



## FAC2601

May/June 2014

### FINANCIAL ACCOUNTING FOR COMPANIES

Duration 2 Hours

100 Marks

## EXAMINERS :

FIRST :

 MRS F ABOO  
 MR CM MKEFA  
 MR GJ STEYN

 MR CJ ELS  
 MR F MONTGOMERY

 SECOND :  
 EXTERNAL .

 PROF D SCHEEPERS  
 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 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	34	41
2	Statement of financial position	34	41
3	Statement of changes in equity	16	19
4	Leases	16	19
<b>TOTAL</b>		<b>100</b>	<b>120</b>

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**QUESTION 1 (34 marks) (41 minutes)**

The following balances were extracted from the financial records of Zinger Limited at 31 August 2013

	R
Investments at cost (note 2)	530 000
10% Long-term loan (note 11)	630 000
Motor vehicles at cost (01/09/2012) (note 7)	358 800
Equipment at cost (01/09/2012) (note 6)	228 000
Land at cost	240 000
Buildings at cost (01/09/2012) (note 8)	710 000
Accumulated depreciation (note 5)	
- Equipment (01/09/2012)	50 000
- Buildings (01/09/2012)	142 000
- Motor vehicles (01/09/2012)	303 800
Turnover (note 1)	7 200 000
Other income (note 10)	54 000
Other expenses (excluding depreciation)	490 950
Administrative expenses (note 9)	?
Sales discount (note 1)	150 000
Distribution costs	80 000
Income tax expense	125 900

**Additional information:**

- 1 Zinger Limited maintained an annual gross profit percentage of 40% on turnover
- 2 Investments consist of
  - 120 000 Ordinary shares of R4,00 each in Wings Limited. Wings Limited's total issued ordinary share capital consists of 200 000 ordinary shares. Wings Limited's shares were trading on the JSE at R4,00 per share on 31 August 2013. Each share carries one vote
  - 30 000 Ordinary shares in Wrap'it (Pty) Limited at a cost price of R50 000. The issued share capital of Wrap'it (Pty) Limited consists of 100 000 ordinary shares. These shares were classified as a "financial asset through profit or loss". The directors valued the shares at R2,00 per share at the current financial year end but no fair value adjustment has yet been recorded in the financial records. Each share carries one vote
- 3 The key personnel are as follows

	Zinger Limited	Wings Limited
Chairmen	Mr Jo	Mrs So
Non-executive directors	Mr Bo, Po	Mr Wo, Go
Marketing managers	Mrs Ho	Mr Ho
Financial directors	Mr Do	Mr Fo
Managing directors	Mr Wo	Mrs Po
Company secretaries	Mr Go	Mr Co

During the current financial year the abovementioned directors of Zinger Limited and Wings Limited each attended four directors' meetings. The directors of Zinger Limited received R1 050 per meeting and the directors of Wings Limited received R525 per meeting

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**QUESTION 1 (continued)**

4 Included in the salaries paid during the year, are the following amounts

	<b>Zinger Limited</b>	<b>Wings Limited</b>
	<b>R</b>	<b>R</b>
Marketing managers	165 000	135 000
Financial directors	210 000	180 000
Managing directors	240 000	230 000
Company secretaries	127 500	105 000

5 The following rates of depreciation are applicable:

Equipment	15% per annum using the reducing balance method
Motor vehicles	25% per annum using the straight-line method
Buildings	5% per annum using the straight-line method

6 On 1 January 2013, equipment with an original cost price of R90 000 and accumulated depreciation of R13 500 as at the beginning of the current financial year, was sold at its carrying amount and replaced with a new machine at a cost of R93 000

7 On 28 February 2013, a motor vehicle with an original cost of R38 000 and accumulated depreciation of R28 063 as at the beginning of the current financial year, was traded in at R9 000 for a new vehicle with a cost price of R50 000

8 Zinger Limited's buildings was revalued on 1 September 2012 by Mr P Bear, a sworn appraiser, at a net replacement value of R800 000

9 Administrative expenses include the following

	<b>R</b>
Salaries and wages	1 500 000
Fees paid to the auditor	
- For travelling expenses	15 000
- For audit work done	85 000
Interest paid on bank overdraft	7 000
Interest paid on long-term loan	?

10 Other income consists of the following

	<b>R</b>
Dividends received	
- Wings Limited	24 000
- Wrap'it (Pty) Limited	15 000
Interest received	
- Debtors	15 000

11 The long-term loan from ASBA Bank was entered into on 1 September 2010. The capital portion of the loan is repayable in ten equal annual instalments starting 1 March 2013. Interest, calculated at 10% per annum is payable bi-annually on 28 February and 31 August each year

**QUESTION 1 (continued)****REQUIRED:**

Prepare the Statement of Profit or Loss and Other Comprehensive Income and the relevant notes thereto of Zinger Limited for the financial year ended 31 August 2013. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS)

Ignore the note on accounting policy

Comparative figures are not required

Show all calculations

**QUESTION 2 (34 marks) (41 minutes)**

The following information was taken from the financial records of Moonlight (Pty) Limited, a manufacturing company on 31 December 2013

	R
Ordinary share capital . . . . .	2 000 000
Land at valuation (note 1) . . . . .	800 000
Factory buildings at cost (note 1) . . . . .	960 000
Motor vehicles at carrying amount (31/12/2012) (note 3) . . . . .	420 000
Plant at cost . . . . .	480 000
Machinery and equipment at cost (31/12/2013) . . . . .	360 000
Furniture at cost (31/12/2013) . . . . .	120 000
Accumulated depreciation . . . . .	
- Motor vehicles (31/12/2012) . . . . .	280 000
- Plant (31/12/2012) . . . . .	60 000
- Machinery and equipment (31/12/2012) . . . . .	120 000
- Furniture (31/12/2012) . . . . .	30 000
Investments at cost (note 6) . . . . .	172 000
Loans (note 7) . . . . .	80 000
Inventories (note 5) . . . . .	340 000
Trade- and other receivables (note 8) . . . . .	150 000
Bank overdraft . . . . .	340 000
Provisional taxation paid . . . . .	50 000
Trade and other payables . . . . .	160 000
Prepaid lease expenses . . . . .	5 500

**Additional information:**

The accountant supplied the following information to you in respect of transactions that occurred during the year

- 1 The factory buildings are situated on erf 32, Rosslyn, consisting of a factory and office buildings. The land was acquired on 1 January 2004 for R380 000. Buildings were erected on the land during the current financial year and the total material and labour cost of the buildings amounted to R960 000. The company withdrew its plant from normal production for a period of 8 months during the current year and used it for the erection of the buildings. The buildings were completed on 1 October 2013. The buildings are occupied by the owners. The land was revalued on 1 January 2013 at net replacement value by Mr B Shaw, a sworn appraiser.
- 2 Non-current assets are depreciated as follows
  - The plant, which was acquired on 1 July 2012, is depreciated according to the straight-line method over a period of 48 months.
  - Machinery and equipment: 20% per annum according to the reducing balance method.
  - Motor vehicles: 20% per annum according to the straight-line method.
  - Furniture: 10% per annum according to the reducing balance method.
  - Buildings: 2% per annum according to the straight-line method.
- 3 The following and only transactions in respect of property, plant and equipment took place during the year
  - On 30 June 2013, a motor vehicle with an original cost price of R100 000 and on which R50 000 depreciation was already written off on 1 January 2013, was traded in for R80 000 on a new vehicle costing R140 000.
  - On 2 January 2013, furniture to the value of R28 000 was purchased.

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**QUESTION 2 (continued)**

4 SA normal income tax of R140 000 must still be provided for the current year

5 Inventories (at cost) consist of

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

Just before year end, a burst water pipe damaged 50% of the raw material. The company directors estimate the damaged goods to have a net realisable value of 20% lower than the cost price thereof.

None of the work in progress was damaged by the water and the net realisable value of the work in progress was estimated by the directors to be R230 000.

6 Investments consist of the following

- 18 000 Ordinary shares in Silverstar Limited purchased at R2,00 per share for speculation purposes. The total issued share capital of Silverstar Limited consists of 200 000 ordinary shares. Each share carries one vote. These shares are traded on the JSE and the fair value of the shares was R4,00 each on 31 December 2013.
- 60 000 Ordinary shares in Raindrop Limited at a cost of R80 000. The total issued share capital of Raindrop Limited consists of 80 000 ordinary shares. Each share carries one vote. These shares are traded on the JSE and the market value of the shares was R80 000 on 31 December 2013.
- 14 000 Ordinary shares of R4,00 each in Sunblock (Pty) Limited. The total issued ordinary share capital of Sunblock (Pty) Limited was 100 000 shares. The directors valued the shares at R5,00 each on 31 December 2013. These shares are classified as a "financial asset at fair value through other comprehensive income".

7 Loans consist of the following

- Loan to Raindrop Limited to the amount of R50 000. The loan is interest free and is repayable in 4 equal annual instalments. The first instalment is payable on 31 December 2016.
- Loan to Lightning (Pty) Limited to the amount of R30 000. The loan agreement was entered into on 1 January 2013. Interest is calculated on the loan at 10% per annum and is capitalised annually. The loan is secured by a first mortgage bond over the company's property. The loan plus interest is repayable on 31 December 2015.

8 The directors decided to make provision for credit losses to the amount of R55 000. This provision has not yet been recorded at year end.

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

Prepare the "Asset" section of the Statement of Financial Position as well as the relevant notes thereto of Moonlight (Pty) Limited at 31 December 2013, to comply with the requirements of International Financial Reporting Standards (IFRS)

Comparative figures are not required

The note on accounting policy is not required

Show **all** calculations

**QUESTION 3 (16 marks) (19 minutes)**

The following information was obtained from the books of Black Jack Limited at 31 March 2014

	<b>R</b>
Share capital – Ordinary shares	4 800 000
– 15% Cumulative preference shares	1 616 000
Retained earnings (01/04/2013)	702 000
Office building at cost	700 000
Accumulated depreciation – office building (01/04/2013)	140 000
Investment in Top-deck Limited	1 200 000
Mark-to-market reserve (01/04/2013)	800 000

**Additional information**

- 1 600 000 Ordinary shares were issued at R8 each by Black Jack limited at incorporation on 1 April 2011

On 1 July 2012, 200 000 15% cumulative preference shares were issued at R7,00 each

On 1 September 2013 Black Jack Limited issued 24 000 15% cumulative preference shares at R9,00 per share

- 2 The following transactions relating to the equity of Black Jack limited have not yet been recorded in the accounting records for the current financial year:
- 2.1 200 000 Ordinary shares were issued on 10 April 2013 at R10 per share. Share issue expenses amounted to R2 000. The share issue expenses must be written off against retained earnings.
- 2.2 On 1 June 2013, a capitalisation issue of one new ordinary share for every ten ordinary shares held, at R8,00 per share was made.
- 2.3 Total comprehensive income for the year, before the revaluation and depreciation of office buildings were taken into account, was R850 000.
- 3 An office building was acquired on 1 April 2011 for R700 000. It was depreciated at 10% per annum according to the straight-line method.

The company has decided to revalue the office building at the beginning of the financial year on the net replacement basis. The net replacement value of the building on 1 April 2013 was determined to be R900 000 and must still be recorded.

- 4 On 1 October 2012, Black Jack Limited purchased 100 000 ordinary shares from Top-deck Limited at a cost price of R4 per share. The investment was designated as a "financial asset through other comprehensive income". Top-deck Limited has an issued ordinary share capital of 1 000 000 ordinary shares.

The market value of ordinary shares in Top-deck Limited on the JSE was subsequently as follows

31 March 2013	R12 per share
31 March 2014	R14 per share

The fair value adjustment of this investment for the current year has not yet been recorded.

- 5 On 25 March 2014, a final dividend of 24c per share was declared to ordinary shareholders. No dividends were declared or paid during the previous financial year.

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**QUESTION 3 (continued)****REQUIRED**

Prepare the Statement of Changes in Equity (excluding the total column) of Black Jack Limited for the year ended 31 March 2014 to comply with the requirements of International Financial Reporting Standards (IFRS)

Ignore comparative figures

Show all calculations

**QUESTION 4 (16 marks) (19 minutes)**

The following information is supplied to you in respect of a machine acquired by Big-Ben Limited from Lighthouse Limited, in terms of an operating lease agreement

The cash price of the machine is R180 000

The lease term is from 1 March 2011 to 28 February 2015

The monthly lease payment is R6 000 per month for the first 24 months, where after it is increased by 10% for the next 12 months, and thereafter decreased to R2 400 per month till the end of the lease term

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

The financial year end of Big-Ben Limited is 28 February

**REQUIRED:**

Show all the journal entries **per year** in the accounting records of Big-Ben Limited **for the full duration of the lease agreement.**

All dates and calculations must be shown

Ignore income tax implications

No journal narrations are required