

SUGGESTED SOLUTION

OCT/NOV 2013

Question 1

EzDez Traders

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 June 2014

	Capital		Current accounts		Asset Replace- mentt reserve	Appro- priation	Total
	Ez	Dez	Ez	Dez			
	R	R	R	R		R	R
Balances at 30 June 20.13	120 000	180 000	(51 120)	35 280	34 000		318 160
Additional capital contribution: Ez Lewinsky	60 000						60 000
Total comprehensive income for the year ©						505 920	505 920
Transfer to asset replacement reserve ⑤					75 888	(75 888)	
Salaries to partners			97 500	120 000		(217 500)	
Interest on capital ①			15 000	18 000		(33 000)	
Interest on current accounts ②			(5 112)	3 528		1 584	
Interest on drawings ④			(7 152)	(5 199)		12 351	
Partner's share of total comprehensive income③			96 734	96 734		(193 467)	
Drawings ⑥			(143 040)	(103 980)			(247 020)
Balances at 30 June 2010	180 000	180 000	2 810	164 363	109 888	-	637 060

Calculations

① Interest on capital

$$\text{Ez: } (120\,000 \times 10\%) + (60\,000 \times 10\% \times 1/6) = 15\,000$$

$$\text{Dez: } 180\,000 \times 10\% = 18\,000$$

② Interest on current accounts

$$\text{Ez: } (51\,120) \times 10\% = (5\,112)$$

$$\text{Dez: } 35\,280 \times 10\% = 3\,528$$

③ Partners share of total comprehensive income

$$\text{Ez: } 193\,467 \times 1/2 = 96\,734 \text{ (rounded up to nearest rand)}$$

$$\text{Dez: } 193\,467 \times 1/2 = 96\,734 \text{ (rounded up to nearest rand)}$$

© Calculation of total comprehensive income for the year:

④ Interest on Drawings

$$\text{Ez: } (45\,540 + 97\,500) \times 5\% = 7\,152$$

$$\text{Dez: } (28\,980 + 75\,000) \times 5\% = 5\,199$$

⑤ Asset replacement reserve

$$505\,920 \times 15\% = 75\,888$$

⑥ Drawings

$$\text{Ez: } (45\,540 + 97\,500) = 143\,040 \text{ (Including salaries paid)}$$

$$\text{Dez: } (28\,980 + 75\,000) = 103\,980 \text{ (Including salaries paid)}$$

Profit for the year:	354 888
Adjustments:	
Rent payable:	(15 000)
Salaries of partners: (R97 500 + R75 000)	172 500
Finance Cost: Long –term Loan Ez	(3 681) ⑦
Interest on bank overdraft (given)	(2 787)

Total Comprehensive income for the year: 505 920

⑦ Finance Cost:

Long-term loan: Ez Lewinsky: $R\ 73\ 620 \times 10\% \times 6/12 = R3\ 681$

TOTAL COLUMN WAS NOT REQUIRED BUT GIVEN FOR EXPLANATORY PURPOSES ONLY AND FOR COMPLETENESS.

QUESTION 2

2.1

Dr Liquidation account

2013			2013		
Dr			Cr		
Dec 31	Land and Buildings	520 000	Dec 31	Accumulated depreciation:	
	Vehicle at cost	90 000		Vehicle	60 000
	Inventory	50 000		Creditors Control	35 000
	Bank (Long term loan)	100 000		Long term loan	100 000
	Debtors Control	55 000		Bank (Land and Buildings)①	600 000
	Bank (Creditors Control)④	33 250		Bank (Vehicle)②	20 000
	Bank (Farewell party)⑥	20 000		Bank (Debtors Control)③	41 800
	Capital: Holmes⑦	5 130		Capital: Holmes⑤	20 000
	Capital: Watson⑧	3 420			
		<u>876 800</u>			<u>876 800</u>

Calculations:

- ① $520\,000 + 80\,000 = 600\,000$
- ② $90\,000 - 60\,000 - 10\,000 = 20\,000$
- ③ $55\,000 \times 95\% \times 80\% = 41\,800$
- ④ $35\,000 \times 95\% = 33\,250$
- ⑤ $50\,000 - 30\,000 = 20\,000$
- ⑥ $25\,000 \times 80\% = 20\,000$
- ⑦ $8\,550 \times \frac{3}{5} = 5\,130$
- ⑧ $8\,550 \times \frac{2}{5} = 3\,420$

2.2

Dr Capital: Holmes

2013			2013		
Dr			Cr		
Dec 31	Goodwill ①	6 000	Dec 31	Balance	300 000
	Current account: Holmes	12 500		b/d	27 000
	Liquidation acc (Inventory)	20 000		Asset Replacement	5 130
	Bank	293 630		Reserve②	
				Liquidation account	
		<u>332 130</u>			<u>332 130</u>

Calculations:

- ① $10\,000 \times \frac{3}{5} = 6\,000$
- ② $45\,000 \times \frac{3}{5} = 27\,000$

QUESTION 3

3.1

WONDERLAND CC

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

Revenue (R13 120 500 – R27 570 + R4 500)	13 097 430
Cost of sales (R318 750 + R4 500 000 + R153 750 – R7 875 – R189 375)	<u>(4 775 250)</u>
Gross profit	8 322 180
	496 875
Other income	
Interest income: Loans and receivables: Loans to members (1 312 500 x 15%)	196 875
Gain on financial assets at fair value through profit or loss: Held for trading:	
Listed investments (R1 800 000 - R1 500 000)	300 000
Distribution, administrative and other expenses	(4 783 920)
General expenses	250 305
Salaries and wages	2 250 000
Salaries to members	1 575 000
Remuneration: Accounting officer	262 500
Credit losses (R23 295 + R23 445 – R37 500)	9 240
Carriage on sales	168 750
Depreciation ①	268 125
Finance costs	(112 500)
Interest on loan from member (R562 500 x 20%)	<u>112 500</u>
Profit before tax	3922 635
Income tax expense	<u>(1 005 630)</u>
Profit for the year	2 917 005
Other comprehensive income for the year	0
Total comprehensive income for the year	<u>2 917 005</u>

Calculations

① Depreciation

$$\begin{aligned} \text{Old: } & ((R1\,781\,250 - R281\,250) - R300\,000) \times 20\% & = R240\,000 \\ \text{New: } & R281\,250 \times 20\% \times 6/12 & = \underline{R28\,125} \\ & & R\,268\,125 \end{aligned}$$

3.2

WONDERLAND CC
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2013

ASSETS

Non-current assets	9 463 125
Property, plant and equipment (R8 250 000 + R1 781 250 – R300 000 – R268 125)	9 463 125
Current assets	4 024 830
Inventories	189 375
Trade and other receivables (R492 195 – R23 295 – R37 500 + R14 055)	445 455
Other financial assets (R1 500 000 + R300 000 + R196 875 + R1 312 500)	3 309 375
Cash and cash equivalents	80 625
Total assets	13 487 955

QUESTION 4
MONTSHOBLUE TRADERS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2013

	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	362 760	
Adjustments for:		
Interest on long-term loan	9 000	^
Profit on sale of land and buildings	(15 000)	^
Depreciation	1 800	^
	358 560	
Decrease in inventories R(150 600 -144 000)	6 600	
increase in debtors control [111 000 – (210 900 – 97 500*)]	(2 400)	
Increase in creditors control (168 600 - 145 800)	22 800	
Increase in accrued expenses (1 800 – 1 200)	1 200	
Decrease in accrued income (1 200 – 600)	600	
Cash generated from operations	387 360	
Interest paid	0	
Drawings (201 600 + 175 800)	(377 400)	
<i>Net cash from operating activities</i> [^]		9 960
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment to expand operating Capacity		
Additions to furniture and equipment (31 200 – 21 000)	(10 200)	
Proceeds on sale of land and buildings (615 000 – 435 000+15 000) x 50%	97 500	
Acquisition of loans and receivables: Fixed deposit (60 000 – 0)	(60 000)	
<i>Net cash from investing activities</i>		27 300
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital contribution (330 000 – 290 700) x 2	78 600	
Proceeds from long-term borrowing	0	
<i>Net cash increase from financing activities</i>		78 600
Net decrease in cash and cash equivalents		115 860
Cash and cash equivalents at beginning of year		(15 000)
Cash and cash equivalent at end of year		100 860

Calculations

* (615 000 – 435 000+15 000) x 50% = 97 500

Profit for the year (456 360 +15 000 + 7 200 – 105 000 – 1 800 – 9 000) = 362 760

QUESTION 5

5.1 Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\text{R244 000} \textcircled{1}}{\text{R138 000} \textcircled{2}} = 1,77:1$$

① R (60 000 + 40 000 + 60 000 - 5 000 - 2 000 + 6 000 + 30 000 + 55 000) = R244 000

② R (50 000 + 80 000 + 8 000) = R138 000

4.2 Debt-equity ratio:

$$\frac{\text{Total debt}}{\text{Total equity}} \times 100 = \frac{\text{R406 000} \textcircled{2}}{\text{R864 500} \textcircled{3}} \times 100 = 46.96\%$$

② R [(138 000 (calculated above)) + 268 000) = R406 000

③ R (255 000 + 390 000 - 140 500 + 150 000 + 190 000 + 20 000) = R864 500