UNIVERSITY EXAMINATIONS

UNIVERSITEITSEKSAMENS

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May/June 2014

FINANCIAL ACCOUNTING REPORTING

Duration 2 Hours

100 Marks

EXAMINERS .
FIRST : MRS B CEKI, MR MT HLONGOANE, MS FM OSMAN, MR A EYSELE, MR S MNGUNI, MR J VAN STADEN
SECOND MR RN NGCOBO

Use of a non-programmable pocket calculator is permissible.

Closed book examination.

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THIS PAPER COMPRISES OF NINE (9) PAGES.

PLEASE NOTE:

1 This paper consists of **FIVE (5)** questions.
2 All questions must be answered.
3. Basic calculations, where applicable, must be shown
4 Each question must be commenced on a new (separate) page
5. Please do not answer the paper in pencil

PROPOSED TIMETABLE (try not to deviate from this)

Question	Subject	Marks	Time in minutes
1	Partnerships Statement of financial position Note. financial liabilities	22	26
2	Partnerships Changes in ownership structure of partnerships	20	24
3	Close Corporations Statement of profit or loss and other comprehensive income	20	24
4	Statement of cash flows Cash flows from operating activities section	20	24
5	Analysis and interpretation of financial statements. Liquidity ratios	18	22
	TOTAL	100	120

QUESTION 1 (22 marks) (26 minutes)

Grove and Steenkamp decided to start a business, trading as GroStamino Traders The entity manufactures and sells energy enhanced supplements for athletes The following information pertains to the business activities of the partnership for the year ended 28 February 2014

1. Trial balance as at 28 February 2014

	R
Capital Grove	225 000
Capital. Steenkamp	525 000
Current account Grove (Dr)	60 000
Current account: Steenkamp (Cr)	80 000
Mortgage	1 500 000
Long-term loan. Grove	250 000
Creditors control	85 000
Accrued expenses (insurance)	11 500
Bank overdraft	110 000
Land and buildings at cost	1 750 000
Equipment at cost	250 000
Vehicles at cost	350 000
Accumulated depreciation Equipment	75 000
Accumulated depreciation Vehicles	85 000
Inventory	15 000
Debtors control	535 000
Allowance for credit losses	5 500
Petty cash	7 500
Profit for the year (before year-end adjustments)	15 500

2. Terms of the partnership agreement

2.1 The partners will share in profits and losses in the ratio of their (fixed) capital

2 2 Interest is calculated at 7% per annum on the partners' current account balances

2 3 Each partner is entitled to a salary of R60 000 per annum

3. Additional information (year-end adjustments)

3 1 The long-term loan from ABA Bank was acquired on 1 July 2013 and bears interest at 12% per annum The interest on this loan is payable on 30 June every year The loan is secured by a first mortgage over land and buildings and is repayable in ten equal annual instalments, starting on 30 June 2014

3 2 Grove granted an unsecured loan on 1 January 2014 to the partnership According to the terms of the loan, interest is calculated at a rate of 15% per annum and is paid on 31 December of every year The total capital amount of the loan will be repaid in full on 31 December 2018. Interest for the current financial year must still be provided

3.3 During the year each partner withdrew a total amount of R45 000 from the partnership

QUESTION 1 (continued)

3 4 On 3 March 2014, an invoice from a local supplier was received for an amount of R25 000 in respect of inventory delivered on 28 February 2014 This transaction was not yet accounted for in the accounting records of the partnership.

REQUIRED:

(a) Prepare the **EQUITY** section of the statement of financial position of Grostamino Traders as at 28 February 2014. (12)

(b) Prepare the "**FINANCIAL LIABILITIES**" note to the financial statements of Grostamino Traders for the year ended 28 February 2014 (10)

Your answers must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership.

Comparative figures are **NOT** required

All calculations must be shown

[22]

QUESTION 2 (20 marks) (24 minutes)

Douglas and Moses were in a partnership which traded as DMOSS Traders. They shared profits/losses in the ratio of 5:3 respectively Douglas and Moses decided to admit Phill to the partnership. The following information is presented to you at 30 September 2013, the end of the financial year:

Balances as at 30 September 2013

	R
Capital Douglas	177 000
Capital: Moses	160 000
Current account (Cr) Douglas	21 125
Current account (Cr) Moses	21 175
Long-term loan	37 000
Land and buildings	283 000
Inventories	54 300
Debtors control	42 000
Creditors control	16 000
Bank (favourable)	53 000

In preparation of the change in the ownership structure of DMOSS Traders, Douglas and Moses obtained the following appraisals on 30 September 2013

1 A physical inventory count revealed an inventory shortage of R5 000 Part of the remaining inventory was deemed overvalued by R5 300.

2. Land and buildings were valued by a sworn appraiser at R300 000

On 1 October 2013, Phill paid R60 000 for a 20% interest in the net assets of the partnership The new partnership will trade as DMP Traders Douglas, Moses and Phill agreed on a new profit sharing ratio of 5 3:2 respectively Goodwill was correctly calculated as R55 500.

REQUIRED:

Prepare the journal entries in the general journal of DMOSS Traders on 30 September 2013 to record the admission of Phill as a partner Apply the accounting procedure which is based on the legal perspective

Journal entries to record the dissolution of the partnership are **NOT** required

All calculations must be shown.

QUESTION 3 (20 marks) (24 minutes)

Sbusiso and Aneziswa are the only members of Eyethu CC You have been appointed as the accounting officer of Eyethu CC for the year ended 28 February 2014 The following list of balances was presented to you

1. Balances as at 28 February 2014

	R
Member's contribution Sbusiso	175 000
Member's contribution Anezizwa	215 000
Loan from member: Sbusiso	165 000
SARS (Income tax) (Dr)	5 800
Creditors control	60 600
Allowance for credit losses	2 200
Inventory	66 000
Land and buildings at cost	520 000
Furniture and equipment at cost	64 000
Accumulated depreciation Furniture and equipment (1 March 2013)	10 200
Debtors control	49 500
Sales	575 000
Purchases	189 000
Delivery expenses (in respect of sales)	7 300
Rental income	8 100
Sales returns	28 500
Purchases returns	6 225
Salaries and wages	257 600
Telephone expenses	9 600
Interest on loan from members	21 600
Stationery consumed	4 950
Water and electricity	10 725
Insurance expenses	6 300
Advertising expenses	6 450

2. Additional information

2 1 Inventory on hand on 1 March 2013 amounted to R29 000

2 2 On 31 August 2013 new furniture was purchased at a cost of R14 000 This transaction was recorded correctly in the accounting records of the business

2 3 Mrs Ngwenya, a debtor with an outstanding account of R2 900 was declared insolvent and her debt must be written off as irrecoverable.

2 4 The allowance for credit losses must be adjusted to R3 800

2 5 Insurance premiums amounting to R450 per month are payable one month in advance Premiums for the period up to 30 April 2014 have been paid.

2 6 Each member is entitled to a monthly salary of R5 300. The salaries to members were paid during the year and were debited to the salaries and wages account

2 7 Provision must still be made for depreciation on furniture and equipment at 20% per annum according to the diminishing balance method.

2 8 The income tax for the year amounts to R33 465 and must still be provided for

QUESTION 3 (continued)

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income of Eyethu CC for the year ended 28 February 2014

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation

Notes and comparative figures are **NOT** required

All calculations must be shown

QUESTION 4 (20 marks) (24 minutes)

The following information pertains to Jukskei Computers CC

1. Accounts pertaining to the statement of financial position

	31 December 2013	31 December 2012
	R	R
Member's contribution Christa	230 000	180 000
Member's contribution Lizaan	170 000	120 000
Retained earnings	310 025	250 000
Long-term loan	80 000	65 000
Creditors control (Trade creditors)	42 500	35 000
Accrued interest expense	4 000	–
Bank (Cr)	–	300
Land and buildings at cost	540 000	450 000
Vehicles at cost	190 000	95 000
Furniture at cost	50 000	48 000
Investments at cost	–	70 000
Accumulated depreciation Vehicles	40 000	32 000
Accumulated depreciation Furniture	10 000	8 800
Bank (Dr)	45 000	–
Debtors control (Trade debtors)	42 500	52 500
Prepaid expenses (Wages)	5 000	3 600
Inventory	74 025	52 000
Distribution to members payable	30 000	10 000
Income tax payable	30 000	70 000

2. Items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	R
Revenue	950 000
Cost of sales	500 000
Profit on sale of non-current assets. Furniture	5 000
Dividend income Financial assets at fair value through profit or loss Held for trading: Listed investments	525
Marketing expenses	100 000
Administrative expenses (including salaries and wages)	115 000
Depreciation	72 500
Loss on sale of non-current asset Vehicle	500
Interest expense	8 000
Profit before tax	159 525
Income tax expense	45 900

QUESTION 4 **(continued)**

3. Additional information

3.1 On 20 December 2013 a total profit distribution amounting to R26 800 was recorded as due to the members On 21 December 2013 a certain portion thereof was paid in cash to each member. The remaining amounts will be paid to them on 2 January 2014.

3 2 On 31 October 2013, a vehicle with a cost price of R60 000 and accumulated depreciation of R50 000 (on 1 January 2014) was sold for cash

3 3 It is the accounting policy of Jukskei Computers CC to provide for depreciation as follows:

- **Vehicles:** According to the diminishing balance method, at 10% per annum
- **Furniture:** According to the straight-line method, at 25% per annum.

REQUIRED:

(a) Prepare the cash flows from operating activities-section of the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013 Apply the **INDIRECT METHOD.** (16)

(b) Calculate the amount that must be disclosed as proceeds from the sale of a vehicle, under the section cash from investing activities, in the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013 (4)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation

Comparative figures and notes to the statement of cash flows are **NOT** required.

All calculations must be shown

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QUESTION 5 (18 marks) (22 minutes)

The following information was extracted from the financial statements of Chakalaka & Sons for the financial year ended 28 February 2014:

1. Statement of profit or loss and other comprehensive income for the year ended 28 February 2014

	R
Revenue	310 000
Cost of sales	242 000
Profit for the year	45 200

2. Statement of financial position as at 28 February

	2014 R	2013 R
Inventories	122 000	46 000
Trade and other receivables (Trade debtors)	171 500	79 000
Cash and cash equivalents	-	150 000
Trade and other payables (Trade creditors)	119 000	58 000
Property, plant and equipment	250 000	125 000
Bank overdraft	40 000	-
Capital	400 000	150 000
Long-term loan	?	-

3. Additional information

3.1 All sales and purchases for both years were on credit

3.2 The debt equity ratio of Chakalaka & Sons was calculated as 50%

3.3 The long-term loan was acquired on 1 January 2014 and is repayable in full on 31 December 2016.

REQUIRED:

Calculate the following as at 28 February 2014 for Chakalaka & Sons Assume 365 days in a year

(a) Current ratio (3½)

(b) Trade receivables collection period (3½)

(c) Trade payables settlement period (4½)

(d) Inventory holding period (3½)

(e) Long-term loan (3)

All calculations must be shown

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