## FAC2601 – OCTOBER/ NOVEMBER 2011

Question 1

a) Protea_Ltd

Statement of comprehensive income for the year ended 30 June 2010

| | Note | R |
|---|---|---|
| Revenue | | 3 200 000 |
| Cost of sales | | *(1 920 000) |
| Gross profit ( 3 200 000 x 40%) | | 1 280 000 |
| Other income (18 550 + 1 000) | | 19 550 |
| Distribution expenses | | - |
| Administrative expenses | | (820 650) |
| Other expenses (68 700 – 24 750 – 1 200) | | (42 750) |
| Finance costs (24 750 + 1 200) | | (25 950) |
| Profit before tax | 1 | 410 200 |
| Income tax expense | 2 | (95 000) |
| Profit for the year | | 315 200 |
| Other comprehensive income | | 250 000 |
| Gain on available for sale financial assets | | 50 000 |
| Gains on property revaluation | | 200 000 |
| Total comprehensive income for the year | | 565 200 |

1. Notes to the statement of comprehensive income

1. Profit before tax

| | |
|---|---|
| Revenue | |
| Revenue consists of sales to customers and excludes vat | 3 200 000 |
| Income from subsidiary | |
| Interest received | 3 000 |
| Dividends received | 900 |
| Profit on sale of machinery | 1 000 |
| Income from other financial assets | |
| Unlisted investment – available for sale | |
| Dividends received | 5 000 |

Expenses

Directors remuneration

Executive directors

| | |
|---|---|
| Emoluments (200 000 + 2 500 + 130 000) | 332 500 |
| pension | 100 000 |
| Less: paid by subsidiary | (130 000) |
| Total paid by company | 303 500 |

Non – executive directors

| | |
|---|---|
| Emoluments (120 000 + 2 500 + 250 000) | 372 500 |
| Less: paid by subsidiary | (250 000) |
| Total paid by company | 122 500 |

Auditors remuneration

| | |
|---|---|
| Audit fees | 12 000 |
| Travel expenses | 350 |

| | |
|---|---|
| Depreciation (220 000 + 16 200) | 236 200 |

2. Income tax expense

| | |
|---|---|
| SA normal tax | |
| Current year | 95 000 |

b) Protea Ltd

Statement of changes in equity for the year ended 30 June 2010

| | Ordinary share capital | 10% cumulative preference share capital | Retained earnings | Mark to market reserve | Revaluation surplus | Total |
|---|---|---|---|---|---|---|
| Balance – 1 July 2009 | 1 135 000 | 330 000 | 420 000 | | | |
| Total comprehensive income for the year | | | 315 200 | 50 000 | 200 000 | |
| Ordinary shares issued | 115 000 | | | | | |
| 10% cumulative preference shares issued (6) | | 20 000 | | | | |
| Capitalisation issue | 300 000 | | (300 000) | | | |
| Share issue expenses written off | | | | | | |
| Preliminary expenses written off | | | | | | |
| Dividends paid | | | | | | |
| Ordinary dividends (750 000 x 0,05) | | | (37 500) | | | |
| 10% cumulative preference dividends (330 000 x 10% x 2) + (20 000 x 10% x 6/12) | | | (67 000) | | | |
| Balance – 30 June 2010 | 1 550 000 | 350 000 | 330 700 | 50 000 | 200 000 | |

Question 2

Civils (Pty) Ltd

| | Note | R |
|---|---|---|
| Statement of financial position at 31 December 2010 | | |
| Assets | | |
| Non- current assets | | |
| Property plant and equipment | 1 | 2 473 000 |
| Investment in subsidiary | 2 | 30 000 |
| Loans | 3 | 30 000 |
| | | |
| Current assets | | |
| Other financial assets | 3 | 100 000 |
| Trade receivables | 3 | |
| Inventory | 4 | 310 000 |
| Deferred operating lease paynents | | 4 600 |
| | | |
| Total assets | | |

Notes to the statement of financial position

1. Property, plant and equipment

| | Land | Buildings | Motor vehicles | Cranes | Total |
|---|---|---|---|---|---|
| Carrying amount – 1 January 2010 | 360 000 | - | 420 000 | 420 000 | |
| Cost | 360 000 | - | 700 000 | 480 000 | |
| Accumulated depreciation | - | - | (280 000) | (60 000) | |
| | | | | | |
| Additions at cost | | 1000 000 | 140 000 | | |
| Material | | 960 000 | | | |
| Depreciation capitalised | | 40 000 | | (40 000) | |
| Revaluation during the year | 440 000 | | | | |
| Depreciation for the year | | | (142 000) | (80 000) | |
| Disposals at carrying amount | | | (45 000) | | |
| | | | | | |
| Carrying amount – 31 December 2010 | 800 000 | 1000 000 | 373 000 | 300 000 | 2 473 000 |
| Cost | 800 000 | 1000 000 | 740 000 | 480 000 | |
| Accumulated depreciation | - | - | (367 000) | (180 000) | |

The factory buildings are situated on plot 180, Koedoespoort and consist of a factory and office block. On 30 September 2010. The land was revalued by Mr K Louw, a sworn appraiser, at replacement value. The buildings are owner – occupied.

2. Investment in subsidiary

| | |
|---|---|
| Shares at cost | 30 000 |

3. Other financial assets

| | |
|---|---|
| <u>Non- current financial assets</u> | |
| Loan to Jameson (Pty) Ltd | 30 000 |
| The loan bears interest at 15% per annum. The loan is repayable on 31 December 2015 | |
| | |
| <u>Current financial assets</u> | |
| Trade receivables | 627 200 |
| Less provision for credit losses | (25 200) |
| | 602 000 |
| Listed investments – held at fair value through profit and loss | |
| 25 000 ordinary shares in Sand Ltd at fair value | 100 000 |

4. Inventory

| | |
|---|---|
| Inventory consists of: | |
| Raw material | 110 000 |
| Work in progress | 200 000 |
| | 310 000 |

## Question 3

PART A

The first lease payment on 1 July 2006 can be seen as a lease premium. Lease premium should be capitalised and amortised over the period of the lease term.

Lease term = 5 years x 12 months = 60 months

Thus Lease premium = R 31,500 / 60 months = R 525

| Description | Debit | Credit |
|---|---|---|
| **Biggy Bank** | | |
| Operating lease expense (SOCI) | 378,000 | |
| Bank | | 378,000 |
| [1 March 2010 - 28 Feb 2011 = 12 months x 31,500] | | |
| | | |
| Operating lease expense (SOCI) | 6,300 | |
| Lease premium | | 6,300 |
| [1 March 2010 - 28 Feb 2011 = 12 months x 525] | | |

***Alternative interpretation on the lease agreement with Biggy Bank***

| | |
|---|---|
| First payment 1 July 2006 | 31,500 |
| Total other payments : | |
| 3 500 x 9 vehicles = 31,500 per month x 60 months | 1,890,000 |
| | 1,921,500 |
| Divide by 60 months | 32,025 |

| Description | Debit | Credit |
|---|---|---|
| **Biggy Bank** | | |
| Operating lease expense (SOCI) (32,025 x 12) | 384,300 | |
| Bank (31,500 x 12) | | 378,000 |
| Deferred operating lease | | 6,300 |

Question 3 (continue)

PART A

| Description | Debit | Credit |
|---|---|---|
| **Little Bank** | | |
| Operating lease expense (SOCI) | 20,000 | |
| Bank | | 20,000 |
| [1 March 2010 - 31 Dec 2010 = 10 months x 2,000] | | |
| Office equipment (SOFP) | 20,000 | |
| Bank | | 20,000 |
| Depreciation | 667 | |
| Accumulated depreciation | | 667 |
| [R20,000 x 20% x 2/12] | | |

Question 3

PART B

i) R 90 119 (pmt= 25 000, i=12, n=5, COMP PV)

ii) R408 232 (PV=12 000, i=9, n=10, COMP FV)

iii) Formula

$EFF = (1 + i/n)^n - 1$

$(1 + 0.075/12)^{12} - 1$

7.76%

iv) $EFF = (1 + i/n)^n - 1$

$0.08 = (1+i/2)^2 - 1$

$0.08 + 1 = (1 + i/2)^2$

$\sqrt{1.08} = 1 + i/2$

$1.0392 = 1 + i/2$

$0.0392 = i/2$

$0.078 = i$ THUS nominal interest rate = 7.8%