Suggested Solution – Oct/Nov 2012 UNISA exam FAC2601

Question 1:

<u>Statement of profit or loss and other comprehensive income of Light Bulb Ltd for the year ended 29 February 2012</u>

	R
Sales (4 560 000 x 100/114)	4 000 000
Cost of Sales (60%)	(2 400 000)
Gross Profit (40%)	**1 600 000**
Other Operating Income (19 000+50 000+6 500)	75 500
Administrative Expenses	(1 103 000)
Distribution Expenses	(134 000)
Other Expenses (185 000- 4950)	172 550
Finance Costs (2700+2250)	(4 950)
Profit before Tax	**1 253 700**
Income Tax Expense	(64 000)
Profit for the yaer	**1 189 700**
Other comprehensive Income	-
Total Comprehensive Income	**1 189 700**

<u>Notes to the annual financial Statements of Light Bulb Ltd for the year ended 29 February 2012</u>

1. **<u>Profit Before Tax</u>**

		R
Profit before tax is calculated after taking the following among others into account:		
<u>Income</u>		
Sales		4 000 000
Other Income:		
Profit on sale of Motor Vehicles		6 500
Income from Subsidiaries:		
- Dividends		6 000
- Interest		3 000
Dividends ï From Listed investments		10 000
Fair Value gains on listed investments		50 000
<u>Expenses</u>		
Salaries		1 000 000
Including DirectorsôRemuneration:		
Executive Directors		243 000
- Emoluments	286 000	
- Pension	12 000	
- Less: Paid by subsidiary	(55 000)	
Non-Executive Directors		68 500
- Emoluments	62 000	
- Pension	6 000	
- Less: Paid by Subsidairy	-	
Operating lease Expense		25 000
Lease Payments	32 500	
Deferred Lease Payment	(7 500)	
Depreciation (4 000+ 13 500 +12 000)		29 500
AuditorsôRemuneration		
- Fees		20 000
- Expenses		4 000

<u>Calculations</u>

1. **Directors' Remuneration**

   Executive:
   FD: 120 000 + (625 x4) + 55 000(Sub)
   MD: 100 000 + 6 000 (TA) + (625 x 4)
    = 286 000
   Non-Executive:
   Chairman: 60 000 + (625 x 4) = 62 500

2. **Operating Lease**

   24 x 6 500 = 156 000
   24 x 3 500 = <u>84 000</u>
   Total Cost = 240 000
   Expense per month: 240 000/48 = 5 000
   2012 Expense = R5 000 x 5months = 25 000
   2012 PMT = R6 500 x 5months = 32 500
   Prepayment = 32 500- 25 000 = 7 500

3. **Interest on Loan**

   Outstanding Balance at Year-end = R45 000
   At Year-end there are 5 remaining payments. (7-2)
   Therefore each payment = 45 000/5 = R9 000.
   Interest Mar-Aug 2011 = (45 000+ 9000) x 10% x 6/12 = 2 700
   Interest Sept-Feb 2012 = 45 000 x10% x 6/12 = 2 250
   Total Interest = 4 950

4. **Fair Value adjustment on Investment:**

   50 000 shares x (R4-R3) = R50 000 Fair Value Adjustment through P/L

5. **Motor Vehicles**

Carrying amount of **asset sold** at Beginning of the yaer = R40 000	
Less: Depreciation till date of sale (40 000x20% x6/12) = <u>(R4 000) *</u>	
Carrying amount at date of sale (31 Aug 2011) =	R36 000
Proceeds on Sale =	<u>(R42 500)</u>
Profit on sale =	R 6 500

Depreciation on remainder of vehicles:
Values at Year-end:

Cost (given):	120 000
Accumulated Depreciation (given)	<u>(30 000)</u>
Carrying amount at year-end	90 000
Less: Asset Sold	<u>(36 000)</u>
Carrying amount of assets not sold:	54 000

CA at Begin of year ï 20% depreciation = CA at end of year

$$\frac{80\%\ \text{CA B.O.Y}}{80\%} = \frac{54\ 000}{80\%}$$

CA B.O.Y = 67 500

Therefore, Depreciation = 67 500- 54 000 = 13 500*

6. Equipment

Carrying Amount at Year-end = 24 000 (given)

At Year end asset is 3 years old

Therefore, the remaining life is 2 years

24 000/ 2 = 12 000 depreciation per year.

Total Depreciation = 12 000 (equipment) + 13 500(Motor Vehicles) + 4 000(MV sold)

= 29 500

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Question 2

	Ordinary Share Capital	**10% Cumulative Preference Share Capital**	**12% Non-cumulative Preference share Capital**	**Retained Earnings**	**Revaluation Surplus**	**Mark-to-Market Reserve**
Balance as at 1 March 2011	1 500 000	300 000	450 000	800 000	250 000	40 000
Movements for the year:						
Total Comprehensive income for the year:						
- Profit for the year				2 186 100		
- Other comprehensive income for the year					500 000	22 500
Issue of non-cumulative preference shares			100 000			
Issue of Ordinary share capital	400 000					
Capitalisation issue	285 000			(285 000)		
Ordinary dividends				(114 000)		
10% cumulative preference dividends				(60 000)		
12% non-cumulative preference dividends				(60 000)		
Balance as 28 February 2012	**2 185 000**	**300 000**	**550 000**	**2 467 100**	**750 000**	**62 500**

Calculations:

1. **Revaluation**

   2 500 000 - 2 000 000 = 500 000

2. **Preference share issue**
   25 000 x R4 = R100 000

Calculations continued:

3. Interest on loan

900 000 x 15% x 8/12 = 90 000

4. Fair Value adjustment

1 500 x R95 =	142 500
Carrying amount =	<u>(120 000)</u>

FV adj though M2M = 22 500

5. Profit for the year

Gross Profit (given) =	4 000 000
Admin expenses =	(800 000)
Distribution exp =	(80 000)
Other exp =	(120 000)
Finance costs =	(90 000) (from calc 3)
Other income=	100 000
Income tax =	<u>(823 900)</u>
Profit for the year =	2 186 100

6. Capitalisation issue

Shares at beginning of the year	1 500 000/2 =	750 000
Issue 31 Oct 2011 (given)		<u>200 000</u>
Total		950 000

Issued at 1 for every 5: 950 000/5 = 190 000

190 000shares x R1.50 = R285 000

7. Dividends

Ordinary dividend: 950 000 + 190 000 = 1 140 000 x10c = R114 000

Cumulative preference dividend: 10% x 300 000 x 2yrs = R60 000

Non-cumulative preference dividend:

450 000 x12% =	54 000
100 000 x12% x 6/12 =	<u>6 000</u>
Total	60 000

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Question 3

1.

Dr Machinery	545 000	
Cr Bank		25 000
Cr Lease Liability		520 000

Capitalisation of leased assets and lease liability with initial direct costs capitalised to the asset

Dr Lease Liability	163 120	
(39 874 + 40 472 + 41 079 + 41 695)		
Cr Finance Cost		27 576
(7 800 + 7 202 + 6 595 + 5 979)		
Cr Bank		190 696
(47 674 x4)		

Accounting for lease payments between repayment of capital amounts and finance costs

Dr Depreciation	136 250	
Cr Accumulated depreciation machinery		136 250
(545 000 x ¼)		

Accounting for depreciation on leased machinery for the year.

2.

Statement of Financial Position as at 21 December 2011

Equity and Liabilities

<u>Non-current Liabilities</u>	
Finance lease liability	183 752
<u>Current Liabilities</u>	
Current portion of finance lease liability	173 129

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Question 4

Statement of Financial Position of Apply (Pty) Ltd as at 31 December 2011

<u>Assets</u>		**R**
<u>Non-Current Assets</u>		
Property Plant and Equipment	**1**	2 735 000
Financial Assets (20 000 + 25 000) <u>45 000</u>		
		2 780 000
<u>Current Assets</u>		
Inventories		380 500
Trade and other receivables		627 200
Other financial assets		21 000
Prepaid Lease expense		<u>4 600</u>
		<u>1 033 300</u>
Total Assets		**<u>3 803 300</u>**

Notes to the financial statements of Apply (Pty) Ltd for the year ended 31 December 2011

1. **Property Plant and Equipment**

	Land	**Buildings**	**Motor Vehicles**	**Crane**	**Machinery & Equipment**
Carrying amount at 1 Jan 2011	380 000	-	420 000	360 000	240 000
- Cost	380 000	-	700 000	480 000	360 000
- Accumulated depreciation	-	-	(280 000)	(120 000)	(120 000)
Movements					
Additions	-	960 000	90 000	-	150 000
Disposals	-	-	(24 000)	-	-
Revaluations	420 000	-	-	-	-
Depreciation expense	-	-	(143 000)	(56 000)	(62 000)
Depreciation capitalised	-	40 000	-	(40 000)	-
Carrying amount at 31 Dec 2011	800 000	1 000 000	343 000	264 000	328 000
- Cost	800 000	1 000 000	730 000	480 000	510 000
- Accumulated depreciation	-	-	(387 000)	(216 000)	(182 000)

Land consists of erf 135, Midrand. The land was revalued on 31 December 2011 by Mr S Coetzee, a sworn appraiser.

Calculations

1. **Crane Depreciation**
   480 000/60 x 5months = 40 000 depreciation capitalised
   480 000/60 x 7monhts = 56 000 depreciation expensed

2. **Motor Vehicles**
   Asset Sold:
   Depreciation: 60 000 x 20% x 6/12 = 6 000
   Carrying amount at date of sale:
   60 000- 30 000-6 000 = 24 000

Assets bought:
102 600 x 100/114 = 90 000
Depreciation = 90 000 x 20% x 6/12 = 9 000

Original assets not sold

Cost =	700 000
-Sold =	(60 000)
	640 000

X 20% = 128 000
Total Depreciation = 128 000+ 6 000 + 9000 = 143 000

3. Machinery and equipment

Based on 20% on diminishing balance

Cost at beginning of the year =	360 000
Accumulated depreciation =	(120 000)
Carrying amount	240 000
Depreciation x 20%	(48 000)

New asset: (150 000-10 000) x 20% x 6/12 = 14 000
Total Depreciation: 48 000+ 14 000 = 62 000

4. Inventories

Raw Materials: 140 000 x 0.95 =	133 000
WIP:	200 000
Finished Goods: 50 000 x 0.95 =	47 500
	380 500

5. Investments

Jones Ltd ï Held for trading, therefore current Financial Asset
7 000 x R3 = 21 000

Blake Ltd ï Not held for trading, therefore non-current Financial Asset
5 000 x R4 = 20 000

6. Loan to Shaik

Financial asset, loan given, all non-current.