

MEMORANDUM

FAC2601

MAY 2012

SOLUTION 1

Equalisation of operating lease payments:

$$(3\,000 \times 12) + [(3\,000 \times 115\%) \times 12] + (1\,200 \times 12) \div 36$$

$$36\,000 + 41\,400 + 14\,400 \div 36$$

$$= R2\,550 \text{ per month}$$

Annual prepayment 1 March 2009 to 28 February 2010:

	R
For 12 months (2 550 x 12).....	30 600
Actually paid (3 000 x 12).....	36 000
Prepayment per annum.....	<u>5 400</u>

Annual prepayment 1 March 2010 to 28 February 2011:

	R
For 12 months (2 550 x 12).....	30 600
Actually paid (3 450 x 12).....	41 400
	<u>10 800</u>

Shortfall 1 March 2011 to 28 February 2012:

	R
For 12 months (2 550 x 12).....	30 600
Actually paid (1 200 x 12).....	14 400
	<u>16 200</u>

Journal entries

	Dr R	Cr R
Year ended 28 February 2010		
Operating lease expense (SCI).....	30 600	
Prepayment (SFP).....	5 400	
Bank.....		36 000
Year ended 28 February 2011		
Operating lease expense (SCI).....	30 600	
Prepayment (SFP).....	10 800	
Bank.....		41 400
Year ended 28 February 2012		
Operating lease expense (SCI).....	30 600	
Bank.....		14 400
Prepayment (SFP).....		16 200

SOLUTION 2**JAMESON (PTY) LTD
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2010**

	Notes	R
ASSETS		
Non-current assets		2 557 000
Property plant & equipment.....		2 539 000
Other financial assets.....		18 000
Current assets		665 500
Inventory.....		144 000
Trade and other receivables.....		521 500
Total Assets		<u>3 222 500</u>
EQUITY AND LIABILITIES		
Total equity		2 868 009
Share capital.....		200 000
Retained earnings.....		2 533 009
Other components of equity (130 000 + 5 000).....		135 000
Non-current liabilities		
Financial lease obligation.....		39 149
Current liabilities		315 342
Bank overdraft.....		270 000
Accrued portion of operating lease payment.....		9 600
Current portion of long term loan.....		34 842
Dividends payable.....		900
Total equity and liabilities		<u>3 222 500</u>

**JAMESON (PTY) LTD
NOTES ON 28 FEBRUARY 2010****1. PROPERTY, PLANT & EQUIPMENT**

	Furniture and fittings	Machinery	Factory buildings	Land	Total
Carrying amount 01/03/2009	300 000	0	1400 000	800 000	2 500 000
Cost price	400 000	0	1500 000	800 000	2 700 000
Accumulative depreciation	(100 000)	0	(100 000)	0	(200 000)
Movements					
Additions	0	105 000	0	0	105 000
Depreciation	(75 000)	(21 000)	(100 000)	0	(196 000)
Revaluation	0	0	130 000	0	130 000
Carrying amount 28/02/2010	225 000	84 000	1430 000	800 000	2 539 000
Cost/Valuation	400 000	105 000	1430 000	800 000	2 735 000
Accumulative depreciation	(175 000)	(21 000)	0	0	(196 000)

Factory buildings are situated on erf 235, Midrand. The factory building were revalued by a sworn appraiser, Mr J Wrong on 28 February 2010 according to the net replacement value.

SOLUTION 2 (continued)**2. Finance lease obligation - long term borrowing**

	R
Total liability under finance lease.....	73 991
Less : Current portion payable within 1 year (16 914 + 17 928).....	(34 842)
Long term portion of finance lease liability.....	39 149

The above liability is secured by finance lease agreements in respect of machinery. The effective interest rate is 12% per year. The full loan is repayable in 6 bi-annual installments of R21 353 each.

Reconciliation between the total minimum lease payments and their present value:**At 28 February 2010**

	R
Future minimum lease payments	
- Not later than 1 year.....	42 706
- Later than 1 year but not later than 5.....	42 706
Less finance cost (4 439 + 3 425 + 2 349 + 1 209).....	(11 422)
Present value.....	73 990
- Not later than 1 year (16 914 + 17 928).....	34 842
- Later than 1 year but not later than 5 (19 004 + 20 144).....	39 148

Calculations:**1. Operating lease – Office buildings**

	R
Payments year 1 – 2: 11 500 x 24 (12 x 2).....	276 000
Payments year 3 – 6: 12 700 x 48 (12 x 4).....	609 600
	885 600
Equalise payments: 885 600 ÷ 6.....	147 600
Payments made: 11 500 x 12.....	138 000
Accrued Rent.....	147 600
	9 600

2. Factory Building:

	R
Depreciation for the year: 1500 000 ÷ 15.....	100 000
Cost.....	1 500 000
Accumulative depreciation.....	(200 000)
Carrying amount at year end.....	1 300 000
Gross replacement value at year end.....	1 430 000
Revaluation: 1 430 000 – 1 300 000.....	130 000

SOLUTION 2 (continued)**3. Furniture and fittings:**

	R
Carrying amount at year end	225 000
Carrying amount at beginning of the year: $225\ 000 \times 100 \div 75$	300 000
Depreciation for the year: $300\ 000 - 225\ 000$	75 000
Cost price: $300\ 000 \times 100 \div 75$	400 000

4. Inventory

Calculate NRV at year end:	R
Raw material @ cost	100 000
NRV: $100\ 000 \times 95\%$	95 000
Finished goods@cost	20 000
NRV: $20\ 000 \times 95\%$	19 000
<u>Inventory at year end:</u>	
Raw material	95 000
Work in progress	30 000
Finished goods	19 000
Total	144 000

5. Trade and other receivables:

	R
Carrying amount at year end	557 000
Less Provision for credit losses	(35 500)
	521 500

6. Dividends declared:

$18\ 000\ \text{shares} \times 0.05 = 900$

7. Investments:

	R
Cost	12 000
Transaction cost	1 000
Cost price	13 000
Fair value adjustment	5 000
Fairvalue at year end ($13\ 000 + 5\ 000$)	18 000

8. Depreciation on Machinery

$105\ 000 \div 5 = 21\ 000$

9. Retained earnings

	R
Opening balance	500 000
Profit for the year	2 033 909
Dividend declared	(900)
Closing balance	2 533 009

SOLUTION 3a) **POLO BEPERK****STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010**

	Notes	R
Income ($3\,306\,000 \times 100 \div 114$).....		2 900 000
Cost of sales ($65\% \times 2\,900\,000$).....		(1 885 000)
Gross profit ($35\% \times 2\,900\,000$).....		1 015 000
Other income ($41\,575 + 13\,000$).....		54 575
Other expenses ($68\,700 - 4\,200 - 10\,725 + 132\,500 + 41\,875 + 20\,515 + 4\,500$).....		(253 165)
Administrative expenses.....		(772 600)
Finance costs ($4\,950 + 5\,775 + 4200$).....		(14 925)
Profit before tax.....		28 885
Income tax expense.....		(4 800)
Profit for the year.....		24 085
Other comprehensive income.....		56 000
Profit on not-held-for-trading investments.....		56 000
Revaluation surplus.....		
Total comprehensive income.....		68 685

POLO LIMITED**NOTES FOR THE YEAR ENDED 30 JUNE 2010**1. **Profit before tax**

Profit before tax is disclosed after taking the following discloseable items into account, among others:

	R
Income:	
Continuing operations – turnover.....	2 900 000
Income from subsidiary (Prada Ltd)	
- Interest received ($165\,000 \times 10 \div 12 \times 15\%$).....	20 625
Income from other financial assets:	
- Listed investments – dividends received ($80\,000 \times 0.1$) + (4 700).....	12 700
Fair value adjustment on investments through profit or loss.....	13 000
Expenses:	
Loss on the sale of non-current asset.....	4 500
Directors remuneration:	
<i>Non-executive directors:</i>	383 200
- Remuneration ($203\,200 + 180\,000$).....	383 200
<i>Executive directors:</i>	608 200
- Remuneration ($303\,200 + 230\,000$).....	533 200
- Pension.....	75 000
Less paid by the subsidiary ($230\,000 + 180\,000$).....	(410 000)
Total paid by company.....	581 400
Auditors remuneration.....	14 600
- Audit fees.....	11 500
- Expenses.....	3 100
Depreciation ($132\,500 + 20\,515 + 41\,875$).....	194 890

SOLUTION 3 (continue)**Calculations:****1. Buildings**

1.1 Additions

Direct cost – given (554 000 + 1 100 000).....	1 654 000
Depreciation capitalised.....	397 500

1.2 Depreciation – current year ($2\,051\,500 \div 25 \times 3 \div 12$).....	20 515
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2. Plant and machinery

2.1 Cost – opening balance ($1\,457\,500 + 1\,192\,500$).....	2 650 000
OR	
($2\,500\,000 + 150\,000$).....	

2.2 Depreciation – current year ($2\,650\,000 \times 20\%$).....	530 000
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2.3 Depreciation capitalised ($530\,000 \times 9 \div 12$).....	397 500
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2.4 Accumulated depreciation – closing balance ($1\,192\,500 + 530\,000$).....	1 722 500
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2.5 Depreciation for the year (expense): $530\,000 - 397\,500$	132 500
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3. Furniture and equipment

3.1 Depreciation on machinery traded in – current year ($80\,000 \times 10\% \times 9 \div 12$).....	6 000
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3.2 Accumulated depreciation on machinery traded in ($35\,000 + 6\,000$).....	41 000
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3.3 Carrying amount of machinery traded in ($80\,000 - 41\,000$).....	39 000
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3.4 Depreciation of equipment on hand – current year.....	35 875
($[(310\,000 + 110\,000) - 80\,000] \times 10\%$) + ($75\,000 \times 10\% \times 3 \div 12$)	

3.5 Total depreciation – current year ($6\,000 + 35\,875$).....	41 875
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3.6 Cost – closing balance ($420\,000 - 80\,000 + 75\,000$).....	415 000
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3.7 Accumulated depreciation – closing balance ($110\,000 - 41\,000 + 41\,875$).....	110 875
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SOLUTION 3 (continue)**4. Interest on long term loan (Levi Ltd):**

Loan at end of year	R90 000
Total payments payable	Number
Payments already made:	8
30/11/2007	1
30/11/2008	1
30/11/2009	1
Payments left on 30/06/2010	5
Outstanding balance on 30/06/2010	R90 000
(90 000 ÷ 5 = R18 000 per payment)	
Loan – end of year	R90 000
Plus 1 payment made during the year	R18 000
Loan – beginning of the year	R108 000
Outstanding balance:	
01/07/2009 – 30/11/2009	R108 000
01/12/2009 – 30/06/2010	R90 000
Finance costs:	
R108 000 x 5 ÷ 12 x 11%	R4 950
R90 000 x 7 ÷ 12 x 11%	R5 775
Total	R10 725

5. Interest received from Prada Ltd on loan

Period: 01/09/2009 – 30/07/2010 (165 000 x 15 % x 10 ÷ 12)20 625

6. Profit on not-held-for-trading financial assets:

Beginning of the year: 80 000 shares @ R2,00.....	R160 000
End of year: 80 000 shares @ R2,70.....	R216 000
Profit in other comprehensive income.....	R56 000

7. Fair value adjustment on investments through profit or loss

Cost at beginning of year.....	42 000
Fair value at year end (10 000 shares x R5.50).....	55 000
Fair value adjustment.....	13 000

8. Directors remunerations:

	Executive		Non-executive	
	Polo (Parent)	Prada (Subsidiary)	Polo (Parent)	Prada (Subsidiary)
Remuneration				
Mr A:				
- Remuneration	300 000	230 000		
- Meetings	3 200			
Mr C :				
- Remuneration			200 000	180 000
- Meetings			3 200	
	303 200	230 000	203 200	180 000
Pension:				
- Mrs H :	75 000			
	75 000			

SOLUTION 4**MALEMONE LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2012**

	Share capital – ordinary shares R	Share capital – Cumulative preference shares R	Retained earnings R	Capital redemption reserve fund R	Revaluation reserve – Property, plant & equipment R	Mark to market reserve R	Total R
Balance at 1 April 2011	1 200 000	748 000	351 000	450 000	-	100 000	2 849 000
Total comprehensive income for the year:							
Profit for the year			536 700				536 700
Other comprehensive income					20 000	50 000	70 000
Issue of shares							
- Ordinary shares	500 000						500 000
- Preference shares		102 000					102 000
- Capitalisation	600 000		(150 000)	(450 000)			-
Dividends							
- Preference shares			(156 400)				(156 400)
- Ordinary shares			(57 000)				(57 000)
Share issue expenses			(1 000)				(1 000)
	2 300 000	850 000	523 300	-	20 000	150 000	3 843 300

Calculations**1. Issued shares**

Ordinary shares issued (100 000 shares x 5 cents) 500 000

2. Capitalisation of shares

Ordinary shares capitalised [(100 000 + 300 000) shares ÷ 5 x 7.5 cents] 600 000

3. Revaluation of office buildings

Revaluation surplus [(375 000 x 0.8) - (350 000 x 0.8)] 20 000
OR
[375 000 - (375 000 x 10% x 2)] - [350 000 - (350 000 x 10% x 2)]

4. Fair value adjustment

Fair value adjustment of investment (50 000 x (7 - 6)) 50 000

5. Dividends

Preference dividends
Previous year: (748 000 x 10%) 74 800
Current year: (748 000 x 10%) 74 800
(102 000 x 10% x 8 ÷ 12) 6 800
Ordinary dividends [(80 000 + 400 000) x 12 cents] 57 600

6. Cumulative preference shares issued:

12 000 x 8.5 = 102 000