



## FAC2601

October/November 2013

### FINANCIAL ACCOUNTING FOR COMPANIES

Duration 2 Hours

100 Marks

**EXAMINERS**  
**FIRST**

 MRS F ABOO  
 MR CM MKEFA  
 MR GJ STEYN  
 MISS J FRIEDRICHS

 MR CJ ELS  
 MR F MONTGOMERY

**SECOND**  
**EXTERNAL**

Use of a non-programmable pocket calculator is permissible.

Closed book examination

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**THIS PAPER CONSISTS OF EIGHT (8) PAGES**
**N.B.:**

- 1 This paper consists of **THREE (3)** questions
- 2 All questions must be answered
- 3 Basic workings, where applicable, must be shown
- 4 Ensure that you are handed the correct examination answer book (blue for accounting) by the invigilator
- 5 Each question attempted **must be commenced on a new (separate) page.**
- 6 **PROPOSED TIMETABLE:** (Avoid deviating from this as far as possible)

| Question No  | Subject  | Marks      | Time in minutes |
|--------------|--|------------|-----------------|
| 1(a)         | Statement of profit or loss and other comprehensive income | 30         | 36              |
| 1(b)         | Statement of changes in equity                             | 15         | 18              |
| 2            | Statement of financial position – (Asset section)          | 32         | 38              |
| 3(a)         | Leases   | 16½        | 20              |
| 3(b)         | Leases   | 6½         | 8               |
| <b>TOTAL</b> |  | <b>100</b> | <b>120</b>      |

**QUESTION 1 (45 marks) (54 minutes)**

The following information was taken from the books of Kingswood Limited, a listed company for the financial year ended 30 June 2013

|  | <b>R</b>  |
|--|-----------|
| Ordinary share capital (shares issued at R2 per share) | 600 000   |
| 12% Long-term loan (cr) (Note 9)                       | 75 000    |
| 10% Cumulative preference share capital                | 175 000   |
| Retained earnings (01/07/2012)                         | 210 000   |
| Buildings at cost                                      | 600 000   |
| Land at cost   | 100 000   |
| Machinery and equipment at cost (01/07/2012)           | 80 000    |
| Accumulated depreciation                               |           |
| - Machinery and equipment (01/07/2012)                 | 37 500    |
| - Buildings (01/07/2012)                               | 150 000   |
| Income (revenue)                                       | 2 400 000 |
| Other income (note 3)                                  | 9 275     |
| Other expenses (note 4)                                | 34 350    |
| Administrative expenses (notes 5 and 6)                | 411 150   |
| Investments at cost (note 8)                           | 122 500   |
| Loan to Legends Limited (note 2)                       | 30 000    |
| Income tax expense (assume correct)                    | 47 500    |

**Additional information:**

- 1 Kingswood Limited maintains an annual gross profit percentage of 30% on turnover
- 2 The loan to Legends Limited was granted on 31 August 2012 at an interest rate of 9% per annum. No capital payments are due until 30 June 2016
- 3 The following are amongst others, already included in “**other income**”

|  |          |
|--|----------|
| Dividends received   | <b>R</b> |
| Legends Limited  | 450      |
| ShamRock Limited   | ??       |
| ShamRock Limited declared and paid a dividend of 10c per share during the year |          |

|                             |          |
|-----------------------------|----------|
| Interest received           | <b>R</b> |
| Current bank account        | 350      |
| Trade and other receivables | 325      |
| Legends Limited (note 8)    | ??       |

- 4 The following are, amongst others, already included in “**other expenses**”

|                                |          |
|--------------------------------|----------|
|                                | <b>R</b> |
| Interest paid – long-term loan | ??       |
| Interest paid – bank overdraft | 600      |
| Credit losses                  | 750      |
| Sundry expenses                | 10 500   |

**QUESTION 1 (continued)**

5 **“Administrative expenses”** consists of the following

|                                     | R              |
|-------------------------------------|----------------|
| Salaries and wages                  | 400 000        |
| Auditors' remuneration – travel     | 1 000          |
| Auditors' remuneration – audit fees | 6 000          |
| Marketing expenses                  | 1 500          |
| Water and electricity               | 2 100          |
| Repair and maintenance              | 550            |
|                                     | <u>411 150</u> |

6 **Salaries and wages** of Kingswood Limited include, amongst others, the following remuneration that was paid to senior personnel

|                                  | R       |
|----------------------------------|---------|
| 6 1 Executive director – Mr Alex | 100 000 |
| Marketing manager – Mr Brian     | 75 000  |
| Chairman of the board – Mr Chad  | 60 000  |

Each of the directors also received compensation of R1 250 per meeting attended during the year. Four board meetings were held during the year and all the directors attended all the meetings.

6 2 The following directors' also received remuneration from the subsidiary of Kingswood Limited

|                                 | R       |
|---------------------------------|---------|
| Chairman of the board – Mr Alex | 65 000  |
| Financial director – Mr Brian   | 150 000 |
| Executive director – Mr Chad    | 125 000 |

6 3 A pension of R50 000 was paid to Mrs Helen (She is the widow of a former executive director of Kingswood Limited)

7 The following transactions must still be accounted for

7 1 Depreciation on machinery and equipment is calculated at 20% per annum using the diminishing balance method. Machinery with a cost price of R5 000 and a carrying amount of R2 000 was sold on 2 July 2012 for R2 500.

7 2 Buildings are written off over a period of 50 years according to the straight line method.

7 3 The buildings were revalued on 30 June 2013 by Mr James, a sworn appraiser, at net replacement value of R550 000. The buildings are occupied by Kingswood Limited.

It is company policy to revalue and account for buildings according to the net replacement value basis at the end of the year.

8 **Investments** consist of the following

8 1 50 000 Ordinary shares in ShamRock Limited purchased at R1 each during the current year. The total issued share capital of ShamRock Limited consists of 500 000 ordinary shares. ShamRock Limited's shares are trading on the JSE and the price on 30 June 2013 was R1,25 each. This investment was designated as a financial asset through other comprehensive income.

**QUESTION 1 (continued)**

- 8.2 15 000 Ordinary shares in Legends Limited purchased at a cost price of R22 500. The total issued share capital of Legends Limited consist of 25 000 ordinary shares. Legends Limited's shares were trading on the JSE at a price of R1,50 each on 30 June 2013.
- 8.3 No entry was made in respect of the fair value adjustment of the above mentioned investments.
- 9 The 12% long-term loan originated on 31 May 2008 and the capital portion is repayable in 8 equal annual instalments beginning on 31 December 2010. Interest is payable twice a year on 31 December and 30 June.
- 10 Kingswood Limited was incorporated with authorised share capital of  
400 000 – Ordinary shares  
500 000 – 10% Cumulative preference shares
- 11 The company issued 25 000 ordinary shares on 31 August 2012 at R2,00 per share.
- 12 The company did not issue any preference shares during the previous financial year. On 31 December 2012, 10 000 cumulative preference were issued at R1,50 per share.
- 13 At the annual general meeting held on 29 June 2013 the following decisions were approved and must still be recorded before year end in the following order:
- 13.1 Capitalisation shares must be issued on 29 June 2013 to ordinary shareholders in the ratio of one ordinary share for every five ordinary shares held. The value per share was R1,75 when the capitalisation issue took place.
- 13.2 An ordinary dividend of 15c per share was declared to shareholders registered on 30 June 2013. No dividends were declared or paid by the company in the previous financial year.

**REQUIRED:**

- a) Prepare the Statement of Profit or Loss and Other Comprehensive Income **and** relevant notes of Kingswood Limited for the year ended 30 June 2013 to comply with International Financial Reporting Standards.

Ignore comparative figures and the note on accounting policies

Show all calculations (30)

- b) Prepare the Statement of Changes in Equity of Kingswood Limited for the year ended 30 June 2013 to comply with International Financial Reporting Standards.

Ignore comparative figures

Show all calculations

Do not show the total column (15)  
**[45]**

**QUESTION 2 (32 marks) (38 minutes)**

The following information was taken from the books of Pinnacle (Pty) Ltd, on 31 December 2012

|   | R         |
|---|-----------|
| Land at valuation (note 1)  | 1 200 000 |
| Office buildings at cost (note 1)                                     | 1 440 000 |
| Motor vehicles at carrying amount (31/12/2011) (note 2 and 3)         | 630 000   |
| Machinery at cost (31/12/2011) (note 1 and 2)                         | 720 000   |
| Furniture and fittings at carrying amount (31/12/2012) (note 2 and 3) | 288 000   |
| Accumulated depreciation  |           |
| - Motor vehicles (31/12/2011)   | 420 000   |
| - Machinery (31/12/2011)  | 276 000   |
| Investments at cost (note 5)  | 48 000    |
| Loan (note 6)   | 37 500    |
| Inventories (note 4)  | 585 000   |
| Trade and other receivables   | 940 800   |
| Bank overdraft  | 252 000   |
| Trade and other payables  | 292 500   |

**Additional information:**

The following information in respect of transactions that occurred during the financial year were given

- 1 Land and buildings are owner occupied and consist of erf 179, Woodmead, with an office building thereon. The land was acquired on 1 March 2011 for R570 000. The office buildings were erected during the current financial year.

Total costs incurred on the building were as follows

|                     |         |
|---------------------|---------|
| - Material          | 780 000 |
| - Professional fees | 210 000 |
| - Labour cost       | 450 000 |

The company withdrew one of their machines from production for a period of 7 months during the year. It was used in the process of erecting the office building. The building was completed on 31 October 2012. The land was revalued on 31 December 2012 at net replacement value by Mrs B Bronx, an independent sworn appraiser.

It is company policy to revalue and account for buildings according to the net replacement value basis at the end of the year.

- 2 Non-current assets are depreciated as follows

- Machinery is depreciated on the straight-line method over a period of 60 months
- Furniture and fittings 20% per annum on the reducing balance method
- Motor vehicles On the straight-line method over the asset's useful life of 5 years
- Buildings 2% per annum on the straight-line method

[TURN OVER]

**QUESTION 2 (continued)**

- 3 Other transactions in respect of non-current assets that took place during the year
- On 30 June 2012 a motor vehicle was written off in an accident by one of the drivers. The cost price and accumulated depreciation on this vehicle at the beginning of the financial year was R90 000 and R45 000 respectively. The insurance paid out R75 000 for the vehicle. A new vehicle costing R135 000 was purchased on the same date to replace the old vehicle.
  - The company bought an additional machine for the business on 1 July 2012. It was calculated that the machine would have a residual value of R15 000 at the end of its useful life. The cost price of the machine was R225 000. This machine was not used in the construction of the new office building.
  - All furniture and fittings were purchased on 1 January 2011. No furniture and equipment was purchased during the current financial year.

4 Inventories consist of the following at cost price

|                    |          |
|--------------------|----------|
| - Raw materials    | R210 000 |
| - Work in progress | R300 000 |
| - Finished goods   | R 75 000 |

The net realisable value of the inventories was reviewed by the directors at year end and they came to the following conclusion

| Inventory type     | Net realisable value |
|--------------------|----------------------|
| - Raw material     | 10% above cost       |
| - Work in progress | 8% below cost        |
| - Finished goods   | 10% above cost       |

5 Investments consist of the following

- 10 500 Ordinary shares in WildCoast Limited purchased for R22 500. These shares were classified as a financial asset through profit or loss, purchased for speculation purposes. The issued share capital of WildCoast Limited consists of 300 000 ordinary shares. Each share carries one vote. These shares were trading on the JSE at R4,50 each on 31 December 2012.
  - 7 500 Preference shares in GooseValley Limited purchased for R17 000. The issued preference share capital of GooseValley Limited consists of 30 000 shares. These shares were trading on the JSE at R6,00 each on 31 December 2012. These shares are classified as a financial asset at fair value through other comprehensive income.
- 6 On 30 June 2012 a loan was granted to Arabella (Pty) Ltd to the amount of R37 500. Interest is calculated on the loan at 12% per annum. The loan is secured by a first mortgage bond over the company's fixed property. The capital portion of the loan is repayable on 31 December 2016. Interest is paid annually on 31 December each year.

**QUESTION 2 (continued)****REQUIRED**

Prepare the “**Asset**” section of the Statement of Financial Position **as well as** the Property, Plant and Equipment note of Pinnacle (Pty) Ltd at 31 December 2012, to comply with International Financial Reporting Standards. Comparative figures are not required. The accounting policy note is not required.

- All amounts exclude VAT (where appropriate), except where otherwise noted
- Ignore the total column in the Property, Plant and Equipment note [32]

**QUESTION 3 (23 marks) (28 minutes)**

Simola Limited is a manufacturing concern involved in the production of sport cars

During the current financial year ended 28 February 2013 Simola Limited entered into two separate lease agreement/s to acquire new machinery to expand their operations

The following information in respect of the lease agreements are available

**Agreement 1.**

A machine with a cash price of R1 500 000 was acquired under an operating lease agreement  
Lease period 01/07/2012 – 30/06/2015

Terms of the lease agreement are as follows

Monthly instalments payable in advance

|                |                   |
|----------------|-------------------|
| Months 1 – 24  | R20 000 per month |
| Months 25 – 36 | R17 000 per month |

**Agreement 2:**

Simola Limited leased a machine with a cost price of R380 677 from Hilux Limited on 1 March 2012, according to a finance lease agreement

Terms of the lease agreement are as follows

|                         |                                    |
|-------------------------|------------------------------------|
| Period of the lease     | 3 years                            |
| Lease payments          | R75 000, every 6 months in arrears |
| Effective Interest rate | 10%                                |

**REQUIRED:**

- a) ONLY for agreement 1 Show all the journal entries **per financial year for the duration of the lease agreement** ending 28 February 2015 in the financial records of Simola Limited [16½]
- b) ONLY for agreement 2 Calculate the following concerning the finance lease for the year ended 28 February 2013
- Total liability
  - Long term portion of liability
  - Current portion of liability
  - Interest expense [6½]

Round your figures in your amortisation table to the nearest Rand