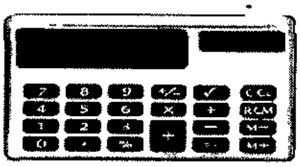
UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA university of south africa

FAC2601

October/November 2012

FINANCIAL ACCOUNTING FOR COMPANIES

Duration 2 Hours

100 Marks

EXAMINERS

FIRST	MR CJ ELS	MR CM MKEFA
	MR F MONTGOMERY	MR GJ STEYN
SECOND	PROF D SCHEEPERS	
EXTERNAL	MISS J FRIEDRICHS	

Use of a non-programmable pocket calculator is permissible

Closed book examination

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

NB:

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	Statement of profit or loss and other comprehensive income	32	38
2	Statement of changes in equity	21	26
3	Leases	15	18
4	Statement of financial position	32	38
		100	120

QUESTION 1 (32 marks) (38 minutes)

The following balances were extracted from the books of Light Bulb Limited for the financial year ended 29 February 2012

	R
Total sales (including VAT at 14%) (note 1)	4 560 000
Administrative expenses	1 103 000
Bank charges	24 000
Salaries and wages (note 2)	1 000 000
Advertising	55 000
Auditors' remuneration	
- Fees for audit	20 000
- Expenses	4 000
Distribution cost	134 000
Operating expenses	217 500
- Other operating expenses (including finance cost and depreciation)	185 000
- Operating lease payments	32 500
Other operating income	19 000
Proceeds on sale of motor vehicle	42 500
Equipment at carrying amount	24 000
Motor vehicles at cost	120 000
Accumulated depreciation Motor vehicles	30 000
Investments (note 6)	230 000
Loan to Live-Smart (Pty) Limited	40 000
Long-term loan (Cr)	45 000
Income tax expense	64 000

Additional information:

1 Light Bulb Limited maintains a gross profit percentage of 40% on turnover

2 Included under salaries and wages are the following payments to top management

	R
Salaries	
- Financial director	120 000
- Chairman of the board	60 000
- Marketing manager	90 000
- Managing director	100 000
Travelling allowance – Managing director	6 000
Entertainment allowance – Marketing manager	3 000
Pension payments	
- Financial director	12 000
- Chairman of the board	6 000

The top management were paid R625 each per meeting for attending directors' meetings Four (4) meetings were held during the year

The financial director is also the chairman of Live Smart (Pty) Limited and received remuneration of R55 000 for the financial year ended 29 February 2012

QUESTION 1 (continued)

3 During the year ended 29 February 2012, Light Bulb Limited acquired machinery which was obtained in terms of an operating lease agreement. The following information in respect of the lease agreement is available:

Period of the lease	1 October 2011 – 30 September 2015
Payment terms	
Months 1 – 24	R6 500 per month
Months 25 – 48	R3 500 per month

4 The long-term loan was obtained on 1 January 2010 and the capital portion is repayable in seven equal annual instalments starting 31 August 2010. Interest on the loan is calculated at 10% per annum and is payable at the end of each financial year.

5 Other operating income consists of:

	R
Dividends received from the following companies:	
- Stay-Smart Limited	10 000
- Live-Smart (Pty) Limited	6 000
Interest received from Live-Smart (Pty) Limited	3 000
	19 000

6 Investments

6.1 The issued ordinary share capital of Live-Smart (Pty) Limited is R80 000 (shares issued at R2 each). Light Bulb Limited owns 21 000 shares in Live-Smart (Pty) Limited.

6.2 Light Bulb Limited owns 50 000 of the 1 200 000 issued shares in Stay-Smart Limited purchased for R100 000. The shares of Stay-Smart Limited are traded on the JSE Limited and the market value per share was R3,00 each on 28 February 2011. The market value on 29 February 2012 was R4,00 per share and no adjustments have yet been made during this year regarding the increased market value. These shares were obtained for speculative purposes.

7 The non-current assets were depreciated at the following rates and methods:

Motor vehicles	-	20% per annum using the reducing balance method
Equipment	-	20% per annum using the straight-line method

One of the motor vehicles with a carrying amount of R40 000 on 28 February 2011 was sold on 31 August 2011. Only the proceeds have been recorded so far.

All the equipment was purchased on 1 March 2009 and no sales or purchases of equipment have occurred since then.

QUESTION 1 (continued)

REQUIRED:

1 Prepare the statement of profit or loss and other comprehensive income of Light Bulb Limited for the financial year ended 29 February 2012 according to the requirements of the Companies Act, No 71 of 2008 and Generally Accepted Accounting Practice. Ignore comparative figures Show all calculations

(15½)

2 Disclose the "profit before tax" note for the statement of profit or loss and other comprehensive income of Light Bulb Limited for the financial year ended 29 February 2012 according to the requirements of the Companies Act, No 71 of 2008 and Generally Accepted Accounting Practice

(16½)

QUESTION 2 (21 marks) (26 minutes)

The following list of balances appeared, amongst others, in the books of Shake-It Limited on 29 February 2012

	R
Land and buildings at valuation (note 1)	2 000 000
Ordinary share capital (shares issued at R2 each)	1 500 000
10% Cumulative preference shares	300 000
12% Non-cumulative preference shares (note 3)	550 000
Proceeds of 200 000 ordinary shares issued on 31 October 2011	400 000
Surplus on revaluation of non-current assets	250 000
15% Long-term loan obtained 1 July 2011 (Cr) (note 4)	900 000
Investments (note 5)	320 000
Gross profit for the year	4 000 000
Administrative expenses	800 000
Distribution expenses	80 000
Other operating expenses	120 000
Other income	100 000
Income tax expense	823 900
Retained earnings (1 March 2011)	800 000
Mark to market reserve (1 March 2011)	40 000

Additional information:

1 Land and buildings are situated on erf 557, Sandton, and consists of an office block The property was revalued at net replacement value on 29 February 2012 for R2 500 000 by Mr J Pietersen, an independent sworn appraiser No entry has yet been made regarding the revaluation

2 Shake-It Limited was incorporated with an authorised share capital of

2 000 000 Ordinary shares
500 000 10% Cumulative preference shares
300 000 12% Non-cumulative preference shares
300 000 14% Redeemable preference shares

3 25 000 12% Non-cumulative preference shares at R4,00 each were issued on 1 September 2011 by Shake-It Limited

4 Finance cost on the long-term loan must still be provided for There have been no repayments to date on this loan

5 Investments consist, amongst others, of the following
1 500 Shares in Make-it Limited The entry with initial investment was as follows

	R	R
Dr Investments	120 000	
Cr Bank		120 000

(This was the only entry regarding investments during the current financial year)

These shares were classified as "investments through other comprehensive income" (not held for trading) The shares traded on the JSE Limited at R95,00 per share on 29 February 2012

QUESTION 2 (continued)

6 The following decisions were made by the directors on 29 February 2012 and must still be recorded in the following order

6 1 Capitalisation shares must be issued to the ordinary shareholders registered in the share register on 29 February 2012 in the ratio of one ordinary share at R1,50 for every five ordinary shares held

6 2 An ordinary dividend of 10c per share was declared on 29 February 2012 The company did not pay or declare any dividends during the previous financial year

7 There were no further changes in the share capital during the year

REQUIRED:

Prepare the statement of changes in equity of Shake-It Limited for the financial year ended 29 February 2012 according to the requirements of the Companies Act, No 71 of 2008 and Generally Accepted Accounting Practice Show all calculations

Note: You do not have to disclose the total column of the statement of changes in equity

QUESTION 3 (15 marks) (18 minutes)

A manufacturing concern, Big-Mac Limited, entered into a finance lease agreement on 1 January 2011 whereby two machines with a total cost price of R520 000 would be leased from Jo-Brand Limited

The period of the lease is 3 years and the lease payments of R47 674 is payable quarterly in arrears Big-Mac Limited will obtain ownership of the machines at the end of the lease term on payment of a nominal amount Big-Mac Limited paid R25 000 legal fees for negotiating the lease agreement

The following information applies to the lease

Nominal interest rate 18%

The machinery will be depreciated over its expected useful lives of 4 years using the straight-line method

The company's financial year end is 31 December

The financial manager prepared the following amortisation table which you can assume is correct

Period	Date	Instalment	Capital	Interest	Balance
		R	R	R	R
					520 000
1	31/03/2011	47 674	39 874	7 800	480 126
2	30/06/2011	47 674	40 472	7 202	439 655
3	30/09/2011	47 674	41 079	6 595	398 576
4	31/12/2011	47 674	41 695	5 979	356 881
5	31/03/2012	47 674	42 320	5 353	314 561
6	30/06/2012	47 674	42 955	4 718	271 605
7	30/09/2012	47 674	43 600	4 074	228 006
8	31/12/2012	47 674	44 254	3 420	183 752
9	31/03/2013	47 674	44 917	2 756	138 835
10	30/06/2013	47 674	45 591	2 083	93 244
11	30/09/2013	47 674	46 275	1 399	46 969
12	31/12/2013	47 674	46 969	705	-

REQUIRED:

1 Prepare the general journal entries (including cash transactions) of Big-Mac Limited for the year ended 31 December 2011 to account for the above mentioned transactions (13)

2 Disclose the finance lease liability on the face of the statement of financial position of Big-Mac Limited at 31 December 2011 according to Generally Accepted Accounting Practice (2)

QUESTION 4 (32 marks) (38 minutes)

The following information was taken from the books of Apple (Pty) Ltd, a manufacturing company on 31 December 2011

	R
Land at valuation (note 1)	800 000
Factory buildings at cost (note 1)	960 000
Motor vehicles at carrying amount (31/12/2010) (notes 2 & 3)	420 000
Crane at cost (notes 1 & 2)	480 000
Machinery and equipment at cost (31/12/2010) (notes 2 & 3)	360 000
Accumulated depreciation	
- Motor vehicles (31/12/2010)	280 000
- Crane (31/12/2010)	120 000
- Machinery and equipment (31/12/2010)	120 000
Investments at cost (note 5)	32 000
Loan (note 6)	25 000
Inventories (note 4)	390 000
Trade and other receivables	627 200
Bank overdraft	168 000
Trade and other payables	195 000
Prepaid lease expenses	4 600

Additional information:

The new financial manager supplied the following information in respect of transactions that occurred during the financial year

1 Land and buildings are owner occupied and consist of erf 135, Midrand, with a factory building thereon The land was acquired on 1 March 2010 for R380 000 Factory buildings, at a cost of R960 000, were erected during the current year The company withdrew its crane from production for a period of 5 months during which it was used in the process of erecting the factory building (this was not taken into consideration in determining the cost of R960 000 for the erection of the building) The building was completed on 31 December 2011 The land was revalued on 31 December 2011 at net replacement value by Mr S Coetzee, a sworn appraiser

2 Non-current assets are depreciated as follows

- The crane was acquired on 1 October 2009 It is depreciated using the straight-line method over a period of 60 months
- Machinery and equipment 20% per annum using the reducing balance method
- Motor vehicles· 20% per annum using the straight-line method
- Buildings. 2% per annum using the straight-line method

3 The following transactions in respect of non-current assets took place during the year

- On 30 June 2011 a motor vehicle with a cost price of R60 000 and on which R30 000 depreciation was already written off at 1 January 2011 was sold for R50 000 A new vehicle costing R102 600 (VAT included) was purchased on the same date to replace the old vehicle

QUESTION 4 (continued)

- The company decided to buy an additional machine for the business It was calculated that the machine would have a residual value of R10 000 The cost price of the machine was R150 000 on 1 July 2011 (date of purchase)

4 Inventories consist of (cost price)

- Raw materials R 140 000
- Work in progress R 200 000
- Finished goods R 50 000

At year end the directors determined that the net realisable value of the inventories was as follows

- Raw material 5% *below* cost
- Work in progress 5% *above* cost
- Finished goods 5% *below* cost

5 Investments consist of the following

- 7 000 Ordinary shares in Jones Limited purchased for R15 000 These shares were classified as an "investment through profit or loss", purchased for speculation purposes The issued share capital of Jones Limited consists of 200 000 ordinary shares Each share has one vote These shares are traded on the JSE Limited and the fair value of the shares was R3,00 each on 31 December 2011

- 5 000 Preference shares in Blake Limited purchased for R17 000 The issued preference share capital of Blake Limited consists of 20 000 preference shares These shares are traded on the JSE Limited and the fair value of the shares was R4,00 each on 31 December 2011 These shares are classified as an "investment at fair value through other comprehensive income" (not held for trading)

6 Loans consist of the following

- Loan to Shaik (Pty) Ltd to the amount of R25 000 Interest is calculated on the loan at 15% per annum The loan is secured by a first mortgage bond over the company's fixed property The loan is repayable on 31 December 2015.

REQUIRED

Prepare only the **"Asset" section** of the statement of financial position **as well as the property, plant and equipment note (PPE note)** of Apple (Pty) Ltd at 31 December 2011, according to the requirements of the Companies Act, No 71 of 2008 and Generally Accepted Accounting Practice 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 PPE note