FAC1601

SUGGESTED SOLUTION: MAY 2013

QUESTION 1 (20 Marks)

WILLISTON TRADERS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2013

Revenue (R649 000 – R3 800)	645 200
Cost of sales (R15 500 + R320 000 – R10 000)	(325 500)
Gross profit	319 700
Other income	13 140
Interest income: Loans and receivables: Loan to Bussie ①	10 890
Profit on sale of non-current assets: Equipment ②	2 250
Distribution, administrative and other expenses	(69 318)
Salaries to employees R(132 000 - 132 000)	0
Water and electricity	4 700
Stationary consumed	5 000
Telephone	6 208
Insurance	8 000
Freight on sales	3 200
Depreciation ③	30 210
Loss on financial assets at fair value through profit or loss: Held for trading:	
Listed investments (R30 000 - R18 000)	12 000
Finance costs	(2 450)
Interest on loan from Bettie ④	2 450
Profit for the year	261 072
Other comprehensive income for the year	0
Total comprehensive income for the year	261 072

Calculations

① Interest income: Loans and receivables: Loan to Bussie

R9 075 + (R99 000 x 2/12 x 11%) = R10 890 OR

R99 000 x 11% = R10 890

② Profit on sale of non-current assets: Equipment

Selling price	12 000
Less Book value	(9 750)
Cost price	24 000
Accumulated depreciation	(14 000)
Depreciation 2013	(250)
Profit on sale	**2 250**

③ **Depreciation**

Vehicles

R98 000 x 25% = 24 500

Equipment

Sold equipment

(R24 000 – R14 000) x 10% x 3/12 = R 250

Equipment used throughout the year

(R94 000 – R24 000) – (R29400 – R14 000) x 10% = R5 460

Total depreciation on equipment (R250 + R 5 460) = R5 710

Total depreciation expense (R24 500 + R5 710) R30 210

④ **Interest on loan from Bettie**

(R98 000 x 2/12 x 15%) = R2 450

QUESTION 2 (26 marks)

1.1

CONTACTS FACTORY CC
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

ASSETS	**R**
Non-current assets	265 681
Property, plant and equipment	265 681
Current assets	300 320
Inventories	38 520
Trade receivables	35 800
Prepayments R(6 000 x 6/12)	3 000
Other financial assets R(185 000 + 38 000)	223 000
Total assets	566 001
EQUITY AND LIABILITIES	
Total equity	302 587
Members' contributions	244 000
Retained earnings	① 58 587
Total liabilities	389 520
Non-current liabilities	42 000
Long-term borrowings R(50 000 - 8 000)	42 000
Current liabilities	221 414
Trade and other payables	20 054
Short term portion – Long term loan	8 000
SARS (income tax) R(25 460 – 10 400)	15 060
Bank overdraft R(12 700 – 6 000 – 185 000)	178 300
Total equity and liabilities	566 001

(15½)

Calculations:

① **Retained earnings**

R(-28 760 + 92 807 + 38 000 - 3 000 - 25 460 – 15 000) = R58 587

CONTACTS FACTORY CC

NOTES FOR THE YEAR ENDED 30 JUNE 2012

1.2.1Property, plant and equipment

	Land and buildings	Equipment	Vehicles	Total
	R	R	R	R
Carrying amount: Beginning of period/year	100 000	72 090	–	172 090
Cost	100 000	89 000	–	189 000
Accumulated depreciation	–	(16 910)	–	(16 910)
Additions	–	–	108 000	108 000
Depreciation for the period/year	–	(7 209)	(7 200)	(14 409)
Carrying amount: End of period/year	100 000	64 881	100 800	265 681
Cost	100 000	89 000	108 000	297 000
Accumulated depreciation	–	(24 119)	(7 200)	(31 319)

The land and buildings consists of a shop and offices on stand 57A of the Medical Consortium, Port Elizabeth. The land and buildings serves as security for the long-term loan from SA Bank.

(7)

1.2.2 FINANCIAL ASSETS

CURRENT FINANCIAL ASSETS

Trade and other receivables	35 800
Other financial assets	
Loans and receivables: Loan to Nasa	38 000
Financial assets at fair value through profit or loss:	
37 000 ordinary shares in Magriza Ltd (cost – R185 000)	185 000

(3½)

[26]

<u>QUESTION 3</u> (14 marks)

3.1

ALIZWA LIMITED
GENERAL JOURNAL

2013		**R**	**R**
Jan 1	Bank	100 000	
	Application and allotment: Ordinary shares		100 000
	Receipt of application money from the public		
Jan 1	Application and allotment: Ordinary shares	100 000	
	Share capital: Ordinary shares		100 000
	Allotment of 50 000 ordinary shares		
	Underwriter's commission①	1 500	
	Bank		1 500
	Payment of the underwriter's commission		

(6)

4.2

2010			
Feb 28	Retained earnings	156 250	
	Share capital : ordinary shares		156 250
	Capitalisation of ordinary shares		
	Preference dividends ②	8 000	
	Bank		8 000
	Dividends declared		

(8)
[14]

Narrations not asked.

Calculations:

① **Preference dividend**

R40 000 x 8% = R3 400
R120 000 x 8% x 6/12 = R4 800
Total preference dividend = R8 000

② **Underwriter's commission**

R100 000 x 1,5% = R1 500

QUESTION 4 (20 marks)

MONACO TRADERS
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipt from customers	901 386	
Cash paid to suppliers and employees	②(721 145)	
	386 645	
Interest received	15 300	
Interest paid R(30 750- 18 000 – 6 600)	(6 150)	
Drawings	(77 000)	
Proceeds of loans and receivables: Loan to partner R(74 250 – 52 500)	21 750	
Net cash from operating activities		134 141
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment to expand operating capacity		
Improvement of land and buildings R(1 147 500 – 567 905 - 40 000)	(539 595)	
Proceed on sale of machinery	③26 850	
Acquisition of financial assets: fixed deposit R(100 000 – 62 000)	(38 000)	
Net cash used in investing activities		(550 745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from partners capital contributions R(1 249 500 – 1 131 635)	117 865	
Proceeds from long-term borrowing R(249 750 +27 750 - 201 000)	76500	
		194 365
Net decrease in cash and cash equivalents		(222 239)
Cash and cash equivalents at beginning of year		405 000
Cash and cash equivalent at end of year		182 761

Calculations:

① R[899 640 +93 750 - (8 550 + 4 500 – 5 550) – 94 704 +(20 400-10 200)] = R901 386
② R[(354 420 + R226 804 + R(155 521 – 15 600)] = R514 741
③ R(600 030 - 91 035 – 482 145) = R26 850

Alternative calculations

1. Cash received from customers

Opening balance (debtors)	93 750
Revenue	899 640
Credit losses (8 550-(5550-4500))	(7 500)
Closing balance (debtors)	(94 704)
	891 186
Other incomes	
Rental income (20 400-10 200)	10 200
	901 386

2. Cash paid to suppliers and employees

Cash paid to creditors (given)	354 420
Distribution expenses	226 804
Administrative and other expenses (155521-15600)	139 921
	721 145

3.

	interest received	Interest paid
Opening balance	0	0
Amount for the year	15 300	30 750
Capitalised	0	(18 000)
Closing balance	0	(6 600)
Paid/received	15 300	6 150

Machinery: at carrying value

Dr **Cr**

2011		R	**2011**		
Jan 01	Balance b/d	600 030	May 31	Realization account*	26 850*
			Dec 31	Depreciation	91 035
				Balance c/d	482 145
		600 030			600 030

*balancing figure

<u>QUESTION 5</u> (20 marks)

SECTION A

1. **Calculation of the profit-sharing ratio of Salom, Papiki and Dineo**

Salom: 1/2 - (1/5 x 3/4) = 1/2 - 3/20 = 7/20

Papiki: 1/2 - (1/5 x 1/4) = 1/2 - 1/20 = 9/20

Dineo: 3/20 + 1/20 = 4/20

The profit-sharing ratio of Salom, Papiki and Dineo will be 7:9:4 respectively. (5)

2.3 Calculation of goodwill

Salom: R[42 000 + (1/2 x 20 000) - (1/2 x 14 000)] = R45 000
Papiki: R[42 000 + (1/2 x 20 000) - (1/2 x 14 000)] = R45 000
Lilly: R(25 000 + 43 000) = R68 000

R68 000 x 3 – R(45 000 + 45 000 + 68 000)
R(204 000 – 158 000) = <u>R46 000</u>

SECTION B

1. Annuity payments:
I = 12% ÷ 12 = 1%
N = 2 x 12 = 24
FVA = R60 000

Factor as per table 2: 26.97 (I = 1%, n = 24)

$$\text{Annuity payment} = \frac{\text{FVA}}{\text{FVAIF}}$$

$$= \frac{\text{R6 0000}}{26.97}$$

$$= \text{R2 224.69}$$

Therefore R1 334.82 (R2 224.69 x 60 %) will be deducted from employees monthly salary.

2. Present value of investment

I = 12%
N = 10
FV = R700 000
PV =?

Present value interest Factor as per table 3: 0.322 (I = 12%, n = 12)

Amount invested = FV x PVIF
= R700 000 x 0.322
= R225 400

OR

I = 12%
N = 10
FV = R700 000
PV =?

Future value interest Factor as per table 1: 3,106 (I = 12%, n = 10)

Amount to be invested = $\frac{FV}{FVIF}$

= $\frac{R700\ 000}{3.106}$

= R225 370

(9)