

Tutorial letter 102/3/2018

FAC1602

Elementary Financial Accounting and Reporting

Semesters 1 and 2

Department of Financial Accounting

IMPORTANT INFORMATION:

This tutorial letter contains important information about your module.

BAR CODE

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INTRODUCTION

Dear Student

Find herewith information pertaining to examination guidelines and assignment 03.

As far as administrative enquiries are concerned, we would again like to emphasize paragraph 3 of Tutorial Letter 101/3/2018.

Due to the time constraint because of the semester system, assignment 3 in this tutorial letter must **NOT** be submitted. The solution thereto is included in this tutorial letter to ensure that you have sufficient opportunity to work through all your study material before the examination date.

Please note that all of the study material is important and *everything* must be studied for examination purposes. You are also reminded that UNISA lecturers will not supply students with previous examination papers or solutions.

With kind regards,

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ANNEXURE A: EXAMINATION

Format and marking methodology

Examination papers will comprise of long- and/or short questions. In all questions, you must be able to **apply the acquired theoretical knowledge in given practical questions**. To pass the module you require a final mark of 50%, which is calculated as follows:

$$(20\% \times \text{mark obtained for compulsory assignments}) + (80\% \times \text{mark obtained in the examination})$$

Please note that the above calculation is only applicable if you have obtained at least 40% in the examination. If you do not obtain at least 40% in the examination, you will automatically fail and your final mark will be the mark you have obtained in the examination. For more information regarding the above, please refer to Tutorial Letter 101/3/2018, paragraph 8.2.

Marks are usually allotted for entries, and not for totals. Consequential marks are also allotted. You will thus not be penalised if you have used a figure, which you have calculated incorrectly to complete a question. For example, if you had to prepare a ledger account, and your balance differs from the balance in the memorandum because you have made errors with the entries in the account, you will still obtain marks for your *balancing entries*, provided that you have calculated the balance and disclosed it correctly *according to the entries you have made*. Another example would be if you have calculated the total comprehensive income/loss for a year incorrectly. You will still obtain calculation marks for the section(s) of the calculation that were correct. If you further had to transfer this incorrect total comprehensive income/loss figure to the statement of changes in equity, you will also obtain the disclosure marks in the statement of changes in equity if you have disclosed the figure correctly *according to your calculation*.

Keep in mind that marks may be allotted for financial statement lay-out and terminology. Keep your formats strictly according to those given in the prescribed study material. Please answer the examination paper in either blue or black pen.

Suggested examination technique

- Ensure that you know and understand the prescribed study material well. Work through as many examples as possible. This will enable you to utilise the examination time effectively.
- Due to limited time in the examination time or in order to cover the syllabus as far as possible, you might be required to prepare only a section or sections of a financial statement. Ensure that you know the formats of the financial statements well enough to do so. A financial statement in the incorrect format (heading, lay-out and terminology) might not be marked. Where a statement with an incorrect format is not marked, marks will be allocated for calculations only.
- When required to prepare a financial statement, you are usually also required to make year-end adjustments e.g. to take depreciation or prepaid/accrued amounts into account. Ensure therefore that you know how to record year-end adjustments. If necessary, you can also refer to the relevant sections in the FAC1502 study material.
- You may answer the questions in any order. Just ensure that the questions are clearly numbered and that each question is commenced on a new (separate) page.
- Read through the "REQUIRED" section of a question first. Hereby you can determine how you should utilise the given information whilst preparing your answer.

Do NOT waste time by:

- Underlining headings.
- Using a correction pen (e.g. Tipp-Ex). You will save time by rather crossing out a mistake and by writing the correct information/amount either above or alongside.
- Using a ruler. Work free hand.
- Highlighting figures.
- Writing your student number, name, etc. in the examination answer book.
- Providing a table of contents.
- Writing "turn over" at the bottom of the pages of the examination answer book. The markers will page through your examination answer book several times to ensure that all your answers have been marked.
- Numbering the pages of the examination answer book.
- Writing out the cents (RXX,00), when there are no cents in the given information.
- Writing out your answers in rough. No examination time is provided for the rewriting of answers.

What you MUST do:

- Make sure that you are writing the correct examination paper.
- ***Commence each question on a new (clean) page.*** A question that was started in the middle of a page and which was not clearly indicated can by mistake be seen as part of another question and consequently not be marked.
- Show all your calculations. If the answer of your calculation is incorrect, you can still obtain marks for the correct section(s) of the calculation. For example, if a calculation carries 3 marks and comprises of 6 amounts of half a mark each which must be added ($a^{\wedge} + b^{\wedge} + c^{\wedge} + d^{\wedge} + e^{\wedge} + f^{\wedge}$), you will obtain 2½ marks if you have added 5 of the 6 amounts correctly, provided that you have shown the calculation. If you had to do a calculation, and you have shown only the answer, the calculation marks will not be given if the answer was incorrect. Show your calculations as close as possible to your answers.
- Try to adhere to the proposed timetable. Do not spend time on unnecessary activities such as checking why your statement of financial position does not balance or whether you have added your totals correctly. Marks are seldom allotted for totals. Do not prepare answers that were not required as such answers will not be marked.

NOT TO BE SUBMITTED

ANNEXURE B: ASSIGNMENT 03

QUESTION 1 (39 marks)(47 minutes)

BoomShaka CC is a trading entity, operating in Mshenguville business centre. Lebo and Thembi are the only members of the corporation. They have an equal interest in the corporation and distribute profits or losses accordingly. The following information appeared in the accounting records of the CC on 28 February 2017, the end of the financial year:

Balances as at 28 February 2017:

	R
Member's contribution: Lebo (1 March 2016)	50 000
Member's contribution: Thembi (1 March 2016)	50 000
Retained earnings (1 March 2016)	34 300
Loan from member: Lebo (1 March 2016)	18 000
Loan from member: Thembi (1 March 2016)	24 000
Trade receivables control	1 500
Bank (favourable)	136 360
Trade payables control	4 000
SARS (Income tax) (Dr)	10 450
Inventory	60 000
Long-term loan (Great Bank)	35 000
Land and buildings at cost	50 000
Equipment at cost	15 000
Furniture and fittings at cost	45 000
Accumulated depreciation: Equipment	5 000
Accumulated depreciation: Furniture and fittings	13 500

Additional information:

1. Before the information below was taken into account, the bookkeeper calculated the profit before tax for the year ended 28 February 2017 as R84 510.
 - 1.1 The bookkeeper neglected to record the depreciation for the current financial year:

Depreciation on equipment is accounted for at 25% per annum according to the diminishing balance method. On 1 February 2017 a printer was purchased on credit for R9 600; this transaction is still to be recorded in the books of the business.

On furniture and fittings, depreciation to the amount of R9 000 must be recorded.
 - 1.2 On 28 February 2007 a debtor owing the business R400 was declared insolvent but his account was not written off. On the same date another debtor, whose account had been written off as irrecoverable during the 2016 financial year, made a cash payment of R850 to the CC in order to settle the amount that was previously written off. The cashier forgot the R850 in a drawer and did not record this transaction.
 - 1.3 The actual normal income tax for the current financial year was calculated as R24 500 and must still be recorded.

QUESTION 1 (continued)

2. On 28 February 2017 the members decided to make a total profit distribution of R40 000. Lebo's portion thereof must be added to the loan which she advanced to the CC. Thembi's portion must be paid to her in cash on 1 March 2017.
3. The long-term loan from Great Bank is secured by a mortgage over the land and buildings, and will be repayable in five (5) equal annual instalments as from 1 October 2017.
4. The loans from the members are repayable on 1 April 2018.

REQUIRED:

	Marks
(a) Calculate the profit or loss for the year ended 28 February 2017 of BoomShaka CC.	6½
(b) Prepare the statement of changes in net investment of members of BoomShaka CC for the year ended 28 February 2017. The total column need NOT be disclosed.	7½
(c) Prepare the statement of financial position of BoomShaka CC as at 28 February 2017.	25
	[39]
<p>Please note:</p> <p>Your answer must comply with the provisions of the Close Corporations Act 1984, and the requirements of International Financial Reporting Standards (IFRS).</p> <p>Notes to the annual financial statements and comparative figures are NOT required.</p> <p>Round off all amounts to the nearest Rand.</p> <p>All calculations MUST be shown.</p>	

QUESTION 2 (21 marks)(25 minutes)

Mehlo and her best friend, Mamba, are in a partnership, trading as Mehl'emamba Loans. They share profits or losses of the partnership in the ratio of 3:2 respectively. The business has recently experienced an upsurge in the demand for unsecured short-term loans. The partners urgently needed an additional partner to join the partnership to assist with on capital injection to help sustain the growth of their business. Azalia, another friend of Mehlo, offered to join the partnership. The following information is extracted from the accounting records of the partnership:

Balances as at 30 September 2017:

	R
Capital: Mehlo	120 700
Capital: Mamba	82 000
Current account: Mehlo (Cr)	12 500
Current account: Mamba (Dr)	16 200
Revaluation surplus	25 000
Vehicle at carrying amount	60 000
Equipment at carrying amount	9 500
Furniture and fittings at carrying amount	140 000
Loan receivables (Trade receivables)	23 800
Bank (Overdraft)	8 775
Allowance for credit losses	525

Additional information:

- It was agreed that Azalia will join the partnership on 1 October 2017 and that the new partnership will trade as Grootslang Loans. Mehlo and Mamba will relinquish to Azalia's her one third share in the profits or losses of the new partnership according to their existing profit-sharing ratio. On 1 October 2017 Azalia will contribute a vehicle valued at R100 000, as well as cash amounting to R75 000 for the one third share in the net assets of the new partnership.
- On 30 September 2017, in preparation of the change in the ownership structure of Mehl'emamba Loans, the assets of the partnership were valued as follows:

	R
Vehicle	45 000
Equipment	4 000
Furniture and fittings	222 100

- The partners anticipate that a further R1 800 of loans receivable may not be recovered.

QUESTION 2 (continued)**REQUIRED:**

	Marks
(a) Prepare the valuation account, properly closed off, in the general ledger of Mehl'emamba Loans as at 30 September 2017. (Apply the legal perspective).	9
(b) Prepare the equipment account, properly closed off, in the general ledger of Mehl'emamba Loans as at 30 September 2017. (Apply the legal perspective).	3
(c) Calculate the goodwill of Mehl'emamba Loans as at 30 September 2017.	9
	[21]
<p>Please note:</p> <p>Round off all amounts to the nearest Rand.</p> <p>All calculations MUST be shown.</p>	

QUESTION 3 (22 marks)(26 minutes)

The following information relates to Amazon Traders, a partnership operating in Forest Town, Johannesburg. Oak and Pine are partners in the partnership sharing profit and losses in the ratio of 3:2 respectively. The following information appeared in the accounting records of the partnership on 31 August 2017, the end of the financial year:

Balances as at 31 August 2017:

	2017	2016
	R	R
Capital: Oak	655 000	320 000
Capital: Pine.....	745 000	580 000
Drawings: Oak.....	163 000	152 000
Drawings: Pine	87 000	23 000
Land and buildings at fair value (at cost in 2016).....	802 600	335 300
Fixed deposit.....	51 000	32 700
Vehicles	280 000	108 000
Equipment.....	75 000	108 500
Accumulated depreciation: Vehicles.....	85 000	60 000
Accumulated depreciation: Equipment	60 000	45 000
Inventory	96 800	75 300
Investment in Mondi Ltd at fair value	302 600	266 400
Investment in Alpine Mist (Pty) Ltd at cost.....	123 700	206 000
Revaluation surplus.....	333 100	176 900
Profit distribution to partners.....	83 000	52 000
Long-term loan	102 000	68 200

Additional information:

The following transactions took place during the year:

- At the beginning of the current financial year, the land and buildings were revalued by a sworn appraiser. A month later, a warehouse was sold at carrying amount for R100 000 cash. During the year Oak contributed a building valued at R90 000 to the partnership. Entries to record the valuation and the contribution made by Oak have already been made in the books of Amazon Traders.
- On 30 June 2017, a delivery vehicle with a cost price of R89 000 and carrying amount of R33 000 was involved in an accident. The vehicle was deemed to be irreparable and was consequently written off. A replacement vehicle was purchased for cash.
- During the year equipment was sold at carrying amount. Fifty five percent (55%) of the proceeds was received in cash and the balance is to be received in instalments over a period of 6 months starting from 1 September 2017.
- The long-term loan is unsecured and repayable in equal annual instalments. On 30 November 2016 Amazon Traders received R46 500 as an additional loan advance. The interest expense in respect of this loan for the current financial year amounted to R12 650. According to the loan agreement, the interest is capitalised.

QUESTION 3 (continued)

5. During the year, Pine contributed cash and inventory to the partnership. The value of inventory amounted to R65 000. All entries thereto were correctly recorded in the books of the partnership.

REQUIRED:

	Marks
Prepare ONLY the CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES sections of the statement of cash flows of Amazon Traders for the year ended 31 August 2017.	22
<p>Please note:</p> <p>Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of a partnership.</p> <p>Notes to the cash flow statement and comparative figures are NOT required.</p> <p>Round off all amounts to the nearest Rand.</p> <p>All calculations MUST be shown.</p>	[22]

ANNEXURE C: SOLUTION TO ASSIGNMENT 03

QUESTION 1 (39 marks)

1.1 Calculation – Profit for the year

	R
Profit before tax	84 510
Less: Depreciation ^①	(11 700)
Credit losses	(400)
Add: Credit losses recovered	850
Profit before tax	<u>73 260</u>
Less: Income tax expense	(24 500)
Profit for the year	<u><u>48 750</u></u>

Calculation ①: Depreciation

	R
Furniture and fittings (given)	9 000
Equipment	
$R(15\,000 - 5\,000) = R10\,000 \times 25\%$	2 500
$R9\,600 \times 25\% \times \frac{1}{12}$	200
Total depreciation	<u><u>2 700</u></u>
	<u><u>11 700</u></u>

1.2

BOOMSHAKA CC

Statement of changes in net investment of members for the year ended 28 February 2017

	Members' contributions	Retained earnings	Loans from members
	R	R	R
Balances at 1 March 2016	100 000	34 300	42 000 ^①
Total comprehensive income for the year		48 760	
Distribution to members		(40 000)	20 000
Balances at 28 February 2017 of the year	100 000	43 060	62 000

Calculation ①: Loans from members

$$R(18\,000 + 24\,000) = R42\,000$$

QUESTION 1 (continued)**1.3****BOOMSHAKA CC****STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2017**

ASSETS	R
Non-current assets	
Property, plant and equipment ①	89 400
Current assets	198 310
Inventories	60 000
Trade and other receivables R(1 500 – 400)	1 100
Cash and cash equivalents R(136 360 + 850)	137 210
Total assets	287 710
EQUITY AND LIABILITIES	
Total equity	143 060
Members' contributions R(50 000 + 50 000)	100 000
Retained earnings R(48 750 + 34 300 - 40 000)	43 060
Total liabilities	144 650
Non-current liabilities	90 000
Long-term borrowing [R35 000 - (^{R35 000} / ₅)]	28 000
Loans from members R(18 000 + 24 000 + (40 000/2))	62 000
Current liabilities	54 650
Trade and other payables R(4 000 + 9 600)	13 600
Income tax payable R(24 500 – 10 450)	14 050
Distributions to members payable	20 000
Current portion of long-term borrowings	7 000
Total equity and liabilities	287 710

Calculation ①: Property, plant and equipment

	R
Land and buildings	50 000
Equipment:	
Cost price	15 000
Addition	9 600
Accumulated depreciation	(5 000)
Depreciation	(2 700)
	16 900
Furniture and fittings:	
Cost price	45 000
Accumulated depreciation	(13 500)
Depreciation	(9 000)
	22 500

$$R(50\,000 + 16\,900 + 22\,500) = \underline{\underline{R89\,400}}$$

QUESTION 2 (21 marks)**2.1****MEHL'EMAMBA LOAN SHARKS
GENERAL LEDGER**

Dr		Valuation account		Cr	
		R			R
2017 Sept 30	Vehicle at carrying amount R(60 000 - 45 000)	15 000	2017 Sept 30	Furniture and fittings at carrying amount R(222 100 - 140 000)	82 100
	Equipment at carrying amount R(9 500 - 4 000)	5 500			
	Credit losses R(17 300 - 15 500)	1 800			
	Capital: Billy Ⓣ	35 880			
	Capital: Bobby Ⓣ	23 920			
		<u>82 100</u>			<u>82 100</u>

Calculations**Ⓣ Balancing amount - appropriation**

$$\text{Rose: } R59\,800 \times \frac{3}{5} = R35\,880$$

$$\text{Mary: } R59\,800 \times \frac{2}{5} = R29\,920$$

2.2**MEHL'EMAMBA LOAN SHARKS
GENERAL LEDGER**

Dr		Equipment at carrying amount		Cr	
		R			R
2017 Sept 30	Balance b/d	9 500	2017 Sept 30	Valuation account	5 500
				Transferral account	4 000
		<u>9 500</u>			<u>9 500</u>

2.3 Calculation of goodwill

$$\text{Rose: } R[120\,700 + 12\,500 + (\frac{3}{5} \times 25\,000) + 35\,880] = R183\,580$$

$$\text{Mary: } R[82\,000 - 16\,200 + (\frac{2}{5} \times 25\,000) + 23\,920] = R99\,720$$

$$\text{Azalia: } R(100\,000 + 75\,000) = R175\,000$$

$$R175\,000 \times 3 - R(183\,580 + 99\,720 + 175\,000)$$

$$R(525\,000 - 495\,000) = \underline{\underline{R66\,700}}$$

QUESTION 3 (22 marks)**AMAZON TRADERS****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2017**

	R	R
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment to expand operating capacity		
Additions to land and buildings (C1)	(121 000)	
Investments in property, plant and equipment to maintain operating capacity		
Replacement of vehicle (C2)	(261 000)	
Proceeds from sale of land and buildings	100 000	
Proceeds from sale of equipment (C3)	18 425	
Proceeds from sale of equity investments (C4)	82 300	
Acquisition: Fixed deposit R(51 000 – 32 700)	(18 300)	
<i>Net cash used in investing activities</i>		(191 425)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital contributions	345 000	
Oak: R(655 000 – 320 000 – 90 000) = 245 000		
Pine: R(745 000 – 580 000 – 65 000) = 100 000		
Proceeds from long-term loan	46 500	
Repayment of long-term borrowings (C5)	(25 350)	
<i>Net cash used in financing activities</i>		315 150

CALCULATIONS:**C1:** Additions to land and buildings

	R
Balance (31 August 2017)	802 600
Balance (1 September 2016)	(335 300)
	467 300
Revaluation surplus R(333 100 – 176 900)	(156 200)
Disposals (Sale of warehouse)	(100 000)
Capital contribution (Oak)	(90 000)
Land and buildings acquired	121 100

C2: Replacement of vehicle

$$R[(108\ 000 - 89\ 000) - R280\ 000] = R261\ 000$$

C3: Proceeds on sale of equipment

$$R[(108\ 500 - 45\ 000) - (75\ 000 - 60\ 000)] \times 55\% = R26\ 675$$

$$\text{Or } R(108\ 500 - 45\ 000) - 15\ 000 - (75\ 000 - 60\ 000) \times 55\% = R18\ 425$$

C4: Proceeds on sale of equity investments

$$R[(206\ 000 - 123\ 700) - R82\ 300] = R82\ 300$$

C5: Repayment of long-term borrowings

$$R[(68\ 200 + 46\ 500 + 12\ 650) - R102\ 000] = R25\ 350$$