

**FAC2601**

May/June 2013

FINANCIAL ACCOUNTING FOR COMPANIES

Duration 2 Hours

100 Marks

 EXAMINERS
 FIRST
 SECOND
 EXTERNAL

 MR CJ ELS
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Use of a non-programmable pocket calculator is permissible

Closed book examination

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THIS PAPER CONSISTS OF TEN (10) PAGES**N.B.:**

- 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 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	Statement of profit or loss and other comprehensive income	35	41
2	Statement of financial position – (Asset section)	27	34
3	Statement of changes in equity	21	25
4	Leases	17	20
TOTAL		100	120

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QUESTION 1 (35 marks) (41 minutes)

The following balances were extracted from the accounting records of Find-Me Ltd for the financial year ended 28 February 2013

	R
Total sales (refer to additional information 1)	?
Cost of sales (refer to additional information 2)	?
Administrative expenses	1 312 000
Bank charges	12 000
Salaries and wages (refer to additional information 3)	1 000 000
Advertising	110 000
Auditors' remuneration	
- Fees for audit	140 000
- Expenses	50 000
Distribution cost	218 000
Other operating expenses (including finance cost and depreciation)	390 000
Other operating income (refer to additional information 5)	86 000
Proceeds on sale of equipment	92 000
Land at cost (28 February 2013) (refer to additional information 7)	750 000
Motor vehicles at carrying amount (28 February 2013) (refer to additional information 8)	75 000
Equipment at cost (28 February 2013) (refer to additional information 8)	260 000
Accumulated depreciation Equipment (28 February 2013) (refer to additional information 8)	90 000
Investments (refer to additional information 6)	345 000
Long-term loan (refer to additional information 4)	180 000
Income tax expense	161 000

Additional information

- 1 Find-Me Ltd is a registered VAT vendor
The total sales of Find-Me Ltd for the financial year ended 28 February 2013, **including** VAT at 14%, consists of the following

	R
- Normal sales to clients	5 472 000
- Total lay away sales to clients 30% of the total lay away sales represent sales for which a substantial deposit was received in advance These items are in stock and are ready for delivery	570 000
- Subscription fees received (for the full 15 month period) on a magazine that will only be distributed for 15 months from 1 March 2012	285 000
- Consignment stock 40% of these inventories were unsold at year end	114 000
	<u>6 441 000</u>

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QUESTION 1 (continued)

2 Find-Me Ltd maintained an annual gross profit percentage of 45% during the financial year ended 28 February 2013

3 Included in salaries and wages are the following payments made to top management

Salaries	R
- Mr Adam Managing director	220 000
- Mr Bruce Chairman of the board	170 000
- Mr Chris Financial manager	140 000
- Mr Dave Marketing director	210 000
Entertainment allowance – Managing director	21 000
Travelling allowance – Financial manager	14 000
Pension payments	
- Managing director	75 000
- Chairman of the board	36 000

Top management were paid R2 000 each **per** directors' meeting attended Four meetings were held during the year and all the directors attended **each** meeting

The managing director of Find-Me Ltd is also the chairman of the board of directors of Hide-Me Ltd (refer additional information 6), for which he received the following

	R
Salary	170 000
Reimbursement of travelling costs	18 000

Mr Chris is also the managing director of Hide-Me Ltd for which he received a salary of R390 000

4 The unsecured long-term loan was entered into on 1 August 2010 and the capital portion is repayable in eight equal annual instalments from 31 August 2011 Interest is calculated at 15% per annum and is payable bi-annually on 31 August and 28 February of each year

5 Other operating income consists of

	R
Dividends received from the following companies	
- Hide-me Ltd	33 000
- Jump-to Ltd	37 000
Interest received from Hide-me Ltd	16 000
	<u>86 000</u>

6 Investments consist of the following

6 1 A 60% interest in Hide-me Ltd at a cost price of R90 000

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QUESTION 1 (continued)

- 6 2 Find-Me Ltd owns 50 000 of the 1 200 000 issued ordinary shares of Jump-to Ltd, which were purchased for R125 000. The shares of Jump-to Ltd are traded on the JSE and the market value on 29 February 2012 was R3,50 per share. The market value on 28 February 2013 was R4,00 per share and no fair value adjustments have yet been made in the current financial year. These shares are part of Find-Me Ltd's speculative share portfolio.
- 6 3 Find Me Ltd owns 10 000 of the 40 000 issued ordinary shares of Just-do-it Ltd, which were purchased on 1 June 2012 for R80 000. This investment is designated as an investment "through other comprehensive income". On 28 February 2013 these shares traded on the JSE at R11,00 per share. This investment must be revalued annually at fair value according to company policy and this adjustment must still be recorded.
- 7 The existing land of Find-Me Ltd was purchased during the year. Similar property was sold on 28 February 2013 for R950 000 and the directors are of the opinion that this was also the fair value of this property. It is the policy of Find-Me Ltd to value land using the revaluation model. No adjustment in respect of the above has yet been recorded.
- 8 Motor vehicles and equipment
- 8 1 The property, plant and equipment are depreciated at the following rates and methods:
- | | |
|----------------|---|
| Equipment | - 20% per annum according to the reducing balance method. |
| Motor vehicles | - 20% per annum according to the straight-line method |
- 8 2 Equipment with a carrying amount of R80 000 on 29 February 2012, was sold on 30 November 2012. The sale was recorded by debiting bank and crediting "proceeds on sale of equipment". The resulting profit or loss has not yet been recorded. No other equipment was purchased during the year.
- 8 3 All the motor vehicles were purchased on 1 March 2011 and no other purchases or sales of motor vehicles occurred since.

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QUESTION 1 (continued)**REQUIRED:**

- 1 Prepare the statement of profit or loss and other comprehensive income of Find-Me Ltd for the financial year ended 28 February 2013 in compliance with the requirements of the Companies Act (2008) and International Financial Reporting Standards (16 marks)

Notes to the statement of profit or loss and other comprehensive income are **NOT** required.
Comparative figures are **NOT** required
All calculations must be shown
- 2 Show the note on profit before tax to the statement of profit or loss and other comprehensive income of Find-Me Ltd for the financial year ended 28 February 2013 according to the requirements of the Companies Act (2008) and International Financial Reporting Standards (19 marks)

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QUESTION 2 (27 marks) (34 minutes)

The following balances were extracted from the accounting records of Joker Ltd on 30 June 2012

	R
Land at cost (Erf 342, Mbombela)	900 000
Buildings at cost	1 650 000
Machinery at carrying amount (1 July 2011)	1 700 000
Furniture and equipment at carrying amount (1 July 2011)	300 000
Accumulated depreciation	
- Machinery (1 July 2011)	340 000
- Furniture and equipment (1 July 2011)	170 000
Bank overdraft	216 500
Trade and other receivables	411 000
Inventory	?
Provision for credit losses	37 000
Investments	45 000

Additional information

- 1 The following information relating to land, buildings and machinery is available
 - 1 1 All of the machinery were bought on 31 August 2010 for R1 900 000 Installation costs amounted to R140 000 The company provides for depreciation on machinery at 20% per annum according to the reducing balance method During the current financial year all machinery were withdrawn from the production process for a period of six months and used in the construction of the entity's buildings No other purchase or sales transactions of machinery took place during the current financial year The following direct costs in respect of the construction of the buildings were debited against buildings

	R
Labour	675 000
Raw material	975 000
 - 1 2 Buildings consist of a factory building and are situated on Erf 342, Mbombela The building is owner occupied The building was completed and brought into use on 1 January 2012 Depreciation on the factory building must still be provided for at 2% per annum according to the straight-line method
 - 1 3 On 29 June 2012 the land was revalued at market value for R1 100 000 by Mr Rhino-Horn, a sworn appraiser
- 2 On 30 April 2012, furniture and equipment with an original cost price of R90 000 and accumulated depreciation on 1 July 2011 of R40 000, were traded in at a loss of R6 900 as part payment for new equipment with a cost price of R75 000 Furniture and equipment are depreciated at 25% per annum on the straight-line method

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3 Inventory consisted of the following on 30 June 2012

	R
Raw material at cost	180 000
Finished goods at cost	400 000
Work in progress at cost	175 000

3 1 Due to the current weak economic situation, the net realisable value of the finished goods at year end was 8% lower than the cost price thereof, while the net realisable value of raw materials and work in progress exceeded the cost thereof by R6 000 each

3 2 Inventory is recorded at the lower of cost price and net realisable value

4 The provision for credit losses must increase to R53 000

5 Investments consist of the following

- A total of 15 000 shares in Arrow Ltd at a cost price of R45 000. These shares were acquired on 1 March 2012. The issued share capital of Arrow Ltd consists of 22 000 shares of R3,00 each. The fair value of this investment remained unchanged at 30 June 2012.

REQUIRED:

- a) Prepare the "**Asset**" section of the statement of financial position of Joker Ltd as at 30 June 2012, in compliance with the requirements of the Companies Act (2008) and International Financial Reporting Standards (5 marks)
- b) **Prepare only** the Property, plant and equipment note in the financial statements of Joker Ltd as at 30 June 2012, in compliance with the requirements of the Companies Act (2008) and International Financial Reporting Standards. The total column of Property, plant and equipment note is **NOT** required.

Comparative figures are **NOT** required

Accounting policy notes are **NOT** required

All calculations must be shown

(22 marks)

QUESTION 3 (21 marks) (25 minutes)

The following information appeared, amongst others, in the accounting records of Bulls-eye Ltd on 31 December 2012

	R
Land at valuation	750 000
Buildings at cost	1 500 000
Accumulated depreciation Buildings (31 December 2012)	100 000
Ordinary share capital (Shares issued at R1 per share)	950 000
10% Cumulative preference shares	180 000
12% Non-cumulative preference shares (refer to additional information 2)	325 000
Proceeds of 150 000 ordinary shares issued on 30 September 2012	150 000
Preliminary expenses	17 500
Surplus on revaluation of non-current assets	320 000
10% Long-term loan incurred on 1 July 2012 (refer to additional information 3)	575 000
Investments (refer to additional information 4)	170 000
Gross profit for the year	1 500 000
Administrative expenses	320 000
Distribution expenses	15 000
Other operating expenses	30 000
Other income	40 000
Income tax expense	310 000
Retained earnings (1 January 2012)	510 000
Mark-to-market reserve	30 000

Additional information

- 1 Land and buildings are situated on erf 450, Hazyview, and consist of an office block and a factory building. The buildings were revalued at net replacement value on 31 December 2012 of R1 800 000 by Mr Jones, a sworn appraiser, but no entry has yet been made to record this. It is company's policy to calculate the depreciation for the year on the cost price of the asset.
- 2 On 1 July 2012 Bulls-eye Ltd issued 35 000 12% non-cumulative preference shares at R2,50 each.
- 3 Finance cost on the long-term loan must still be provided for. No capital has been repaid on the loan to date.
- 4 The positive performance on the JSE led to a fair value adjustment gain of R13 000 at the end of the 2012 financial year on all investments "through other comprehensive income".
- 5 The following decisions were made by the directors on 31 December 2012 and must still be recorded in the accounting records in the following order:
 - 5.1 Capitalisation shares must be issued to the ordinary shareholders in the ratio of one ordinary share for every ten ordinary shares held at R1,50 per share.
 - 5.2 An ordinary dividend of 15c per share was declared to all shareholders registered on 31 December 2012. The company did not pay or declare any dividends during the previous financial year.
 - 5.3 Preliminary expenses must be written off against retained earnings.

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QUESTION 3 (continued)**REQUIRED:**

Prepare the statement of changes in equity of Bulls-eye Ltd for the financial year ended 31 December 2012 according to the requirements of the Companies Act (2008) and International Financial Reporting Standards

The total column for the statement is **NOT** required
All calculations must be shown

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QUESTION 4 (17 marks) (20 minutes)

Green Ltd is a manufacturing company involved in the production of wind turbines

During the current financial year ended 28 February 2013, Green Ltd entered into a lease agreement to acquire new machinery to expand their operations

The following information in respect of the lease agreement is available

Two machines with a cash price of R150 000 each were acquired under an operating lease agreement

The term of the lease is from 1 June 2012 to 31 May 2014

Other lease terms

Monthly instalments **per machine** payable in advance

Months 1 – 12

R 8 750 per month

Months 13 – 24

R 6 250 per month

REQUIRED:

Show the journal entries regarding the lease agreement **for all the financial years** for the full **duration of the lease agreement**, ending 28 February 2015, in the financial records of Green Ltd

Group transactions per year and show clearly to which year the specific journal relates to

Journal narrations are NOT required