

# Tutorial letter 104/3/2018

## FAC1602

### Elementary Financial Accounting Reporting

#### Department of Financial Accounting

**IMPORTANT INFORMATION:**

This tutorial letter contains important information  
about your module.

BAR CODE

**TABLE OF CONTENTS:**

	<i>Page</i>
INTRODUCTION .....	3
ADDITIONAL QUESTIONS .....	4
SOLUTIONS TO ADDITIONAL QUESTIONS: .....	13

## **INTRODUCTION**

Dear Student

Find herewith additional questions together with solutions thereto.

It is important that you work through the question first and mark your attempt using the solution.

With kind regards,

Mr S Mnguni  
Mr LA Visagie  
Mrs B Ntoyanto-Ceki  
Mr B Khanyeza

### **LECTURERS: FAC1602 – FINANCIAL ACCOUNTING REPORTING**

Module telephone number: (012) 429-4176  
Module e-mail address: [fac1601@unisa.ac.za](mailto:fac1601@unisa.ac.za)

## ADDITIONAL QUESTIONS

Please take note that these additional questions must **NOT** be submitted. The solution to the questions is included in this tutorial letter to enable you to mark it yourself.

This section of the work must under no circumstances be regarded as less important for examination purposes.

### PROPOSED TIMETABLE (try not to deviate from this)

Question	Subject	Marks	Time in minutes
1	Partnerships: Statement of financial position Note: financial liabilities	22	26
2	Partnerships: Changes in ownership structure of partnerships	20	24
3	Close Corporations: Statement of profit or loss and other comprehensive income	20	24
4	Statement of cash flows: Cash flows from operating activities section	20	24
5	Statement of cash flows:	38	46
	<b>TOTAL</b>	120	144

**QUESTION 1 (22 marks) (26 minutes)**

Grove and Steenkamp decided to start a business, trading as GroStamino Traders. The entity manufactures and sells energy enhanced supplements for athletes. The following information pertains to the business activities of the partnership for the year ended 28 February 2014:

**1. Trial balance as at 28 February 2014**

	<b>R</b>
Capital: Grove .....	225 000
Capital: Steenkamp .....	525 000
Current account: Grove (Dr) .....	60 000
Current account: Steenkamp (Cr) .....	80 000
Mortgage .....	1 500 000
Long term loan: Grove .....	250 000
Trade payables control .....	85 000
Accrued expenses (insurance) .....	11 500
Bank overdraft .....	110 000
Land and buildings at cost .....	1 750 000
Equipment at cost .....	250 000
Vehicles at cost .....	350 000
Accumulated depreciation: Equipment .....	75 000
Accumulated depreciation: Vehicles .....	85 000
Inventory .....	15 000
Trade receivables control .....	535 000
Allowance for credit losses .....	5 500
Petty cash .....	7 500
Profit for the year (before year-end adjustments) .....	15 500

**2. Terms of the partnership agreement**

- 2.1 The partners will share in profits and losses in the ratio of their (fixed) capital.
- 2.2 Interest is calculated at 7% per annum on the partners' current account balances.
- 2.3 Each partner is entitled to a salary of R60 000 per annum.

**3. Additional information (year-end adjustments)**

- 3.1 The mortgage loan from ABA Bank was acquired on 1 July 2013 and bears interest at 12% per annum. The interest on this loan is payable on 30 June every year. The loan is secured by a first mortgage over land and buildings and is repayable in ten equal annual instalments, starting on 30 June 2014.
- 3.2 Grove granted an unsecured loan on 1 January 2014 to the partnership. According to the terms of the loan, interest is calculated at a rate of 15% per annum and is paid on 31 December of every year. The total capital amount of the loan will be repaid in full on 31 December 2018. Interest for the current financial year must still be provided.
- 3.3 During the year each partner withdrew a total amount of R45 000 from the partnership.

**QUESTION 1 (continued)**

**REQUIRED:**

	<b>Marks</b>
(a) Prepare the <b>EQUITY</b> section of the statement of financial position of Grostamino Traders as at 28 February 2014.	12
(b) Prepare the " <b>FINANCIAL LIABILITIES</b> " note to the financial statements of Grostamino Traders for the year ended 28 February 2014	10
	<b>[22]</b>

**Please note:**

Your answers must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership.

Notes to the annual financial statements **and** comparative figures are **NOT** required.

Round off all amounts to the nearest Rand.

All calculations **MUST** be shown.

**QUESTION 2 (20 marks) (24 minutes)**

Douglas and Moses were in partnership and traded as DMOSS Traders. They shared profits/losses in the ratio of 5:3 respectively. Douglas and Moses decided to admit Phill to the partnership. The following information is presented to you at 30 September 2013, the end of the financial year:

**Balances as at 30 September 2013**

	<b>R</b>
Capital: Douglas.....	177 000
Capital: Moses .....	160 000
Current account (Cr): Douglas.....	21 125
Current account (Cr): Moses .....	21 175
Long term loan .....	37 000
Land and buildings .....	283 000
Inventories .....	54 300
Trade receivables control .....	42 000
Trade payables control.....	16 000
Bank (favourable).....	53 000

In preparation of the change in the ownership structure of DMOSS Traders, Douglas and Moses obtained the following appraisals on 30 September 2013:

1. A physical inventory count revealed an inventory shortage of R5 000. Part of the remaining inventory was deemed overvalued by R5 300.
2. Land and buildings were valued by a sworn appraiser at R300 000.

On 1 October 2013, Phill paid R60 000 for a 20% interest in the net assets of the partnership. The new partnership will trade as DMP Traders. Douglas, Moses and Phill agreed on a new profit sharing ratio of 5:3:2 respectively. Goodwill was correctly calculated as R55 500.

**REQUIRED:**

Prepare the journal entries in the general journal of DMOSS Traders on 30 September 2013 to prepare for the admission of Phill as a partner. Apply the accounting procedure which is based on the legal perspective.

Journal entries to record the dissolution of the partnership are **NOT** required.

All calculations must be shown.

**QUESTION 3 (20 marks) (24 minutes)**

Sbusiso and Aneziswa are the only members of Eyethu CC. You have been appointed as the accounting officer of Eyethu CC for the year ended 28 February 2014. The following list of balances was presented to you:

**1. Balances as at 28 February 2014**

	<b>R</b>
Member's contribution: Sbusiso .....	175 000
Member's contribution: Aneziswa .....	215 000
Loan from member: Sbusiso .....	165 000
SARS (Income tax) (Dr) .....	5 800
Trade payables control.....	60 600
Allowance for credit losses .....	2 200
Inventory .....	66 000
Land and buildings at cost.....	520 000
Furniture and equipment at cost.....	64 000
Accumulated depreciation: Furniture and equipment (1 March 2013).....	10 200
Trade receivables control .....	49 500
Sales.....	575 000
Purchases.....	189 000
Delivery expenses (in respect of sales) .....	7 300
Rental income .....	8 100
Sales returns.....	28 500
Purchases returns.....	6 225
Salaries and wages.....	257 600
Telephone expenses.....	9 600
Interest on loan from members.....	21 600
Stationery consumed.....	4 950
Water and electricity.....	10 725
Insurance expenses .....	6 300
Advertising expenses .....	6 450

**2. Additional information**

- 2.1 Inventory on hand on 1 March 2013 amounted to R29 000.
- 2.2 On 31 August 2013 new furniture was purchased at a cost of R14 000. This transaction was recorded correctly in the accounting records of the business.
- 2.3 Mrs Ngwenya, a debtor with an outstanding account of R2 900 was declared insolvent and her debt must be written off as irrecoverable.
- 2.4 The allowance for credit losses must be adjusted to R3 800.
- 2.5 Insurance premiums amounting to R450 per month are payable one month in advance. Premiums for the period up to 30 April 2014 have been paid.
- 2.6 Each member is entitled to a monthly salary of R5 300. The salaries to members were paid during the year and were debited to the salaries and wages account.
- 2.7 Provision must still be made for depreciation on furniture and equipment at 20% per annum according to the diminishing balance method.
- 2.8 The income tax for the year amounts to R33 465 and must still be provided for.
- 2.9 On 31 January 2014, the market value of land and buildings was determined at R800 000 by Mr J Nido an independent sworn appraiser.



**QUESTION 3** (continued)**REQUIRED:**

Prepare the statement of profit or loss and other comprehensive income of Eyethu CC for the year ended 28 February 2014.

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.

All calculations must be shown.

**QUESTION 4 (20 marks) (24 minutes)**

The following information pertains to Jukskei Computers CC:

**1. Accounts pertaining to the statement of financial position 31 December:**

	<b>2013</b>	<b>2012</b>
	<b>R</b>	<b>R</b>
Member's contribution: Christa .....	230 000	180 000
Member's contribution: Lizaan .....	170 000	120 000
Retained earnings .....	310 025	250 000
Long-term loan .....	80 000	65 000
Trade payables control (Trade creditors) .....	42 500	35 000
Accrued interest expense .....	4 000	-
Bank (Cr) .....	-	300
Land and buildings at cost .....	540 000	450 000
Vehicles at cost .....	190 000	95 000
Furniture at cost .....	50 000	48 000
Investments at cost .....	-	70 000
Accumulated depreciation: Vehicles .....	40 000	32 000
Accumulated depreciation: Furniture .....	10 000	8 800
Bank (Dr) .....	45 000	-
Trade receivables control (Trade debtors) .....	42 500	52 500
Prepaid expenses (Wages) .....	5 000	3 600
Inventory .....	74 025	52 000
Distribution to members payable .....	30 000	10 000
Income tax payable .....	30 000	70 000

**2. Items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2013**

	<b>R</b>
Revenue .....	950 000
Cost of sales .....	500 000
Profit on sale of non-current assets: Furniture .....	5 000
Dividend income: Financial assets at fair value through profit or loss: Held for trading: Listed investments .....	525
Marketing expenses .....	100 000
Administrative expenses (including salaries and wages) .....	115 000
Depreciation .....	72 500
Loss on sale of non-current asset: Vehicle .....	500
Interest expense .....	8 000
Profit before tax .....	159 525
Income tax expense .....	45 900

**QUESTION 4 (continued)****3. Additional information**

- 3.1 On 20 December 2013 a total profit distribution amounting to R26 800 to the members was recorded. On 21 December 2013 a certain portion thereof was paid in cash to each member. The remaining amounts will be paid to them on 2 January 2014.
- 3.2 On 31 October 2013, a vehicle with a cost price of R60 000 and accumulated depreciation of R50 000 (on 1 January 2014) was sold for cash.
- 3.3 It is the accounting policy of Jukskei Computers CC to provide for depreciation as follows:
- Vehicles: According to the diminishing balance method, at 10% per annum.
  - Furniture: According to the straight-line method, at 25% per annum.

**REQUIRED:**

- (a) Prepare the cash flows from operating activities-section of the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013. Apply the **INDIRECT METHOD**. (16)
- (b) Calculate the amount that must be disclosed as proceeds from the sale of a vehicle, under the section cash from investing activities, in the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013. (4)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation.

Comparative figures and notes to the statement of cash flows are **NOT** required.

All calculations must be shown.

**[18]**

**QUESTION 5 (38 marks) (46 minutes)**

The following information pertains to Metzo CC:

**1. List of ledger account balances**

	<b>28 Feb 20.2</b>	<b>28 Feb 20.1</b>
	<b>R</b>	<b>R</b>
Member's contribution: M Met .....	210 000	187 500
Member's contribution: Z Zo .....	200 000	177 500
Retained earnings .....	37 000	14 000
Long-term loan (obtained from Blitz Bank).....	50 000	80 000
Land and buildings at cost.....	310 000	290 000
Machinery and equipment at carrying amount .....	159 000	149 000
Inventory .....	45 000	37 000
Trade receivables control .....	62 000	53 000
Bank.....	5 000 (Cr)	3 000 (Dr)
Trade payables control.....	30 000	27 000
South African Revenue Services (income tax).....	9 000 (Cr)	13 000 (Cr)
Distribution to members payable .....	32 000	28 000
Accrued expenses (wages) .....	7 000	5 000
Prepaid expenses (insurance).....	4 000	—

**2. Additional information**

- 2.1 Depreciation on machinery and equipment to the amount of R27 000 was disclosed in the statement of comprehensive income for the year ended 28 February 20.2.
- 2.2 During the year machinery and equipment with a carrying amount of R15 000 was sold for cash at a loss of R5 000.
- 2.3 Land and buildings with a carrying amount of R30 000 were sold for cash at the same amount.
- 2.4 All purchases of property, plant and equipment pertained to replacements and were paid in full.
- 2.5 The actual normal income tax for the financial year ended 28 February 20.2 amounted to R41 610.
- 2.6 On 28 February 20.2 the members recorded a profit distribution to the amount of R36 000 for the year.
- 2.7 The profit after tax for the year ended 28 February 20.2 amounted to R59 000.
- 2.8 The interest expense on the long-term loan was disclosed as R8 500 in the statement of profit or loss and other comprehensive income.
- 2.9 The additional members' contributions were made in cash.

**REQUIRED:**

Prepare the statement of cash flows of Metzo CC for the year ended 28 February 20.2, to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. The cash generated from/(used in) operations-section must be disclosed according to the indirect method.

Comparative figures and notes to the statement of cash flows are **NOT** required.

**SOLUTIONS TO ADDITIONAL QUESTIONS:****QUESTION 1 (22 marks) (26 minutes)**

(a)

**GROSTAMINO TRADERS  
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2014**

	R
<b>EQUITY AND LIABILITIES</b>	
<b>Total equity</b>	<b>544 250</b>
Capital R(225 000 + 525 000)	750 000
Current accounts @ R(118 845 + 61 905)	(180 750)

**Calculations:****① Profit adjusted:**

	R
Profit before year-end adjustments – (Given)	15 500
Less: Adjustments	(126 250)
Interest on mortgage (R1 500 000 x 12% x 8/12)	(120 000)
Interest on loan from Grove (R250 000 x 15% x 2/12)	(6 250)
<b>Loss after adjustments</b>	<b>(110 750)</b>

**② Current accounts:**

	R Grove	R Steenkamp	R Appropriation
Closing balances (Given)	(60 000)	80 000	
Total comprehensive loss – ①			(110 750)
Interest on current accounts ③	(4 200)	5 600	(1 400)
Salaries provided	60 000	60 000	(120 000)
Partners share of loss (R232 150 x 30%) and (R232 150 x 70%)	(69 645)	(162 505)	232 150
Withdrawals	(45 000)	(45 000)	
<b>Correct adjusted closing balances</b>	<b>(118 845)</b>	<b>(61 905)</b>	-

**③ Interest on current accounts:**

Grove: (R60 000 x 7%) = R4 200

Steenkamp: (R80 000 x 7%) = R5 600

(b)

**GROSTAMINO TRADERS  
NOTES FOR THE YEAR ENDED 28 FEBRUARY 2014.**

<b>Financial Liabilities</b>	<b>R</b>
Non-current financial liabilities	1 600 000
Long-term borrowings:	
Mortgage: The long-term loan from ABA Bank was acquired on the 1 July 2013 and bears interest at a rate of 12% per annum. Interest is payable on 30 June every year. The loan is secured over land and buildings and is repayable in equal instalments over 10 years. The first payment is due 30 June 2014	
Mortgage:	1 500 000
Current portion at amortised cost	(150 000)
Non-current portion	1 350 000
Loan from member: Grove : The loan is unsecured and was granted on 1 January 2014 at an interest rate of 15% per annum payable on 31 December every year. The loan will be repaid in full on 31 December 2018.	
Long-term loan: Grove	250 000
Current portion at amortised cost	-
Non-current portion of loan	250 000
<b>Current financial liabilities</b>	<b>476 500</b>
Trade and other payables:	216 500
Trade payables	85 000
Accrued expenses:	
Interest on mortgage	120 000
Interest on long-term loan: Grove	6 250
Insurance	11 500
Current portion of long-term borrowings at amortised cost	150 000
Bank overdraft	110 000

**QUESTION 2 (20 marks) (24 minutes)****DMOSS TRADERS  
GENERAL JOURNAL**

		Debit	Credit
		R	R
2013 Sept 30	Current account: Douglas R21 125 - R(5000 x 5/8) Current account: Moses R21 175 - R(5000 x 3/8) Capital account: Douglas Capital account: Moses <i>Closing off current accounts of partners to the capital accounts</i>	18 000 19 300	18 000 19 300
	Land and buildings R(300 000 – 283 000) Inventories Valuation account <i>Recording of the valuation adjustments</i>	17 000	5 300 11 700
	Valuation account Capital: Douglas ( $\frac{5}{8}$ x R11 700) Capital: Moses ( $\frac{3}{8}$ x R11 700) <i>Closing off the balancing amount in the valuation account to the capital accounts of Douglas and Moses according to their profit-sharing ratio</i>	11 700	7 313 4 387
	Goodwill Capital: Douglas ( $\frac{5}{8}$ x R55 500) Capital: Moses ( $\frac{3}{8}$ x R55 500) <i>Recording of goodwill in preparation for the admission of Phill</i>	55 500	34 688 20 812

(20)

**QUESTION 3 (20 marks) (24 minutes)**

**EYETHU CC**

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2014**

	<b>R</b>
Revenue R(575 000 – 28 500)	546 500
Cost of sales	(145 775)
Inventory – 1 March 2013	29 000
Purchases R(189 000 – 6 225)	182 775
	<u>211 775</u>
Inventory	(66 000)
<b>Gross profit</b>	<b>400 725</b>
Other income	8 100
Rental income	8 100
Distribution, administrative and other expenses	(315 885)
Delivery expenses on sales	7 300
Credit losses R[2 900 + (3 800 – 2 200)]	4 500
Salaries and wages R257 600 – [(R5 300 x 12) x 2]	130 400
Salaries to members (R5 300 x 12) x 2	127 200
Depreciation ①	9 360
Telephone expenses	9 600
Stationery consumed	4 950
Water and electricity	10 725
Insurance expenses (R6 300 x 12/14)	5 400
Advertising expenses	6 450
Finance costs	(21 600)
Interest on loans	(21 600)
<b>Profit before tax</b>	<b>71 340</b>
Income tax expense	(33 465)
<b>Profit for the year</b>	<b>37 875</b>
<b>Other comprehensive income for the year ②</b>	<b>280 000</b>
<b>Total comprehensive income for the year</b>	<b>317 875</b>

**Calculations:**

① **Depreciation**

$$\begin{aligned} R[(64\,000 - 14\,000) - 10\,200] \times 20\% &= R7\,960 \\ R14\,000 \times 20\% \times 6/12 &= R1\,400 \\ \text{Total} &= \underline{\underline{R9\,360}} \end{aligned}$$

② **Other comprehensive income for the year**

Revaluation surplus R(500 000 – 320 000) = R280 000

The revaluation surplus resulted from the revaluation of land and buildings (refer to page 22, paragraph 1.4.2 of the prescribed text book: About Financial Accounting, Volume 2, 6th edition)



**QUESTION 4 (20 marks) (24 minutes)**

(a)

**JUKSKEI COMPUTERS CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013**

	R	R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	159 525	
Adjustments for:		
Interest expense	8 000	
Profit on sale of furniture	(5 000)	
Loss on sale of vehicle	500	
Dividend income	(525)	
Depreciation	72 500	
	235 000	
Increase in inventories R(52 000 - 74 025)	(22 025)	
Decrease in Trade receivables control R(52 500 - 42 500)	10 000	
Increase in Trade payables control R(42 500 - 35 000)	7 500	
Increase in prepaid expenses R(3 600 - 5 000)	(1 400)	
Cash generated from operations	229 075	
Interest paid R(8 000 - 4 000)	(4 000)	
Dividends received	525	
Income tax paid R(70 000 + 45 900 - 30 000)	(85 900)	
Distributions paid R(10 000 + 26 800 - 30 000)	(6 800)	
<i>Net cash from operating activities</i>		132 900

(b)

Calculation of proceeds on sale

$$R(60\,000 - 50\,000 - 500) = R9\,500$$

**QUESTION 5 (38 marks) (46 minutes)****METZO CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 20.2**

	R	R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax R(59 000 + 41 610)	100 610	
Adjustments for:		
Depreciation	27 000	
Loss on sale of machinery and equipment <sup>^</sup>	5 000	
Interest expense	8 500	
	141 110	
Increase in inventory R(45 000 – 37 000)	(8 000)	
Increase in Trade receivables control R(62 000 – 53 000)	(9 000)	
Increase in Trade payables control R(30 000 – 27 000)	3 000	
Increase in accrued wages R(7 000 – 5 000)	2 000	
Increase in prepaid insurance R(4 000 – 0)	(4 000)	
<b>Cash generated from operations</b>	125 110	
Interest paid	(8 500)	
Income tax paid R(13 000 + 41 610 – 9 000)	(45 610)	
Distribution to members paid R(28 000 + 36 000 – 32 000)	(32 000)	
<i>Net cash from operating activities</i>		39 000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in property, plant and equipment to maintain operating capacity	(102 000)	
Replacement of land and buildings ①	(50 000)	
Replacement of machinery and equipment ②	(52 000)	
Proceeds from sale of land and buildings	30 000	
Proceeds from sale of machinery and equipment ③	10 000	
<i>Net cash used in investing activities</i>		(62 000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	45 000	
Proceeds from members' contributions ④	(30 000)	
Repayment of long-term loan R(80 000 – 50 000)		
<i>Net cash from financing activities</i>		15 000
<b>Net decrease in cash and cash equivalents</b>		(8 000)
<b>Cash and cash equivalents at beginning of year</b>		3 000
<b>Cash and cash equivalents at end of year</b>		(5 000)

**Calculations**① **Replacement of land and buildings**

	<b>R</b>
Land and buildings at cost (28 February 20.2)	310 000
Add: Land and buildings sold (cost)	30 000
Less: Land and buildings at cost (28 February 20.1)	(290 000)
Land and buildings purchased	<u>50 000</u>

② **Replacement of machinery and equipment**

	R
Machinery and equipment at carrying amount (28 February 20.2)	159 000
<i>Add:</i> Depreciation	27 000
Machinery and equipment sold (carrying amount)	15 000
Less: Machinery and equipment at carrying amount (28 February 20.1)	<u>(149 000)</u>
Machinery and equipment purchased	<u><u>52 000</u></u>

③ **Proceeds from sale of machinery and equipment**

Paragraph 2.2 of the additional information states that machinery and equipment with a carrying amount of R15 000 was sold for cash at a loss of R5 000. Therefore, the selling price =  $R(15\ 000 - 5\ 000) = R10\ 000$ .

④ **Proceeds from members' contributions**

	R
Members' contributions (28 February 20.2) R(210 000 + 200 000)	410 000
<i>Subtract:</i> Members' contributions (28 February 20.1) R(187 500 + 177 500)	<u>(365 000)</u>
	<u><u>45 000</u></u>