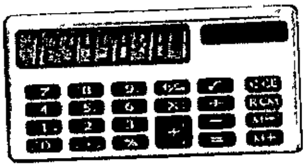
UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA university of south africa

FAC2601

October/November 2011

FINANCIAL ACCOUNTING FOR COMPANIES

100 Marks

Duration 2 Hours

EXAMINERS		
FIRST	MR CJ ELS MR F MONTGOMERY MS AA VAN ROOYEN	MR CM MKEFA MR GJ STEYN
SECOND		

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 7 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 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	a) Statement of comprehensive income	30	36
	b) Statement of changes in equity	15	18
2	Statement of financial position	30	36
3	Leases	25	30
		100	120

[TURN OVER]

<u>QUESTION 1</u> (45 marks) (54 minutes)

The following information were taken from the books of Protea Limited, a listed company for the financial year ended 30 June 2010

	R
Ordinary share capital	1 200 000
Share premium	50 000
15% Long-term loan (cr) (*Note 9*)	150 000
10% Cumulative preference share capital of R1 each	350 000
Retained earnings (01/07/2009)	420 000
Buildings at cost	1 200 000
Machinery and equipment at cost (01/07/2009)	160 000
Accumulated depreciation	
- Machinery and equipment (01/07/2009)	75 000
- Buildings (01/07/2009)	300 000
Income (revenue)	3 200 000
Other income (*note 3*)	18 550
Other expenses (*note 4*)	68 700
Administrative expenses (*note 5 + 6*)	820 650
Investments at cost (*note 8*)	245 000
Loan to Windies Limited (*note 2*)	60 000
Income tax expense	95 000

Additional information:

1 Protea Limited maintains an annual gross profit percentage of 40% on turnover

2 The loan to Windies Limited was approved on 31 December 2009 at an interest rate of 10% per year

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

	R
Dividends received	
Windies Limited	900
Aussie Limited	??
Aussie Limited declared and paid a dividend of 5c per share during the year	

	R
Interest received	
Current account	700
Trade and other receivables	650
Windies Limited	??

4 The following is, amongst others, already included in **"other expenses"**

	R
Interest paid – long-term loan	??
Interest paid – bank overdraft	1 200
Credit losses written off	1 500
Sundry expenses	21 000

QUESTION 1 (continued)

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

	R
Salaries and wages	800 000
Auditors' remuneration - travel	350
Auditors' remuneration – audit fees	12 000
Telephone	3 000
Water and electricity	4 200
Stationery	1 100

6 **Salaries and wages** of Protea Limited include, amongst others, the following remuneration that was paid to senior executive members

		R
6 1	Executive director – Mr A	200 000
	Marketing manager – Mr B	150 000
	Chairman of the board – Mr C	120 000

Each of the directors also received a compensation of R2 500 for meetings attended during the year

6 2 The following directors' remuneration was paid by the subsidiary of Protea Limited

	R
Chairman of the board – Mr A	130 000
Financial director – Mr B	300 000
Executive director – Mr C	250 000

6 3 A pension of R100 000 was paid to Mrs H (She is the widow of a former executive director of Protea Limited)

7 The following 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 R10 000 and a carrying amount of R4 000 was sold on 2 July 2009 for R5 000

7 2 Depreciation on buildings Buildings are written off over a period of 20 years according to the straight line method

7 3 On 30 June 2010 the buildings were revalued by Mr Visagie, a sworn valuer, at the net replacement value of R1 100 000 The buildings are occupied by Protea Limited

It is company policy to revalue land and buildings according to the net replacement basis

8 **Investments** consist of the following

8 1 100 000 Ordinary share of R2 each in Aussie Limited purchased at R2 each The total issued share capital of Aussie Limited consists of 1 000 000 ordinary shares Aussie Limited's shares are trading on the Johannesburg Securities Exchange and the price on 30 June 2010 was R2,50 each This investment was designated as not held for trading (previously available-for-sale)

QUESTION 1 (continued)

8 2 30 000 Ordinary shares of R1,50 each in Windies Limited purchased at a cost price of R45 000 The total issued share capital of Windies Limited consist of 50 000 ordinary shares Windies Limited's shares are trading on the Johannesburg Securities Exchange at a price of R1,50 each on 30 June 2010

8 3 No entry was made in respect of the revaluation of the above mentioned investments

9 The 15% long-term loan originated on 31 May 2005 and the capital portion is repayable in 8 equal annual instalments beginning on 31 December 2007 Interest is payable twice a year on 31 December and 30 June

10 Protea Limited is incorporated with authorised share capital of
800 000 – Ordinary shares of R2 each
1 000 000 – 10% Cumulative preference shares of R1 each

11 The company issued 50 000 ordinary shares on 30 September 2009 at a premium of 30c per share

12 The company did not issue any preference shares during the previous financial year On 31 December 2009, 20 000 cumulative preference were issued at R1 per share

13 On the annual general meeting held on 29 June 2010 the following decisions were approved and must still be recorded before year end in the following order

13 1 Capitalisation shares must be issued to ordinary shareholders at par in a ratio of one ordinary share for every four ordinary shares held The issue must be made out of retained earnings

13 2 An ordinary dividend of 5c per share was declared to shareholders registered on 30 June 2010 No dividends were declared or paid by the company in the previous financial year

13 3 According to the new companies act all ordinary shares must be converted into no par value shares

REQUIRED:

a) Prepare the Statement of Comprehensive Income **and** relevant notes of Protea 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 (30)

b) Prepare the Statement of Changes in Equity of Protea 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
Show all calculations (15)

[45]

QUESTION 2 (30 marks) (36 minutes)

The following information was obtained from the books of Civils (Pty) Ltd, a building company, on 31 December 2010

	R
Share capital	200 000
Retained earnings	500 000
Land at valuation	800 000
Factory buildings at cost	960 000
Motor vehicles at carrying value (31/12/2009) – Purchased 1 January 2008	420 000
Crane at cost	480 000
Accumulated depreciation	
- Cranes (31/12/2009)	60 000
Investments at cost	65 000
Loans (note 6)	30 000
Inventory	340 000
Trade and other receivables	627 200
Provision for credit losses	25 200
Bank overdraft	270 000
Trade and other payables	372 000
Deferred oparating lease payments	4 600

Additional information:

The financial director that provided the above information to you also provided the following information to you

1 The factory buildings are situated at plot 180, Koedoespoort, and consists of a factory and office block The land was purchased on 1 April 2005 for R360 000 The buildings were erected during the current year at a cost of R960 000 (only material costs) The company withdrew its crane for 4 months during the year from the production process and used it in the construction of these buildings The buildings were completed on 31 December 2010 On 30 September 2010, the land was revalued by Mr K Louw, a sworn appraiser, at replacement value The buildings are owner-occupied

2 The following transactions in respect of motor vehicles took place during the year

- On 30 September 2010 a motor vehicle with a cost price of R100 000 and on which R55 000 depreciation has been written off to date of sale, were traded in for R80 000 on a new vehicle that cost R140 000

3 Depreciation on non-current assets is calculated as follows

- The crane that was purchased on 1 July 2009 is depreciated over 48 months using the straight-line mehtod
- Motor vehicles 20% per annum using the straight-line method
- Buildings 2% per annum using the straight-line method

QUESTION 2 (continued)

4 Inventories consist of

	R
- Raw materials	140 000
- Work in progress	200 000

The net realisable value of raw materials at year end was R110 000

5 Investments consist of the following

- 10 000 Ordinary shares of R2,50 each in Build Limited purchased for R30 000 The authorised share capital of Build Limited is 40 000 shares of which 15 000 shares were issued On 31 December 2010 the market value of the shares that Civils owns was R30 000

- 25 000 Ordinary shares of R1,00 each in Sand Limited purchased for R35 000 for speculative purposes Sand Limited issued 400 000 ordinary shares of R1 each Each share has one vote These shares traded on the Johannesburg Securities Exchange at R4 per share on 31 December 2010

6 Loans comprise of the following

- A loan amounting to R30 000 to Jameson (Pty) Limited The loan bears interest at 15% per annum, paid on 31 December each year The loan is repayable on 31 December 2015

REQUIRED

Prepare the „Assets" section of the Statement of Financial Position and relevant notes of Civils (Pty) Limited at 31 December 2010 according to the requirements of the Companies Act and Generally accepted Accounting Practice Comparative figures and accounting policy notes are not required

QUESTION 3 (25 marks) (30 minutes)

Part A

Jumbo Lımıted has varıous ıtems of property, plant and equıpment held under operatıng leases agreement The fınancıal year end ıs 28 February 2011

Extracts from the operatıng lease agreements

Bıggy Bank

- Assets leased – 9 vehıcles
- Perıod of lease – 1 July 2006 to 30 June 2011
- Fırst lease payment – R31 500 payable ın advance on 1 July 2006
- Monthly lease payments payable ın arrears thereafter – R3 500 per vehıcle

Lıttle Bank

- Assets leased – offıce equıpment
- Perıod of lease – 1 January 2007 to 31 December 2010
- Monthly lease payments payable ın arrears – R2 000

On termınatıon of the lease agreement the company made a cash offer of R20 000 (faır value) for the offıce equıpment and the offer was accepted on 31 December 2010

Deprecıatıon ıs wrıtten off on vehıcles and offıce equıpment, accordıng to the straıght-lıne method usıng the followıng rates

Vehıcles	-	25% per annum
Offıce equıpment	-	20% per annum

REQUIRED

Journalıse all above transactıons ın the accountıng records of Jumbo Lımıted (ıncludıng cash transactıons) for the year ended 28 February 2011 Journal narratıons are not requıred (15)

Part B

Answers must be calculated to the nearest second decımal place Show all your workıngs

ı) Determıne the present value of an annuıty of R25 000, receıved at the end of each year for fıve years, at a dıscount rate of 12% per year (2)

ıı) Determıne the future value of an amount of R12 000, ınvested at the end of each year for ten years, at an ınterest rate of 9% per year (2)

ııı) Determıne the effectıve ınterest rate for a buıldıng socıety savıngs account whıch bears ınterest at a nomınal rate of 7,5% per annum, compounded monthly (3)

ıv) Determıne the nomınal ınterest rate for a loan whıch bears ınterest at an effectıve rate of 8% per annum, ıf ınterest ıs compounded half-yearly (3)