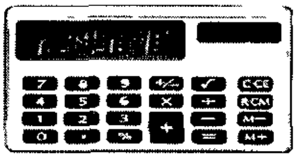
UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA university of south africa

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May/June 2012

FINANCIAL ACCOUNTING FOR COMPANIES

Duration 2 Hours 100 Marks

EXAMINERS
FIRST MR CJ ELS MR CM MKEFA
MR F MONTGOMERY
SECOND MR GJ STEYN

Use of a non-programmable pocket calculator is permissible

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

This paper consists of NINE (9) pages

<u>NB</u>

1 This paper consists of **FOUR** (4) 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 colour for accounting) by the invigilator

5 Each question attempted must be commenced on a new (separate) page

6 **PROPOSED TIMETABLE**

Question No	Subject	Marks	Time in minutes
1	Leases	16	19
2	Statement of financial position and relevant notes	34	41
3	Statement of comprehensive income and profit before tax note	33	40
4	Statement of changes in equity	17	20
		100	120

<u>QUESTION 1</u> (16 marks) (19 minutes)

The following information is available in respect of a machine acquired by Webb Ltd from Ellis Ltd, in terms of an operating lease

The cash price of the machine was R90 000

The lease term is from 1 March 2009 to 28 February 2012

The monthly lease payment is R3 000 per month for the first 12 months, where after it will be increased by 15% for the next 12 months, and thereafter decreased to R1 200 per month for the remaining period

The supplier has guaranteed that the machine will produce 1 000 000 products per year throughout the lease term

The lease agreement stipulated that the company could not enter into any other lease agreements without authorisation by the lessor

REQUIRED:

Show all the journal entries per year for the duration of the lease agreement of Webb Ltd for the year ended 28 February 2010 Show dates and calculations Ignore income tax implications and journal narrations

QUESTION 2 (34 marks) (41 minutes)

The following information was obtained from the books of Jameson (Pty) Ltd on 28 February 2010

	R
Share capital	200 000
Retained earnings (01/03/2009)	500 000
Land at cost	800 000
Factory building at cost *(note 4)*	1 500 000
Accumulated depreciation	
- Factory building (28/02/2010) *(note 4)*	200 000
Furniture and fittings at carrying amount (28/02/2010) *(note 5)*	225 000
Investments at cost *(note 7)*	13 000
Inventory at cost *(note 6)*	150 000
Trade and other receivables	557 000
Provision for credit losses	35 500
Bank overdraft	270 000

Additional information:

The financial director also provided the following information

1 Profit after tax for the year was R2 033 909 This is after all necessary adjustments have been recorded

2 The office buildings are leased by Jameson (Pty) Ltd in terms of an operating lease

The lease term is 6 years The lease payments are R11 500 per month for the first 2 years and R12 700 per month for the remaining period The lease commenced on the 1 March 2009

3 Jameson (Pty) Ltd entered into a lease agreement with Daniels (Pty) Ltd on 1 March 2009 for a new machine The lease was classified as a finance lease The interest rate was 12% per annum The machine had a cash selling price of R105 000 at the commencement of the lease Lease payments were made bi-annually in arrears over a period of 3 years The company provides for depreciation according to the straight-line method over the useful life of the asset, which is considered to be 5 years

The amortisation schedule calculated by the financial manager was as follows

Date	Payment	Interest	Capital	Outstanding balance
	R	R	R	R
01/03/2009				105 000
31/08/2009	- 21 353	- 6 300	- 15 053	89 947
28/02/2010	- 21 353	- 5 397	- 15 956	73 991
31/08/2010	- 21 353	- 4 439	- 16 914	57 077
28/02/2011	- 21 353	- 3 425	- 17 928	39 149
31/08/2011	- 21 353	- 2 349	- 19 004	20 144
28/02/2012	- 21 353	- 1 209	- 20 144	0

QUESTION 2 (continued)

4 The factory of Jameson (Pty) Ltd is situated on erf 235, Midrand and is owner occupied The factory building was revalued by a sworn appraiser, Mr J Wrong, on 28 February 2010 at net replacement value of R 1 430 000 (excluding the land) The factory is depreciated on the straight-line method over 15 years The factory was exactly 2 years old at year end

5 All the furniture and fittings was purchased on 1 March 2008 The company provides for depreciation on furniture and fittings at 25% per annum on the reducing balance method No sale of furniture and fittings occurred since date of purchase

6 Closing inventories on hand for the year ended 28 February 2010 consisted of

	R
Raw material at cost	100 000
Work in progress at cost	30 000
Finished goods	20 000
	150 000

Due to the current economic situation the net realisable value of the raw material and finished goods were 5% lower than the cost price thereof, while the net realisable value of work in progress exceeded the cost by R7 000

7 Investments consist of the following

6 000 Ordinary shares of R2,00 each in J&B (Pty) Ltd purchased for R12 000 Transaction costs amounted to R1 000 J&B (Pty) Limited issued 60 000 ordinary shares during the year The fair value adjustment gain at year end was R5 000, but has not yet been recorded in the accounting records These shares are classified as an investment not-held-for-trading

8 The company declared a dividend of 5c per share on 28 February 2010 These dividends were paid on 31 March 2010 The total issued share capital of Jameson (Pty) Ltd at year end consisted of 18 000 ordinary shares The authorised share capital of Jameson (Pty) Ltd consisted of 30 000 ordinary shares

REQUIRED:

Prepare the Statement of Financial Position **and only** the following notes of Jameson (Pty) Limited on 28 February 2010

- Property, plant & equipment (PPE)
- Finance lease obligation

Ignore comparative figures and the accounting policy note Show all calculations The Statement of Financial Position and notes must meet the requirements of the Companies Act and Generally Accepted Accounting Practice

[TURN OVER]

QUESTION 3 (33 marks) (40 minutes)

The following information was obtained from the books of Polo Limited, a listed company, for the financial year ended 30 June 2010

	R
Loan to Prada Ltd (*note 9*)	165 000
Investments at cost (*note 8*)	202 000
11% Longterm loan from Levi Ltd (*note 2*)	90 000
Land at cost	100 000
Buildings at cost	1 654 000
Plant and machinery at carrying amount (01/07/2009)	1 457 500
Furniture and equipment at carrying amount (01/07/2009)	310 000
Accumulated depreciation	
- Plant and machinery (01/07/2009)	1 192 500
- Furniture and equipment (01/07/2009)	110 000
Income/Revenue (**Incl VAT @ 14%**)	3 306 000
Other income (*note 3*)	41 575
Administrative expenses (*note 4 + 5*)	772 600
Other expenses (*note 6*)	68 700
Income tax expense (assume correct)	4 800

Additional information:

1 Polo Limited maintains an annual gross profit percentage of 35%

2 The 11% long term loan from Levi Limited originated on 1 July 2005 The capital is repayable in 8 equal annual instalments starting 30 November 2007 Interest on the loan is payable bi-annually on 30 November and 30 June each year

3 The following are, amongst others, already included in "**other income**"

	R
Interest received	
Prada Limited	?
Bank account	6 500
Trade and other receivables	1 750

	R
Dividends received	
Armani Limited	4 700
Guess Limited (*refer note 8*)	?
Guess Limited declared and paid a dividend of 10c per share during the year	

4 "**Administrative expenses**" consists of the following

	R
Salaries and wages	750 000
Stationery	1 100
Telephone	2 700
Auditors' remuneration – travelling expenses	3 100
Auditors' remuneration - audit fees	11 500
Water and electricity	4 200

QUESTION 3 (continued)

5 Key personnel of Polo Limited and its subsidiary are as follows

	Polo Ltd	Subsidiary
Chairman of the board	Mr C	Mr A
Marketing manager	Mr B	-
Executive director	Mr A	Mr C
Financial director	-	Mr B

5 1 **Salaries and wages** of Polo Limited include the following remuneration that was paid to senior key personnel

	R
Mr A	300 000
Mr B	250 000
Mr C	200 000

Each of the directors also received a total compensation of R3 200 for meetings attended during the year

5 2 The following directors' remuneration was paid by the subsidiary of Polo Limited

	R
Mr A	230 000
Mr B	200 000
Mr C	180 000

5 3 A pension of R75 000 was paid to Mrs H (She is the widow of a former executive director of Polo Limited)

6 The following are already included in "**other expenses**"

	R
Interest paid - long-term loan (*note 2*)	?
Sundry expenses	1 900
Credit losses written off	3 100
Interest paid - bank overdraft	4 200

7 The following depreciation must still be accounted for

7 1 All the machinery was purchased on 31 March 2008 for R2 500 000 Installation costs amounted to R150 000 The company provides for depreciation on machinery at 20% per annum on the straight-line method During the current financial year all the machinery was withdrawn from the production process for a period of 9 months and used in the construction of the buildings No sales or purchases transactions of machinery took place during the current financial year The following direct costs relating to the buildings was debited to buildings

Labour	R 554 000
Material	R1 100 000

7 2 Buildings are written off over a period of 25 years according to the straight-line method The construction of the buildings was completed during the year and it was taken into use on 1 April 2010

7 3 On 31 March 2010, furniture and equipment with a cost price of R80 000 and accumulated depreciation of R35 000 at the beginning of the financial year, was traded in at a loss of R4 500 as part payment for new equipment costing R75 000 Furniture and equipment are depreciated at 10% per annum on the straight-line method

Depreciation is calculated to the nearest Rand

QUESTION 3 (continued)

8 **Investments** consist of the following

8 1 10 000 Ordinary shares in Armani Limited purchased at a cost price of R42 000 The total issued share capital of Armani Limited consist of 70 000 ordinary shares Armani Limited's shares were trading on the Johannesburg Securities Exchange at a price of R5,50 each on 30 June 2010 These shares form part of Polo Ltd's share trading portfolio

8 2 80 000 Ordinary shares in Guess Limited purchased at R2 each The total issued share capital of Guess Limited consists of 750 000 ordinary shares Guess Limited's shares were trading on the Johannesburg Securities Exchange and the price on 30 June 2010 was R2,70 each This investment was designated as not-held-for-trading

8 3 No entry has yet been made in respect of the revaluation of the above-mentioned investments

9 The 15% long-term loan was made **to** Prada Ltd on 1 September 2009 No capital has been paid back at year end Polo Ltd owns 5 000 out of the total issued share capital of 7 000 of Prada Ltd

REQUIRED:

Prepare the Statement of Comprehensive Income **and** the profit before tax note of Polo Limited for the year ended 30 June 2010 in compliance with the requirements of the Companies Act and Generally Accepted Accounting Practice

Ignore comparative figures and the note on accounting policies Show all calculations

QUESTION 4 (17 marks) (20 minutes)

The following information was obtained from the books of Malemone Limited at 31 March 2012

	R
Share capital - Ordinary shares	1 200 000
- 10% Cumulative preference shares	850 000
Retained earnings 1 April 2011	351 000
Office building at cost 31 March 2012	350 000
Accumulated depreciation - office building 31 March 2012	70 000
Investment in Maraisane Limited	300 000
Mark-to-market reserve	100 000
Capital Redemption Reserve Fund	450 000

Additional information

1 Malemone Limited was incorporated on 1 April 2009 with an authorised share capital of

- 500 000 Ordinary no par value shares
- 300 000 10% Cumulative no par value preference shares

2 300 000 Ordinary shares were issued at R4 each at incorporation On 1 July 2009, 100 000 cumulative preference shares were issued at R7,48 each

On 1 August 2011 Malemone Limited issued 12 000 10% cumulative preference shares at R8 50 per share

3 The following transactions relating to the equity of the company must still be recorded in the current financial year:

3 1 100 000 Ordinary shares were issued on 5 April 2011 at R5 each Share issue expenses amounted to R1 000 The share issue expenses must be written off against retained earnings

3 2 On 1 May 2011, a capitalisation issue was made of one (1) new ordinary share for every five (5) ordinary shares held at R7,50 per share This must be done in such a way as to have the minimum effect on all distributable reserves

3 3 Total comprehensive income for the year, after the correct depreciation has been calculated and taken into account, but before the revaluation of office buildings, was R536 700

4 An office building was acquired on 1 April 2009 for R350 000 It was depreciated at 10% per annum on the straight line method

The company has decided to revalue the office building at the beginning of the year on the gross replacement basis The cost of a similar building on 2 April 2011 was determined to be R375 000 This revaluation has not yet been recorded

5 On 1 October 2010, Malemone Limited purchased 50 000 ordinary shares from Maraisane Limited The investment was designated as a financial asset not-held-for-trading, at a cost price of R4 per share Maraisane Limited has an issued ordinary share capital of 500 000 ordinary shares

QUESTION 4 (continued)

The market value of ordinary shares in Maraisane Limited on the Johannesburg Securities Exchange was subsequently as follows

31 March 2011	R6 per share
31 March 2012	R7 per share

Current year revaluation of this investment has not yet been recorded

6 On 20 March 2012, a final dividend of 12c per share was declared on ordinary shares

No dividends were declared and paid during the previous financial year due to the fact that no profit was earned

REQUIRED:

Prepare the Statement of Changes in Equity of Malemone Limited for the year ended 31 March 2012 in compliance with the requirements of the Companies Act and Generally Accepted Accounting Practice

Ignore comparative figures Show all calculations