax assessment, received from SARS on 15 March 2010, indicated that the actual normal income tax for the 2010 financial year amounted to R127 886.

7. Provide for a further total profit distribution of R42 000 to the members. This amount is payable to them on 1 March 2010.

QUESTION 3 **(continued)**

REQUIRED:

Prepare the statement of financial position of Riverland CC as at 28 February 2010. Your answer must comply with the provisions of the Close Corporations Act, No. 69 of 1984, and with the requirements of International Financial Reporting Standards (IFRS), where appropriate to the business of the CC. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

SOLUTION

QUESTION 3 **(29 marks)**

Riverland CC A
Statement of financial position as at 28 February 2010 A

	R
ASSETS	
Non-current assets	712 680
Property, plant and equipment **A** W	,,,712 680
Current assets	455 140
Inventories	,147 400
Trade receivables	,,108 820
Prepayments	,5 920
Other financial assets **A** ,,193 000	
Total assets A 1 167 820	
EQUITY AND LIABILITIES	
Total equity	919 674
Members' contributions	,,,420 000
Retained earnings �	**(4)** 499 674
Total liabilities	248 146
Non-current liabilities	95 000
Long-term borrowings ®	,,95 000
Current liabilities	153 146
Trade and other payables **A** 0 ,,3	340
Current portion of loan from member	,35 000
Other financial liabilities **A** ,25 120	
Distribution to members payable	,42 000
Current tax payable ®	,,12 686
Total equity and liabilities A 1 167 820	

Calculations

W **Property, plant and equipment**

Land and buildings at cost + (Furniture and equipment at cost - Accumulated depreciation: Furniture and equipment)

R[400 000 ,+ (375 000 ,-62 320 ,)] = R712 680

Trade receivables

Debtors control - Allowance for credit losses
R(111 820 ,-3 000 ,) = R108 820

Other financial assets

Investment at fair value + Loan to A Showers

R(143 000 ,+ 50 000 ,) = R193 000

Members' contributions

R(210 000 ,+ 140 000 ,+ 70 000 ,) = R420 000

� **Retained earnings**

Retained earnings (beginning of year) + Profit before tax + Gain on financial assets at fair value through profit or loss: Held for trading - Income tax expense - Interim profit distributions - Additional profit distribution

R(295 180 **A** + 441 380 **A** + 13 000 **A** -127 886 **A** - 40 000 **A** - 26 000 **A** - 14 000 **A** - 42 000 **A**)
= R499 674

® **Long-term borrowings**

Long-term loan + Loan from R Willow
R[60 000 ,+ (70 000 **A** -35 000 **A**)] = R95 000

0**Trade and other payables**

Creditors control + Accrued expenses
R(31 540 ,+ 6 800 ,) = R38 340

® **Current tax payable**

Tax assessment - SARS (Income tax) (Dr)
R(127 886 ,-115 200 ,) = R12 686

MAY –JUNE 2011 QUESTION 3

QUESTION 3 (20 marks) (24 minutes)

Retief and Elizabeth are the only members of Shoe Fever CC. They each hold an equal share in the close corporation. You have been appointed by Shoe Fever CC as the accounting officer for the year ended 28 February 2011 and the following list of balances were presented to you.

1. Balances as at 28 February 2011:

	R
Member's contribution: Retief	150 000
Member's contribution: Elizabeth	200 000
Loan from Retief	50 000
SARS (Dr)	5 200
Allowance for credit losses	2 000
Inventory	60 000
Long-term loan: Mercy Bank	112 000
Accrued expenses	5 400
Prepaid expenses	4 100
Sales	540 000
Purchases	199 000
Delivery expenses (in respect of sales)	4 920
Depreciation	4 320
Rent income	5 450
Sales returns	19 000
Purchase returns	4 150
Salaries and wages	236 410
Land and buildings at cost	480 000
Debtors control	33 000
Interest on loan from member	2 000
Telephone expenses	6 400
Stationery consumed	3 300
Water and electricity	7 150
Insurance expenses	3 900
Advertising expenses	4 300

2. Additional information:

2.1 Inventory on hand on 1 March 2010 amounted to R23 000.

2.2 Interest on the long-term loan from Mercy Bank at 15% per annum must still be accounted for. The long-term loan was obtained on 1 March 2009 and is secured by a first mortgage over land and buildings. The long-term loan is repayable in four equal instalments as from 1 March 2011.

2.3 Mr Searl, a debtor who owes Shoe Fever CC R3 000 was declared insolvent and his debt must be written off as irrecoverable.

2.4 The allowance for credit losses must be adjusted to R3 000.

2.5 The loan from Retief bears interest at a rate of 10% per annum. The loan is repayable in five equal instalments as from 1 June 2011.

QUESTION 3 (continued)

2.6 Insurance expenses include an amount of R300 relating to the insurance premium for March 2011.

2.7 Retief and Elizabeth are entitled to a monthly salary of R5 000 each. The salaries were paid during the year and are included in salaries and wages.

2.8 The income tax for the year amounted to R26 376 and must still be recorded.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income for the year ended 28 February 2011 in respect of Shoe Fever CC to comply with the provisions of the Close Corporations Act, No 69 of 1984, and the requirements of International Financial Reporting Standards (IFRS). (Comparative figures are not required.)

NB: Show all calculations.

SOLUTION

QUESTION 3 (20 marks)(24 minutes)

SHOE FEVER CC A
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2011 A

	NOTE	R		
Revenue **A** R(540 000**A** - 19 000**A**)			521 000	
Cost of sales		(157 850)		
Inventory - 1 March 2010		23 000		**A**
Purchases R(199 000**A** − 4 150,)		194 850		,**A**
		217 850		
Inventory		(60 000)		**A**
Gross profit A 363 150				
Other income		5 450		
Rent income		5 450		**A**
Distribution, administrative and other expenses		(274 400)		
Delivery expenses on sales		4 920		**A**
Credit losses R[3 000**A** + R(3 000**A** - 2 000**A**)]		4 000		,**A**
Salaries and wages R236 410**A** - [(R5 000**A** x 12**A**) x 2**A**]		116 410		,,
Salaries to members R(5 000**A** x 12**A**) x 2**A** ,**A**		120 000		
Depreciation		4 320		**A**
Telephone expenses		6 400		**A**
Stationery consumed		3 300		**A**
Water and electricity		7 150		**A**
Insurance expenses		3 600		**A**
Advertising expenses		4 300		**A**
Finance costs		(21 800)		
Interest on long-term loan		16 800		,**A**
Interest on loan from member		5 000		,
Profit before tax A 72 400				
Income tax expense		(26 376)		
Profit for the year A 46 024				**(20)**
Other comprehensive income for the year A		-		
Total comprehensive income for the year A		46 024		

OCTOBER-NOVEMBER 2011 QUESTION 3

QUESTION 3 (29 marks) (35 minutes)

A Dolittle and B Dalley are the only members of Efficiency Consultants CC. They have an equal interest in the corporation and distribute profits accordingly. On 28 February 2011, the financial year-end of the close corporation, the bookkeeper presented the following information, to the accounting officer, who is also required to prepare the financial statements of Efficiency Consultants CC.

LIST OF BALANCES AS AT 28 FEBRUARY 2011:

	R
Member's contribution: A Dolittle	120 000
Member's contribution: B Dalley	95 000
Land and buildings at cost	747 000
Equipment at cost	120 000
Loan from member: A Dolittle	93 800
Loan to member: B Dalley	70 500
Inventory	99 312
Debtors control	35 600
Creditors control	25 100
Bank (Dr)	48 100
Petty cash	2 800
Mortgage	232 000
Investments at cost	295 000
Allowance for settlement discount granted	1 500
Retained earnings (1 March 2010)	472 000
Interim profit distribution paid to members	42 000
Accumulated depreciation on equipment	24 000
Income received in advance	14 660
Prepaid expenses	5 048
Allowance for credit losses	5 000
SARS (income tax) (Dr)	116 600
Profit before tax (before taking any applicable additional information into account)	498 900

Additional information:

1. A debtor owing the business R3 000 immigrated to Australia without making any arrangements to settle his debt. Efforts to trace him have been unsuccessful and it was decided to write off his debt as irrecoverable. The allowance for credit losses must be adjusted to R4 700.

2. The income tax for the financial year ended 28 February 2011 amounted to R126 500 and must still be recorded.

3. The loan from A Dolittle was obtained on 28 February 2010. Interest is calculated at 8% per annum and must still be taken into account for the current financial period. The loan is unsecured and fully repayable on 1 June 2011.

4. On 20 February 2011, the members decided that an amount of R44 800 must be equally distributed to them on 28 February 2011 as a further profit distribution. It was further agreed that 50% of this profit distribution will not be paid out in cash, but will remain in the close corporation as loans from members. All loans from members will be repaid in full on 28 February 2013.

5. In order to consolidate his minor debts, B Dalley requested a loan from the close corporation. The loan was advanced to him on 31 December 2010 at an agreed interest rate of 10% per annum. The interest on this loan is capitalised and the interest for the current financial year must still be accounted for. The loan is unsecured and immediately callable.

6. Investments consist of:

   50 000 ordinary shares in Sushi Ltd, purchased on 1 March 2009 for R4 each. On 28 February 2011 Sushi Ltd declared a dividend of 20 cents per share, payable on 15 March 2011. On 28 February 2011, the fair value of shares held in Sushi Ltd was determined at R5 per share.
   100 000 ordinary shares in Kwasa-Kwasa (Pty) Ltd purchased at a cost of R95 000 on 28 February 2011.

Required:

With regards to Efficiency Consultants CC:

3.1 Calculate the retained earnings as at 28 February 2011. (8)

3.2 Prepare the statement of financial position as at 28 February 2011. (21)

Your answer must comply with the provisions of the Close Corporation Act, No 69 of 1984, as well as the requirements of International Financial Reporting Standards (IFRS). Notes and comparative figures are NOT required.

[29]

NB: Show all calculations.

CLOSE CORPORATION

3.1 Effeciency Consultancy cc
Calculation of Retained Earnings as at 28 February 2011

Profit before adjustments	498900
<u>Other Income</u>	61175
(5) Interest on loan to B. Daley (10% x 70500 x $\frac{2}{12}$)	1175
(6) Dividend income (50 000x 0.2)	10000
Profit on fair valuation (5-4)x50 000	50000
	560075
<u>Expenses</u>	(10204)
(1) Credit losses (3000-300)	2700
(2) Interest on loan from A. Do little	7504
Profit before tax	549871
(3) Taxation	(126500)
Total comprehensive income for the year	423371
(4) Distribution to members (42000+44800)	86800
Retained earnings for the year	336571
+Retained earnings b/f	472000
Retained earnings 28 February 2011	**808571**

The decrease in allowance for credit losses is subtracted from credit losses (5000 – 4700) = 300

3.2 Efficiency Consultancy cc

Statement of Financial Position as at 28 February 2011

Assets	
Noncurrent assets	1188000
Property, plant and equipment (Note 1)	843 000
Financial Assets: Investments (50 000x 5 + 95 000)	345 000
Current Assets	263335
Inventories	99312
Trade and other receivables (Note 2)	36400
Other financial Assets (Note 3)	71675
Cash and cash equivalents (48100+2800)	50900
Prepayments	5048
	1451335
EQUITY AND LIABILITIES	
EQUITY	
Members contributions (120000+95000)	1023571
Retained earnings	215000
Non – Current Liabilities	808571
Long-term borrowings (232000+44800x50%)	254400
Current Liabilities	(254400)
Trade and other payables (Note 4)	173364
Distribution payable to members (48500x50%)	47264
Current portion of bans from members	22400
	93800

Note, Property, Plant and Equipment

	Land and buildings	Equipment	Total
Cost	747 000	120 000	867 000
Depreciation: Accumulated		(24000)	(24 000)
Carrying amount	747 000	96 000	843 000

NOTE 2

Trade and other receivables

Trade debtors	35600
Allowance for credit losses	(4700)
Credit losses	(3000)
Allowance for settlement discounts	(1500)
Dividend income owing	10000
	36400
NOTE 3 Other financial assets	
Loan to member :D.Dailey	70500
Interest capitalised	1175
	71675
NOTE 4 Trade and other payables	
Trade creditors	25100
Income received in advance	14660
Interest accrued on Do little's loan	7504
	47264
Current tax payable (126500-116600)	19900
	1451335

The further distribution to members that will be repaid on 28 February 2013 becomes a long - term borrowing.

QUESTION 3 (26 marks) (31 minutes)

Tabane and Malebye are the only members of MCD Traders CC. On 29 February 2012, the financial year-end of the close corporation, the bookkeeper presented the following information together with additional information to you as the accounting officer of the corporation:

MCD TRADERS CC
LIST OF BALANCES AS AT 29 FEBRUARY 2012:

	R
Member's contribution: Tabane	220 000
Member's contribution: Malebye	325 000
Retained earnings (1 March 2011)	250 000
Asset replacement reserve	123 000
Loan from member: Tabane	105 000
Loan to member: Malebye	75 000
Land and buildings at cost	750 000
Equipment at cost	247 500
Accumulated depreciation: Equipment	93 480
Investments at cost	137 000
Inventory (29 February 2012)	55 000
Debtors control	102 765
Creditors control	47 240
Bank (Dr)	37 000
Petty cash	1 050
Mortgage	232 000
Allowance for settlement discount granted	1 500
Interim profit distribution paid to members	42 000
Income received in advance	5 280
Prepaid expenses	10 200
Allowance for credit losses	5 000
SARS (income tax) (Dr)	55 600
Profit for the year	105 615

Additional information:

1. A debtor owing the business R2 000 is under debt review and it is unclear whether he will be able to settle his account with MCD Traders CC. The members decided to write off his debt as irrecoverable and the transaction must still be recorded.

2. On 29 February 2012 a trade debtor who owes MCD Traders CC R4 000, is entitled to a 10% settlement discount provided the debtor settles his account on 10 March 2012.

3. The income tax for the financial year ended 29 February 2012 amounted to R53 800 and must still be recorded.

4. The loan to Malebye was granted on 31 October 2011. Interest is calculated at 10% per annum and is capitalised at the end of the financial period. The loan is unsecured and immediately callable.

5. Investments consist of:

   40 000 ordinary shares in Mento Ltd, purchased on 1 March 2009 for R60 000. On 29 February 2012 the fair value of shares held in Mento Ltd was determined at R80 000.

   15 000 ordinary shares in Rooid (Pty) Ltd purchased at a cost of R29 000. On 29 February 2012, the members of MCD Traders CC valued these shares at R33 750.

   Fixed deposit of R48 000 at Stanb Bank made on 31 December 2007 for 60 months at 12% interest per annum.

REQUIRED:

Prepare the statement of financial position of MCD Traders CC as at 29 February 2012.

Your answer must comply with the provisions of the Close Corporation Act, No 69 of 1984, as well as the requirements of International Financial Reporting Standards (IFRS). Comparative figures and notes are NOT required.

NB: Show all calculations.

QUESTION 3 (26 marks)

MCD TRADERS CC A
STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2012 A

ASSETS	**R**
Non-current assets	937 770
Property, plant and equipment **A** R(750 000**A** + 247 500**A** -93 480**A**)	,904 020
Financial assets	,33 750
Current assets	406 415
Inventories	,55 000
Trade receivables R(102 765**A** -2 000**AA** - 1 900**AAA** - 3 000**AA**)	**(4%)** 95 865
Prepayments	,10 200
Other financial assets R(60 000**A** + 20 000**AA** +48 000**A** + 75 000**A** + 2 500**AA**)	**(3%)** 205 500
Current tax receivable R(55 600**A** -53 800**A**)	,1 800
Cash and cash equivalents R(37 000**A** + 1 050**A**)	,38 050
Total assets A	1 344 185
EQUITY AND LIABILITIES	
Total equity	954 665
Members' contributions	,545 000
Retained earnings	ꞓ**(3%)** 286 665
Other components of equity	,123 000
Total liabilities	389520
Non-current liabilities	337 000
Long-term borrowings R(232 000 + 105 000)	,,337 000
Current liabilities	52 520
Trade and other payables	,47 240
Income received in advance	,5 280
Total equity and liabilities A	1 344 185

*Shaded part not required

(26)

Calculations:

ꞓ**Retained earnings**

R(355 615**A** -400**A** -53 800**A** + 2 500**A** + 20 000**A** +4 750**A** -42 000**A**) = R286 665

QUESTION 2 (27 Marks) (32 Minutes)

Dumi and Sani are the only members of Dumisani CC. They have an equal interest in the corporation and distribute profits accordingly. On 29 February 2012, the financial year-end of the close corporation, the bookkeeper presented the following information, to the accounting officer, who is also required to prepare the financial statements of Dumisani CC.

LIST OF BALANCES AS AT 29 FEBRUARY 2012:

	R
Member's contribution: Dumi	215 000
Member's contribution: Sani	125 000
Equipment at cost	330 000
Loan to member: Dumi	70 000
Loan to member: Sani	35 000
Loan from member: Dumi	105 000
Debtors control	35 600
Asset replacement reserve	80 000
Bank (Dr)	48 100
Gross profit	922 000
Mortgage	232 000
Investment in Voda Ltd at fair value	400 000
Allowance for settlement discount granted	1 500
Retained earnings (1 March 2011)	577 000
Interim profit distribution paid to members	40 000
Accumulated depreciation on equipment	24 000
Prepaid expenses	5 048
Allowance for credit losses	5 000
SARS (Income tax) (Dr)	116 600
General expenses (before taking any applicable additional information into account)	629 000

Additional information:

1. On 31 January 2012 Dumi made an additional cash capital contribution of R80 000 to the corporation.

2. An additional amount of R2 000 owed by a debtor of the business must be written off as irrecoverable. The allowance for credit losses must be adjusted to R4 050.

3. On 1 August 2011 Dumisani CC concluded a contract for an insurance policy. The policy was incepted on 1 September 2011 at a premium of R800 per month. During the year a total of R5 600 was paid by the corporation as insurance premiums. To date no entries have been made in the books of the business regarding the payment of premiums.

4. The members decided that for the 2012 financial year, interest must be recorded on the loan accounts to members at a rate of 10% per annum. This interest must be calculated on the balances of any existing loans. On 31 August 2011, an additional loan of R20 000 was advanced to Sani and recorded in the books. Interest on the loans to members is capitalised.

5. Interest on loan from Dumi bears an interest at a rate of 15% per annum and payable on 31 July every year. The loan is unsecured and 20% thereof must be repaid on 1 August 2012.

SOLUTION

QUESTION 2 **(27 Marks)**

2.1 Calculation of the total comprehensive income:

	R	
Gross profit	922 000	,
Other income	73 500	
Interest income: Loans and receivables: Loans to members	ج9 500	**(3%)**
Gain on financial assets at fair value through profit or loss:		
Held for trading: Listed investment	؛40 000	,,
Dividend income: Financial assets at fair value through profit or loss:		
Held for trading: Listed investment R0.30**A** x 80 000**A**	24 000	,
	995 500	
Distribution, administrative and other expenses	(629 000)	
Adjustments:	(22 100)	
Credit losses R4 050**A** - R(5 000**A** - 2 000**A**)	1 050	,**A**
Insurance expense R800**A** x 6months**A**	4 800	,
Interest on loan from member R(105 000**A** x 15%**A**)	15 750	,
Settlement discount granted R(2 000**A** -1 500**A**)	500	,
Profit before tax	344 400	
Income tax expense R(116 600**A** -20 600**A**)	(96 000	,
Total comprehensive income for the year	248 400	

(13)

Calculations:

ج**Interest on loans to members:**

R[(50 000**AA** + 35 000**A**) x 10%**A**] + R(20 000**A** x 10%**A** x 6/12**A** = R9 500

؛**Gain on financial assets:**

R[(400 000**A** ÷ 80 000**A**) -R4,50**A**] x 80 000**A** = R40 000

QUESTION 2 (continued)

2.2

DUMISANI CC A
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 29 FEBRUARY 2012 A

	Members' contributions	Retained earnings	Asset Replace-mentt reserve	Loans from members	Loans to members	Total
	R	R	R	R	R	R
Balances at 1 March 2012	,A260 000W	A577 000	,60 000	A 105 000	,,(85 000)	917 000
Total comprehensive income for the year		A248 400				249 000
Members' contributions	,80 000					80 000
Loans to members					,(20 000)	(20 000)
Interest on loans to members					,(9 500)	(15 750)
Transfer to asset replacement reserve		,(20 000)	,20 000			
Distribution to members		,(80 000) / (120 000)				(80 000)
Balances at 29 February 2012	340 000	725 400	80 000	105 000	(120 750)	1 130 250
Non-current liability R(105 000 x 80%)				A84 000		
Current liability R(105 000 x 20%)				A21 000		

(14)

Calculations

W **Member contributions**
R(215 000A + 125 000A -80 000A) = R260 000

Asset replacement reserve
R(80 000A -20 000A) = R60 000

Loans to members
R(70 000A + 35 000A -20 000A) = R85 000

CHAPTER 4

STATEMENT OF CASH FLOWS

This is prepared together with the other final accounts at the end of the financial period. This statement is prepared under 3 main headings, namely:

- Cash Flows from operating activities;
- Cash Flows from investing activities;
- Cash Flow from financing activities.

MAY-JUNE 2010

QUESTION 3 (21 marks)(25 minutes)

GOLDEN GLOBE CC

List of balances as at 28 February

	2010 R	2009 R
Land and buildings at cost	320 000	300 000
Equipment at cost	64 000	76 000
Accumulated depreciation: Equipment	22 300	12 800
Members' contributions	350 000	302 000
Retained earnings	363 253	346 800
Asset replacement reserve	10 000	
Inventory	82 300	94 700
Debtors control (trade debtors)	320 000	298 000
Allowance for credit losses	1 000	
Bank (dr)	123 189	
Long-term loan	49 960	
Creditors control (trade creditors)	103 200	86 000
Accrued expense (rent)	2 800	
Prepaid expense (water and electricity)	3 700	1 300
Bank overdraft		16 400
Accrued interest expense	5 027	4 600
Distribution to members payable	4 400	1 400

Additional information:

1. Extract from the statement of profit or loss and other comprehensive income of Golden Globe CC for the year ended 28 February 2010:

	R
Revenue	451 000
Cost of sales (refer to paragraph 4 below)	122 400
Dividend income	11 100
Administrative expenses	40 000
Rent expenses	14 560
Water and electricity	9 400
Credit losses	3 000
Depreciation: Equipment	21 100
Salaries and wages	190 000
Interest on long-term loan	4 996
Profit before tax	68 244
Income tax expense	19 791

2. Extract from the statement of changes in net investment of members for the year ended 28 February 2010:

	R
Distribution to members	22 000
Transfer to asset replacement reserve	10 000

3. All purchases and sales are made on credit.
4. The cash paid to the trade creditors in respect of purchases of trading inventory during the 2010-financial year amounted to R92 800.

QUESTION 3 (continued)

5. Equipment with a cost price of R12 000, purchased for cash on 28 February 2009, could not be put into operation because of a technical fault and was consequently returned to the supplier. The supplier was unable to provide a replacement or to repair the equipment. A full cash refund was made by the supplier to Golden Globe CC on 2 March 2009.

REQUIRED:

Prepare the CASH FLOWS FROM OPERATING ACTIVITIES-section of the statement of cash flows of Golden Globe CC for the year ended 28 February 2010 to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. The cash generated from or used in operations-section must be disclosed according to the DIRECT METHOD. Comparative figures and notes are not required.

NB: Show all calculations.

SOLUTION

MAY JUNE 2010

CASH FLOW STATEMENTS

Golden Globe cc	
Cash received from customers W1	427000
Cash paid to suppliers and employes W2	(346360)
Cash generated from operations	80640
Dividends received	11 100
Interest paid (W3)	(3747)
Tax paid (W4)	(19364)
Distribution to members (W5)	(19000)
Net cash flow from operating activities	**49629**

W1
Cash received from customers

Debtors Control Account

Bal b/d	298 000	Credit Losses (3000-1000)	2000
Revenue	451 000	Cash (balancing figure)	427000
		Balance c/d	320 000
	749000		**749000**

W2

Administrative expenses	40 000
Rent expenses (a)	11 760
Water and Electricity (b)	11 800
Salaries and wages	190 000
Creditors	92 800
	346360

(a) Rent Account

Bank	11760	Profit and Loss	14560
Accrued Rent + c/d	2800		
	14560		14560
		Balance accrued b/d	2800

(b) Water and Electricity

Prepaid b/d	1300	Profit and Loss	9400
Bank	11800	Prepaid c/d	3700
	13100		**13100**

W3 Interest

Accrued c/d	1249	Profit and Loss	4996
Bank (balancing figure)	3747		
	4996		**4996**
		Accrued b/d	1249

W4 Taxation

Accrued c/d	5027	Accrued b/d	4600
Bank (balancing figure)	19364	Profit and Loss	19791
	24391		**24391**
		Accrued b/d	5027

W5 Distribution to members

Accrued c/d	4400	Accrued b/d	1400
Bank (balancing figure)	19000	Statement of changes in Equity	22000
	23400		**23400**

- Accruals of expenses at the beginning of year appear as liabilities on the credit side of the respective expenses whilst the accrual at the end is a balance C/D on the debit side.

OCTOBER-NOVEMBER 2010

<u>QUESTION 4</u> (17 marks)(20 minutes)

The following information pertains to Ntando CC:

1. Accounts pertaining to the statement of financial position:

	31 Dec 2009	**31 Dec 2008**
	R	**R**
Member's contribution: Eunice	172 000	158 200
Member's contribution: Pinky	120 000	100 000
Retained earnings	246 100	220 000
Long-term loan	40 000	80 000
Creditors control (trade creditors)	38 800	26 000
Accrued interest	2 000	–
Bank (Cr)	–	300
Land and buildings at cost	340 000	340 000
Machinery at cost	105 000	124 000
Furniture and fittings at cost	87 900	67 300
Investments (at cost)	–	25 200
Accumulated depreciation: Machinery	27 000	18 000
Accumulated depreciation: Furniture and fittings	27 200	10 000
Bank (Dr)	85 400	–
Debtors control (trade debtors)	37 400	50 000
Prepaid expenses (wages)	500	2 600
Inventory	67 000	50 000
Distribution to members payable		
SARS (income tax) (Cr)	26 800 / 23 800	46 600 / –

2. Items disclosed on the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Revenue	800 000
Cost of sales	450 000
Profit on sale of non-current assets: Furniture and fittings	2 000
Dividend income: Financial assets at fair value through profit or loss: Held for trading: Listed investments	3 000
Distribution expenses	87 400
Administrative expenses	78 000
Depreciation	63 600
Loss on sale of non-current asset: Machine	8 000
Interest expense	7 300
Profit before tax	110 700
Income tax expense	31 000

<u>Additional information</u>:

On 20 December 2009 a distribution of R26 800 to each of the members were recorded. On 21 December 2009 a portion thereof was paid to them in cash. The outstanding balance is payable on 2 January 2010.

QUESTION 4 (continued)

REQUIRED:

4.1 Prepare the cash flows from operating activities-section of the statement of cash flows of Ntando CC for the year ended 31 December 2009, **UP TO THE CASH GENERATED FROM/(USED IN) OPERATIONS**. Apply the **INDIRECT METHOD**. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the CC. Comparative figures and notes to the statement are not required. (13)

4.2 Calculate the income tax paid during the 2009 financial year. (3)

4.3 Calculate the distribution to members paid during the 2009 financial year. (1)
[17]

NB: Show all calculations.

SOLUTION

OCTOBER- NOVEMBER 2010

CASH FLOW STATEMENT
Ntando cc
Statement of cash Flow of Ntando cc for the year ended 31 December 2009

Profit before tax	110700
Adjustments	
Interest expenses	7300
Loss on sale of non-current assets	8000
Depreciation	63600
Dividend income	(3000)
Profit on sale of non – current assets	(2000)
	184600
Movements in working capital	
Increase in creditors (38800-26000)	12800
Decrease in debtors (50 000 – 37400)	12600
Decrease in prepaid expenses (2600-500)	2100
Increase in inventory (67000-50000)	(17000)
Cash generated from operations	**195100**

- Depreciation and losses on disposals are non-cash expenses which should be reversed by adding back to profit.
- Profit on disposals as non – cash items are to be subtracted from profit.
- On the movements in working capital, increases on the current liabilities are inflows or are added whilst decreases in current liabilities are outflows or are subtracted.
- Increases in current assets are outflows or are subtracted and decreases in current assets are inflows or are added.
- Interests received and paid, the dividends received or paid and the distributions to members were not required by the question.
- They are adjusted after the cash generated from operations when calculating the net cash from operating activities.

MAY-JUNE 2011

QUESTION

QUESTION 4 (21 marks) (25 minutes)

1. On 28 February the following balances were taken from the books of Lloyd Close Corporation:

	2011 R	2010 R
Member's contributions	1 400 000	900 000
Land and buildings at valuation (2011)/at cost (2010)	792 000	360 000
Equipment at cost	216 000	169 200
Vehicles at cost	360 000	352 800
Investment at fair value	212 400	189 000
Inventory	172 800	115 200
Trade debtors	20 160	23 400
Prepaid expenses (wages prepaid)	1 360	2 400
Dividends receivable	4 500	1 800
Bank (favourable balance)	21 960	219 600
Surplus on valuation of land and buildings	144 000	-
Long-term loan	256 900	533 400

2. The following transactions took place in respect of property, plant and equipment:

2.1 During the financial year ended 28 February 2011 the close corporation purchased additional land and buildings for cash. Following an upsurge in the property prices, the members of the corporation decided to reassess the value of land and buildings. An assessment by a sworn appraiser revealed that the fair value of land and buildings was R144 000 higher than the amount reflected in the books of the corporation. An adjustment to record the revaluation has already been made in the books of the corporation. No land and buildings was sold during the year.

2.2 On 30 November 2010 the close corporation purchased additional equipment for R43 200, cash. On the same date redundant equipment with a cost price of R10 800 and accumulated depreciation of R6 480 was sold for cash at carrying amount. The replacement equipment was purchased for cash.

2.3 On 15 August 2010 a new delivery van was purchased at a cost price of R108 000 and partially financed by a trade-in of the old delivery van for R7 200. The old delivery van had a cost price of R90 000, and on the date of the trade-in the carrying amount of the old van amounted to R10 000. On 16 August 2010 the outstanding amount on the new delivery van was paid for in cash. No other vehicles were purchased or sold during the financial year.

3. The investment consists of shares in Khulubuse (Pty) Ltd.

4. During the financial year ended 28 February 2011 Mr Mpisane was admitted as a new member of the close corporation. Mr Mpisane contributed specialised equipment, valued at R125 000 and this contribution was regarded as capital contribution by the corporation. All the other additions to equipment were paid for in cash.

QUESTION 4 (continued)

5. The CC acquired loans from its members. The transactions pertaining to these loans during the financial year are as follows:

	Elvis (Dr)/Cr R	Lu-lu (Dr)/Cr R	Mpisane (Dr)/Cr R
Balances at 1 March 2010	72 000	36 000	-
Advances during the year	9 000	-	21 600
Repayments during the year..................	-	(10 800)	-
Interest capitalised	12 960	6 480	-
Balances at 28 February 2011..................	93 960	31 680	21 600

The loans bear interest at 18% per annum on the opening balances of each financial year and are unsecured.

REQUIRED:

Prepare ONLY the CASH FLOWS FROM INVESTING ACTIVITIES AND THE CASH FLOWS FROM FINANCING ACTIVITIES-sections of the statement of cash flows of Lloyd CC for the year ended 28 February 2011. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. Comparative figures are not required.

NB: Show all calculations.

SOLUTION

QUESTION 3 (20 marks)(24 minutes)

SHOE FEVER CC A
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2011 A

	NOTE	R	
Revenue **A** R(540 000**A** - 19 000**A**)		521 000	
Cost of sales		(157 850)	
Inventory - 1 March 2010		23 000	A
Purchases R(199 000**A** – 4 150,)		194 850	,A
		217 850	
Inventory		(60 000)	A
Gross profit A 363 150			
Other income		5 450	
Rent income		5 450	A
Distribution, administrative and other expenses		(274 400)	
Delivery expenses on sales		4 920	A
Credit losses R[3 000**A** + R(3 000**A** -2 000**A**)]		4 000	,A
Salaries and wages R236 410**A** -[(R5 000**A** x 12**A**) x 2**A**]		116 410	,,
Salaries to members R(5 000**A** x 12**A**) x 2**A** ,**A**		120 000	
Depreciation		4 320	A
Telephone expenses		6 400	A
Stationery consumed		3 300	A
Water and electricity		7 150	A
Insurance expenses		3 600	A
Advertising expenses		4 300	A
Finance costs		(21 800)	
Interest on long-term loan		16 800	,A
Interest on loan from member		5 000	,
Profit before tax A 72 400			
Income tax expense		(26 376)	**(20)**
Profit for the year A 46 024			
Other comprehensive income for the year A		-	
Total comprehensive income for the year A		46 024	

OCTOBER- NOVEMBER 2011

QUESTION 4 (20 marks) (24 minutes)

The following information relates to Fleetwood CC:

1. Balances of the statement of financial position as at 31 August 2011:

	2011	2010
	R	R
Land and buildings at cost	665 000	450 500
Machinery at cost	427 720	349 700
Investment at cost	118 000	-
Loans to members	35 000	49 500
Inventory	34 260	20 320
Debtors control	63 136	62 500
Prepaid water and electricity	-	10 400
Accrued rental income	6 800	-
Bank	115 174	170 000
	1 465 090	1 112 920
Members' contributions	833 000	730 400
Retained earnings	150 820	53 800
Long-term loan	185 000	134 000
Accumulated depreciation: Machinery	106 290	45 600
Allowance for credit losses	3 700	3 000
Accrued water and electricity	4 400	-
Distribution to members payable	51 000	73 400
Creditors control	90 080 / 40 800 (overlapped)	25 200 / 47 520 (overlapped)
Current tax payable		
	1 465 090	1 112 920

2. Balances of the statement of profit or loss and other comprehensive income for the year ended 31 August 2011:

	R
Sales	599 760
Cost of sales	280 500
Rental income	13 600
Investment income: Dividend received	10 200
Interest expense	8 500
Income tax expense	136 816
Credit losses	5 700
Water and electricity	34 334
Depreciation	60 690

Additional information:

1. All inventories are purchased and sold on credit.

2. No machinery were scrapped or sold during the 2011 financial year. In response to the increasing demand for products of the CC, the members deemed it necessary to purchase an additional machine to improve productive capacity. One of the members of the CC decided to obtain a loan in his personal capacity from his bank. He used the proceeds of the loan to acquire the required machine at a cost of R45 000. The machine was brought into use by the CC on 2 January 2011. This was recorded as capital contribution in the books of the CC. All other machinery was purchased for cash.

QUESTION 4 **(20 marks)**

FLEETWOOD CC A
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2011 A

	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipt from customers R594 124 ,,,W + R(13 600 **A** - 6 800 **A**)	600 924	**(4%)**
Cash paid to suppliers and employees	(269 414)	**(4%)**
	331 510	
Dividends received	10 200	,
Interest expense	(8 500)	,,
Income tax paid R(27 200 **A** + 136 816 **A** -40 800 **A**)	(123 216)	,,
Distribution to members paid R(73 400 **A** -51 000 **A**)	(22 400)	,**A**
Acquisition of financial asset at fair value through profit or loss: Held for Trading	(60 000)	,**A**
Repayment of loans and receivables: Loan to member R(49 500 **A**- 35 000**A**)	14 500	,**A**
Net cash from operating activities **A**		142 094
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment to expand operating capacity		
Improvement of land and buildings R(665 000 -450 500)	(214 500)	
Additions to machinery	3(33 020)	
Acquisition of loans and receivables: Fixed deposit	(58 000)	
Net cash used in investing activities		(305 520)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from members' contributions R(833 000 -45 000) -R730 400	57 600	
Proceeds from long-term borrowing	51 000	
		108 600
Net decrease in cash and cash equivalents		(54 826)
Cash and cash equivalents at beginning of year		170 000
Cash and cash equivalent at end of year		115 174

Calculations:

W R[(62 500 **A** + 599 760 **A**- 63 126 **A**) -(3 000 **A** + 5 700 **A** -3 700 **A**)] = R594 124

R[(45 520 **A** + 294 440 ,**A** -90 080 **A**) + R(34 334 **A** - 10 400 **A** -4 400 **A**)] = R269 414

R(280 500 **A** -20 320 **A** + 34 260 **A**) = R294 440

- Cash generated from operations represents the cash that has been generated from the day to day operating activities of the business such as inflows from clients, outflows to suppliers and employees, interests received and interests paid, dividends received and dividends paid and tax paid.
- Cash flows from investing activities represent inflows and outflows from the buying and selling of non-current assets and investments.
- Cash flow from financing represents cash inflows and outflows from equity and loans.

OCTOBER-NOVEMBER 2012

QUESTION 3

QUESTION 3 (24 marks) (29 minutes)

The accounting officer of Grootslang Builders Warehouse CC has managed to prepare correctly all the financial statements and notes thereof, with the exception of the statement of cash flows for the financial year ended 2012.

The following items are extracted from the financial statements and presented to you:

	2012 29 February	2011 28 February
	R	R
Property, plant and equipment	2 800 000	235 000
Investment at fair value	200 000	-
Trade debtors	180 000	35 000
Inventories	45 000	?
Cash and cash equivalents (Dr)	3 000	13 000
Members' contributions	570 000	233 500
Retained earnings	446 000	78 000
Loans from members	229 000	150 000
Loans to members	128 000	189 000
Mortgage	1 950 000	-
SARS (Cr)	116 000	22 500

The note pertaining to property, plant and equipment for the year ended 29 February 2012 is follows:

	Land and buildings	Equip-ment	Vehicle
	R	R	R
Carrying amount at 1 March 2011	-	191 000	44 000
Cost price	-	212 000	50 000
Accumulated depreciation	-	(21 000)	(6 000)
Additions during the year	2 500 000	9 000	180 000
Disposals during the year	-	-	(44 000)
Depreciation for the year	-	(44 000)	(36 000)
Carrying amount at 29 February 2012	2 500 000	156 000	144 000
Cost price	2 500 000	221 000	180 000
Accumulated depreciation	-	(65 000)	(36 000)

You have also obtained the following information in respect of the corporation. (All transactions were correctly recorded):

1. The profit before tax for the year ended 29 February was R489 000.

2. Interest:

   The loans from the members bear an interest at a rate of 10% per annum. The interest for the 2012 financial year was paid in cash to the members.

   The interest expense in respect of the mortgage loan for the 2012 financial year amounted to R99 600. According to the loan agreement, the interest was capitalised.

QUESTION 3 (continued)

3. Inventory records of the business revealed that during the year an amount of R250 000 was spent on purchases and the cost of sales amounted to R217 000.

4. The income tax expense was disclosed as R121 000 in the statement of profit or loss and other comprehensive income for the year ended 29 February 2012.

5. An additional amount of loan from members was received on 31 August 2011.

6. The vehicle of the business was stolen on 1 March 2011. During the financial year, the insurance company paid the carrying amount of the stolen vehicle out in cash to the CC. The close corporation purchased a new vehicle in cash to replace the stolen vehicle.

7. The CC purchased a new building during the year. It was paid for with a cash payment from the CC's own resources and a mortgage from Grootvlei Bank. The proceeds of the mortgage were paid directly to the estate agent.

8. The additions to the computer equipment were paid for in cash.

9. Investment consists of 100 000 shares in Ginger Ltd. On 29 February 2012 Ginger Ltd declared a dividend of 12 cents per share payable on 15 March 2012. The fair value of the investment is equal to the cost price thereof.

REQUIRED:

Prepare the **CASH FLOWS FROM OPERATING ACTIVITIES** and **CASH FLOWS FROM INVESTING ACTIVITIES** sections of the statement of cash flows of Grootslang Builders Warehouse CC for the year ended 29 February 2012. The cash generated from/(used in) operations must be disclosed according to the **INDIRECT METHOD.**

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation. Notes and comparative figures are NOT required.

NB: Show all calculations. **[24]**

SOLUTION

QUESTION 3 (22 Marks)

3.1 CASH FLOWS FROM OPERATING ACTIVITIESA

	R	R
Profit before tax	**A**489 000	
Add: Depreciation R(44 000**A** + 36 000**A**)	,**A**80 000	
Interest expense	**(4)** 118 550	
Less: Dividend income (100 000**A** x R0,12**A**)	,**A**(12 000)	
	675 550	
Increase in trade debtors R(180 000**A** -35 000**A**)	,**A**(145 000)	
Increase in inventories R(45 000**A** -12 000**AAA**)	,,**A**(33 000)	
Cash generated from operations	497 550	
Interest paid R(118**A** 550 -99 600**A**)	,**A** (18 950)	
Income tax paid R(22 500**A** + 121 000**A** -116 000**A**)	,,(27 500)	
Acquisition of investment at fair value through profit or loss	,A(200 000)	
Repayment of loans and receivables: Loans to members R(189 000**A** -128 000**A**)	,**A**61 000	
Net cash from operating activities		312 100

(18**%)**)

Interest expense:
R99 600**A** + R(150 000**A** x 10%**A**) + [(229 000**A** -150 000**A**) x 10%**A** x 6/12**A**] = R118 550

Opening inventory:
R(217 000**A** + 45 000**A** - 250 000**A**) = R12 000

3.2 CASH FLOWS FROM INVESTING ACTIVITIES A

	R	
Investment in property, plant and equipment to maintain operating capacity		
Replacement of vehicle	,(180 000)	
Investment in property, plant and equipment to expand operating capacity		
Purchase of land and buildings	,,(649 600)	
Purchase of computer equipment	,(9 000)	
Proceeds from stolen vehicle	,44 000	
Net cash used in investing activities		(794 600)

(5½))
[24]

CALCULATIONS

Purchase of land and buildings:

	R	R
Purchase price of land and buildings		**A**2 500 000
Balance on mortgage account	**A**1 950 000	
Less: Interest capitalised	**A**99 600	1 850 400
Then purchase of land and buildings -outflow		649 600

MAY-JUNE 2012

QUESTION 4

QUESTION 4 (19 marks) (23 minutes)

The following information relates to Softtec CC:

Statement of financial position information as at 29 February 2012:

	2012	2011
	R	R
Members' contributions	530 000	500 000
Retained earnings	715 063	447 900
Asset replacement reserve	120 000	90 000
Land and buildings at cost	750 000	500 000
Furniture and equipment at cost	190 000	250 000
Accumulated depreciation: Furniture and equipment	38 000	15 000
Loans to member: Y Soft	210 000	250 000
Mortgage	70 000	210 000
Debtors control	49 500	52 000
Creditors control	30 000	20 500
Allowance for credit losses	6 000	4 800
Allowance for settlement discount granted	1 200	-
Bank (Dr)	32 563	24 000
Listed investment at fair value	210 000	180 000
Interest payable	9 300	7 100
Current tax receivable	18 000	-
Inventory	51 500	42 300
Dividends receivable	15 500	10 000
Distribution payable to members	7 500	13 000

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 29 February 2012:

	R
Rental income	18 500
Gain on financial assets at fair value through profit or loss	20 000
Loss on sale of furniture and equipment	10 000
Investment income: Dividend received	10 200
Interest expense	8 500
Depreciation	34 000
Income tax expense	148 700

Additional information

1. Distribution paid to members (in cash) during the year amounted to R55 500.

REQUIRED:

Prepare the cash flows from operating activities-section of the statement of cash flows of Softtec CC for the year ended 29 February 2012, **UP TO THE CASH GENERATED FROM/(USED IN) OPERATIONS**. Apply the **INDIRECT METHOD**. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the CC. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

SOLUTION

QUESTION 4 **(19 marks)**

SOFTTEL CCA
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 29 FEBRUARY 2012A

CASH FLOWS FROM OPERATING ACTIVITIES A		**R**	**R**
Profit before tax	ε	**(3%)** 495 863	**A**
Adjustments for:			
Gain on financial assets		,(20 000)	**A**
Loss on sale of furniture and equipment		,10 000	**A**
Depreciation		,34 000	**A**
Dividend income		,(10 200)	**A**
Interest expense		,8 500	**A**
		518 163	
Decrease in debtors control	ŧ	**(2%)** 4 900	**A**
Increase in creditors control R(30 000 **A** -20 000 **A**)		,9 500	**A**
Increase in inventory R(51 500 **A** -42 300 **A)**		,(9 200)	**A**
Cash generated from operations ***A***		523 363	
SHADED AREA NOT REQUIRED:			
Dividends received R(10 000 + 10 200 - 15 500)		4 700	
Acquisiton of of listed investments		(10 000)	
Repayment of loans and receivables: Loan to member		40 000	
Interest paid R(7 100 + 8 500 - 9 300)		(6 300)	
Income tax paid R(148 700 + 18 000)		(166 700)	
Distribution to members paid		(55 500)	
Net cash from operating activities			329 563
CASH FLOWS FROM INVESTING ACTIVITIES *			
Investments in property, plant and equipment to maintain operating capacity			
Acquisition of property, plant and equipment		(250 000)	
Proceeds from the sale of property, plant and equipment		39 000	
Net cash used in investing activities			(211 000)
CASH FLOWS FROM FINANCING ACTIVITIES *			
Proceeds from members' contributions		30 000	
Repayments of long-term borrowings R(210 000 - 70 000)		(140 000)	
Net cash used in financing activities			(110 000)
Net increase in cash and cash equivalents			8 563
Cash and cash equivalents at beginning of year			24 000
Cash and cash equivalents at end of year			32 563

ε**Profit before tax:**
R(715 063***A***
447 900***A*** + 50 000* ***AAA*** + 30 000***A*** + 148 700***A***) = R495 863
* R55 500***A***
13 000***A*** + 7 500***A*** = R50 000

ŧ**Decrease in debtors control:**
R[(49 500**A**
6 000**A**
1 200**A**) **(19)**
(52 000**A**
48 000**A**)] = R4 900

85

CHAPTER 6 INTRODUCTION TO COMPANY ACCOUNTS

MAY-JUNE 2010

QUESTION 4

QUESTION 4 (17 marks)(20 minutes)

Ezweni Limited was registered on 1 March 2008 with the following authorised share capital:

300 000 no par value ordinary shares
100 000 9% preference shares

On 5 March 2008 the company offered 100 000 ordinary shares at a consideration of R200 000 to the incorporators of the company. The whole offering was taken up and paid for by the incorporators on 15 March 2008.

On 3 April 2008, the company offered 45 000 ordinary shares at a consideration of R135 000 and 10 000 9% preference shares at a consideration of R35 000 for subscription to the public. Applications for 50 000 ordinary shares and 10 000 9% preferences shares were received by 7 June 2008. On the same date the shares were allotted and the unsuccessful applicants repaid. The company paid R2 500 in respect of share issue expenses on 9 June 2008.

Since its registration Ezweni Ltd has been making reasonable profits. At an annual general meeting held on 31 January 2010, it was decided that a dividend of 12 cents per share on the ordinary shares will be declared on 28 February 2010.

REQUIRED:

4.1 Record the transactions pertaining to the application for, and the issue of shares in the general journal of Ezweni Ltd for the period 3 April 2008 to 9 June 2008. (13)

4.2 Record the transactions regarding all the dividends payable in the general journal of Ezweni Ltd on 28 February 2010. (4)

Narrations can be omitted.

[17]

NB: Show all calculations.

SOLUTION

MAY – JUNE 2010

COMPANY ACCOUNTS
Ezweni Limited

4.1 General Journal – 3 April 2008 to 9 June 2008

2008			
April 3	Bank ($\frac{50000}{45000}$ x 135 000)	185 000	
	Application and Allotment Ordinary Shares		150 000
	Application and Allotment : Preference Shares		35 000
June7	Application and Allotment: Ordinary Shares	150 000	
	Share Capital: Ordinary Shares		135 000
	Bank (150 000-135000)		15 000
	The bank amount represents refunds on the oversubscribed shares		
June 7	Issue expenses	2500	
	Bank		2500
4.2			
2010 Feb. 20	Preference dividends (9% x 35 000)	3150	
	Ordinary dividends 12cx(100 000 + 45 000)	17400	
	Dividends payable		20550

- The ordinary dividend should include those issued to the incorporators and the shares issued later that is (100 000 + 45 000)x0.12
- There is no record that has to be made at the time of offering or advertising for shares.
- The entries are only initiated upon the payment of application monies.

MAY-JUNE 2011

QUESTION

QUESTION 5 (9 marks) (11 minutes)

On 1 May 2007, Emtien Ltd was incorporated with an authorised share capital of 500 000 ordinary shares and 300 000 9% preference shares.

The following information was extracted from the financial records of Emtien Ltd for the financial year ended 30 June 2010:

	R
Share capital: Ordinary shares	305 000
Share capital: 9% Preference shares	135 000
Retained earnings	500 000
Long term loan	800 000
Bank	1 000 000

Since its incorporation, Emtien Ltd has recorded the following transactions with regard to the issuing of shares:

On 15 May 2007, 10 000 ordinary shares were issued to the incorporators at a consideration of R30 000

On 30 May 2007, 50 000 ordinary shares and 20 000 9% preference shares were issued to the public at a consideration of R175 000 and R120 000 respectively.

On 30 April 2008, 10 000 9% preference shares were issued at a consideration of R55 000

On 30 April 2009, 40 000 ordinary shares was issued at a consideration of R100 000.

On 31 December 2010, the directors approved a capitalisation issue of 2 shares for every 5 ordinary shares held. The board of the company deemed that a fair consideration for the ordinary shares would be R140 000.

REQUIRED:

5.1 Calculate the number of ordinary shares to be issued. (3)

5.2 Record the issue of the capitalisation shares in the general journal of Emtien Ltd. (6)

[9]

NB: Show all calculations.

SOLUTION

1. CALCULATION OF THE NUMBER AND VALUE OF ORDINARY SHARES TO BE ISSUED:

	Shares
Ordinary shares issued on 15 May 2007	10 000
Ordinary shares issued on 30 May 2007	50 000
Ordinary shares issued on 30 April 2009:	40 000
Number of shares in issue before capitalisation issue - 31 December 2010	100 000

Number of capitalisation shares to be issued: 100 000,**A** ÷ 2/5,**A** = 40 000 shares

(3)

2. EMTIEN LTD
GENERAL JOURNAL

2010		R	R
Dec 31	Retained earnings,	,**A**140 000	
	Stated capital: Ordinary shares,		,**A**140 000
	Capitalisation issue of two shares for every five shares held,		

(6)

CHAPTER 7: BRANCH ACCOUNTS

MAY-JUNE 2010

QUESTION 5 (21 marks)(25 minutes)

The following information pertains to the head office and the branch of Fostha CC:

1. Branch inventory on hand (selling price):

	R
1 January 2009	2 600
31 December 2009	2 500

2. Transactions during the year ended 31 December 2009:

	R
Inventory sent to branch (selling price)	78 100
Sales by the branch:	
Cash sales	35 800
Credit sales	28 800
Returns to head office (cost price)	3 700
Cash received from branch debtors	5 600
Settlement discount granted to branch debtors	500
Inventory stolen at the branch (selling price)	3 750
Sundry expenses of the branch paid by head office	9 250

3. Additional information:

3.1 All inventory is purchased by the head office and supplied to the branch at selling price, which is cost price plus 25%.

3.2 Due to the current economic downturn, there has been a significant decline in sales at the branch. As a result, the head office has allowed the branch to sell certain products at selling price less 30%. The net proceeds of the products sold at discount amounted to R4 200. This amount is included in the above cash sales figure of R35 800.

3.3 During the year a burglary took place at the branch and R700 in cash (in respect of cash sales) was stolen. No entries regarding the burglary were made in the books.

3.4 Inventory invoiced to the branch at R2 800 included in the above amount of R78 100 pertaining to inventory sent to branch at selling price was in transit at 31 December 2009, and therefore not included in the branch's inventory on hand of R2 500 at 31 December 2009.

REQUIRED:

Prepare the branch inventory account (at selling price) in the general ledger of the head office of Fostha CC for the year ended 31 December 2009. Each entry must disclose the correct contra account. Balance the account properly.

NB: Show all calculations.

SOLUTION

BRANCH ACCOUNTS
FOSTHA CC

Branch Inventory Account

Balance b/d	2600	Branch (cash sales:35800	35800
Inventory to branch (at cost)[1]	62480	Branch debtors(credit sales)	28800
Branch adjustment		Inventory to branch(returns at cost)	3700
(mark –up on deliveries[6]	15620	Branch expenses(inventory stolen at cost)[2]	3000
Branch adjustment (inventory surplus)	75	Branch adjustment(markdown on sales)[3]	1200
		Branch expense (cash stolen)	700
		Branch adjustment (mark-up on returns)[4]	925
		Branch adjustment (mark-up on inventory stolen)[5]	750
		Branch Adjustment-mark down on sales	600
		Balance (inventory in transit)	2800
		Balance (closing inventory)	2500
	80775		**80775**
Balance (inventory in transit)	2800		
Balance (inventory closing)	2500		

1. 78100 x100÷ 125 (cost +100% + Mark up 25% = sales 125%
2. 3750 x 100 ÷125 = 3000
3. 4200x100/70 =6000
   Mark down = 6000-4200=1800
   Cost price =6000x100/125=4800
   : Mark up on cost price: 6000-4800=1200
   Since mark down is greater than mark –up, the mark
   Up on cost price amounting to 1200 is apportioned to branch adjustment.

4. Branch adjustments-Mark up on returns

$3700\text{x} \frac{25}{100} = 925$

5. Mark – up inventory stolen

   $3750 \text{ x } \frac{25}{125} = 750$

6. Mark – down on deliveries
   $78100 \text{ x } \frac{25}{125} = 15620$

OCTOBER-NOVEMBER 2012

QUESTION 5 (16 marks) (19 minutes)

The following information pertains to the head office and the branch of Langa and Sons.

Branch inventory on hand at selling price:

	R
1 January 2011	29 700
31 December 2011	41 585

Transactions of the branch for the year ended 31 December 2011:

	R
Inventory transferred to the branch (selling price)	220 000
Cash sales at the branch	196 350
Cash receipts from branch debtors	82 242
Settlement discount granted to branch debtors	1 898
Branch administrative expenses paid by head office	13 932
Damaged inventory written off (at cost)	2 000

Additional information

1. Inventory is purchased by the head office and supplied to the East London branch at selling price, which is cost price plus 25%.

2. During June 2011 inventory with a selling price of R1 875 was stolen at the branch. No entries have been made to record this theft.

3. The branch held a clearance sale during April 2011. Inventory was sold at selling price less 30%. The proceeds of the sale amounted to R42 000 and were included in the cash sales amount, R196 350 above.

REQUIRED:

Prepare the branch inventory account in the general ledger of the head office of Langa and Sons for the year ended 31 December 2011. Each entry must indicate the correct contra ledger account. Balance the account properly.

NB: Show all calculations.

SOLUTION

QUESTION 5 (16 Marks)

Dr **Branch inventory account** **Cr**

2011		**R**	**2011**		**R**
Jan 1	Balance b/d	**A**29 700	Dec 31	Bank: Cash sales **A**	,196 350
	Inventory to branch (Deliveries at cost) **A**	,176 000		Branch expense: (Damaged inventory at cost) **A**	**A**2 000
	Branch adjustment (Mark-up on deliveries) **A**	,44 000		Branch adjustment: (Mark-up on damaged inventory) **A**	,500
	Branch adjustment: (Inventory surplus) **A**	**A**610		Branch expense: (Stolen inventory at cost) **A**	,1 500
				Branch adjustment: Mark-up on stolen inventory) **A**	,375
				Branch adjustment: (Mark-down on sales) **A**	,**A**12 000
				Branch expense: (Mark-down on cost) **A**	,6 000
				Balance c/d	**A**31 585
		250 310			250 310
2012					
Jan 1	Balance b/d	**A**31 585			

[17]

Deliveries at cost:
R220 000 **A** x 100/125 **A** = R176 000
Mark-up on deliveries:
R220 000 **A** x 25/125 **A** = R44 000
Mark-up on damaged inventory:
R2 000 **A** x 25/100 **A** = R500

Stolen inventory at cost:
R1 875 **A** x 100/125 **A** = R1 500
Mark-up on stolen inventory:
R1 875 **A** x 25/125 **A** = R375

Mark-down on sales:
R(42 000 **A** ÷ 70% **A**) x 25/125 **A** = R12 000
Mark-down on cost:
R[(42 000 **A** ÷ 70% **A**) x 100/125 **A**] -R42 000 **A** = R6 000

Adjustments on the mark up and other items such as returns are done utilizing the profit ratio and the ratio applied on selling price is the margin whilst that to be applied on the cost price is the mark up.

CHAPTER 8: INTERPRETATION OF FINAL ACCOUNTS

OCTOBER-NOVEMBER 2010 QUESTION 5

QUESTION 5 (12 marks)(15 minutes)

The following information was extracted from the financial statements of Thabo CC for the financial year ended 28 February 2010:

Statement of profit or loss and other comprehensive income information for the year ended 28 February 2010:

	R
Profit for the year	13 400
Income tax expense	1 420
Cost of sales	149 000
Gross profit	243 100
Profit on sale of non-current asset: Equipment	5 200
Purchases	162 300

Statement of financial position information as at 28 February:

	2010 R	2009 R
Inventories	38 000	24 700
Trade receivables	36 000	32 000
Cash and cash equivalents	24 000	31 200
Member's contribution	64 000	103 000
Retained earnings	13 000	9 000
Other components of equity	7 000	9 000
Trade and other payables (trade creditors)	40 000	42 000
Current portion of loan from member	2 000	2 000
Current tax payable	6 900	3 490

Additional information:

50% of all purchases for the year ended 28 February 2010 were on credit.

REQUIRED:

Calculate the following ratios on 28 February 2010 for Thabo CC. Assume 365 days in a year.

5.1	Profit margin	(4)
5.2	Acid test ratio	(4)
5.3	Trade payables payment (settlement) period	(4) [12]

NB: Show all calculations.

SOLUTION

OCTOBER – NOVEMBER 2010

Analysis and interpretation of final Accounts
Thabo cc

5.1 Profit Margin $= \frac{Profit\ before\ tax}{Sales^1} \times 100$

$= \frac{13400}{392100} \times 100$

$= 3.42\%$

(i) Sales – cost of sales = Gross Profit
Sales – 243100 = 149000
Sales = 149000+243100
= 392100

5.2 Acid test Ratio $= \frac{current\ assets - inventory}{current\ liabilities}$

$= \frac{(36000+24\ 000)}{40\ 000+2000+6900}$

$= \frac{60000}{48900}$

= 1.23:1

- Current assets are made up of trade receivables and cash and cash equivalents. In the acid test ration, we exclude inventory.
- The current liabilities are made up of trade and other payables (trade creditors), current portion of loan from member and current tax payable.

OCTOBER-NOVEMBER 2012

QUESTION 4 (14 Marks) (17 Minutes)

NuLan CC an information technology business entity. Mr Chris Balls, the accounting officer of NuLan CC, has asked you to prepare a report on the profitability of the corporation. The report is to be incorporated in the annual financial report of the corporation.
The following is information is extracted from the accounting records of NuLan CC as at 29 February 2012, the end of the financial year:

	R
Members' contributions: Num	100 000
Members' contributions: Lan	80 000
Land and buildings	568 500
Asset replacement reserve	25 000
Loan to member: Num	30 000
Retained earnings (1 March 2011)	98 000
Equipment at cost	195 000
Accumulated depreciation: Equipment	25 000
Long-term loan	150 000
Debtors control	50 000
Creditors control	20 000
Sales	350 000
Allowance for settlement discount granted	4 500
Profit for the year	90 000

Additional information

1. The corporation is taxed at a rate of 28%.

2. The long-term loan was obtained on 31 July 2011 and bears interest at a rate of 12% per annum.

3. The loan to Num is interest free and repayable in full on 30 November 2012.

4. The following are some of the ratios as at 28 February 2011:

Return on equity	25%
Return on total assets	18%
Profit margin	21%
Financial leverage	1.5

REQUIRED:

With regard to NuLan CC; calculate and interpret the following ratios as at 29 February 2012:

4.1 Return on equity (4½)

4.2 Return on total assets (7)

4.3 Financial leverage and leverage effect (2½)

[14]

NB: Show all calculations.

SOLUTION

QUESTION 4 **(14 Marks)**

4.1 Return on equity:

$$\frac{\text{Profit before tax } \mathbf{A}}{\text{Total Equity } \mathbf{A}} \times 100 = \frac{\text{R90 000} \div 72\%\mathbf{AA}}{\text{R393 0000,,}} \times 100 = 31.81\%$$

When compared with year 2011, the return on equity for NuLan **improved** in year 2012 **A**
0 R(180 000**A** + 25 000**A** + 98 000**A** + 90 000**A**) = R393 000

(4%))

4.2 Return on assets:

$$\frac{\text{Profit before interest and tax } \mathbf{A}}{\text{Total Assets } \mathbf{A}} \times 100 = \frac{\text{R135 500 8}\mathbf{(2\%))}}{\text{R813 500 } \bullet\mathbf{(3)}} \times 100 = 16.66\%$$

When compared with year 2011, the return on assets for NuLan **deteriorated** in year 2012 **A**
8 R[(90 000**A** ÷ 72%**A**) + (150 000**A** x 12%**A** x 7/12**A**) = R135 500
• R(568 000**A** + 30 000**A** + 195 000**A** -25 000**A** + 50 000**A** -4 500**A**) = R813 500

(7)

4.3 Financial leverage:

$$\frac{\text{Return on equity } \mathbf{A}}{\text{Return on assets } \mathbf{A}} = \frac{31.81\%\mathbf{A}}{16.66\% \ \mathbf{A}} = 1.91$$

When compared with year 2011, the financial leverage for NuLan **improved** in year 2012 **A**

(2%))

Return on equity is calculated on the capital or equity added to other components of equity such as reserves.

Return on assets is to be calculated on the total assets, that is, non-current plus current assets.

In both the above cases, the profit to be used is profit before tax.

CHAPTER 8: TIME VALUE OF MONEY

OCTOBER-NOVEMBER 2011

QUESTION

QUESTION 5 (9 marks) (11 minutes)

Mr Siphiwe Tshabalala wants to register his daughter Jabu, currently 15 years of age, for a BCompt degree at UNISA in 4 years time. The duration of the course is 3 years. The estimated cost of the first year of study including textbooks is R35 700 and must be paid by Mr Tshabalala. The rest of the years of study will be funded by a bursary from SAFA.

Mr Tshabalala is concerned whether he will have enough funds available to enrol his daughter for the first year of study and has approached his lifelong friend, Mr Bakkies Botha for advice. The following are the investment options suggested by Mr Botha:

Invest in an ordinary annuity by way of a monthly contribution;

Invest money, currently available in a savings account, in an investment account.

After careful consideration Mr Tshabalala has made the following investments decisions:

Mr Tshabalala will contribute R3 500 on a monthly basis towards an ordinary annuity;

Mr Tshabalala will invest R10 000 he earned as a bonus on scoring a goal against Mexico in the opening match of the 2010 World Cup. The R10 000 is currently available in his savings account.

Required

5.1 Calculate the amount that will be received by Mr Tshabalala in 4 years time if he invests the funds currently available in his savings account at an interest rate of 8% per annum compounded quarterly. (4)

5.2 Taking into account the result obtained in 5.1 above; calculate an amount that must be invested monthly for 4 years, to yield the remaining balance towards the study fees of Mr Tshabalala's daughter. The investment will be made at Soccer Bank at an interest rate of 12% compounded half yearly. (5)

[9]

NB: Show all calculations.

SOLUTION

OCTOBER – NOVEMBER 2011

TIME VALUE OF MONEY

5.1 FV $= PV\,(1+i)^{n}$

$= 10\,000\,(1 + 0.08/4)^{4(4)}$

$= 10\,000\,(1.02)^{16}$

$=R13727.86$

= rate is divided by 4 as interest is compounded quarterly.
Years are multiplied by four as there are 4 quartes in the year.

5.2 Total amount required in 4 years	=	35700
Future value of investment	=	13 727.86
Future value required in annuity		**21 972.14**

PV of annuity $= (1+i)^{n}$

Interest rate is divided by two as the interest is compounded half yearly. The number of years is multiplied by 2 for the same reason.

$$FVIFA = \frac{(1+\frac{0.12}{2})^{4X2} -1}{0.12/2}$$

= 9.89747

$$P = \frac{FVA}{FVIFA} = \frac{R21972.14}{9.89747} = 2219.98 \div 6 = 369.98$$