



University of Fort Hare  
*Together in Excellence*

**NKUHLU DEPARTMENT OF ACCOUNTING**

**ACCOUNTING 1B  
ACC121/ACC121E**

**FINAL EXAMINATIONS  
NOVEMBER 2019**

**ASSESSORS:** Mrs LH Mtshwelo  
Mr M Bomba  
Mr SM Msakatya

**MODERATOR:** Ms S Mahintsho (Internal)

**TIME:** 3 hours

**MARKS:** 150

**PAGES:** 10 pages (including front page)

**INSTRUCTIONS:**

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

Question	Topics covered	Marks	Minutes
1	Companies and Financial Analysis	55	66
2	Cash Budget	25	30
3	Branches	30	36
4	Cash flow statement and Companies	40	48
	<b>TOTAL</b>	<b>150</b>	<b>180</b>

**Question 1**

**55 marks (66 minutes)**

Masson Limited is a company listed on the JSE and is involved in distributing components for the railways. The following are the financial statements for the year ending 31 December 2019:

**Statement of Comprehensive Income for the year ended 31 December 2019**

	1	2019
Sales		35 000 000
Less Cost of sales		(23 000 000)
<b>Gross profit</b>		12 000 000
Less Total Operating expenses		(5 100 000)
<b>Operating profit</b>		6 900 000
Less Finance costs		(400 000)
<b>Profit before tax</b>		6 500 000
Income tax		(1 500 000)
<b>Profit after tax</b>		5 000 000
Other Comprehensive income: Revaluation surplus		<u>2 000 000</u>
<b>Total comprehensive income</b>		7 000 000

**Extract from the Statement of Financial Position as at 31 December 2019**

	Note	2019	2018
<b>ASSETS</b>			
<i>Non-current assets</i>			
Property, plant and equipment	2	29 000 000	19 500 000
<b>Current assets</b>			
Inventories		6 000 000	5 000 000
Accounts receivable		5 000 000	4 000 000
Cash and cash equivalents		1 000 000	3 000 000
<b>EQUITY AND LIABILITIES</b>			
Ordinary share capital @ R2 each	3	10 000 000	8 000 000
Retained earnings		10 000 000	7 500 000
Revaluation surplus		2 000 000	-
Preference share capital:	5		
• 12% Redeemable shares of R2 each		5 000 000	4 000 000
• 10% Non-redeemable shares of R3 each		6 000 000	4 000 000
<b>Current Liabilities</b>			
Accounts payable		8 000 000	8 000 000

**Question 1 continued**

**Industry average ratios for 2019**

i)	Current ratio	2 : 1
ii)	Debtors collection period	32 days
iii)	Net profit margin ratio	13%

**Additional information / Notes:**

1. All sales and purchases were on credit.
2. The revaluation surplus relates to buildings included with property, plant and equipment. The valuation was performed by an independent valuer on 31 December 2019,
3. Additional 1 250 000 ordinary shares were issued to the during the year and share issue costs amounted to R0.40 cents per share.
4. Ordinary dividends of R1 900 000 were declared and paid in December 2019.
5. Redeemable preference shares are redeemed at the shareholders' options. Additional preference shares (redeemable and non-redeemable) were purchased by shareholders on 1 January 2019.

Question 1 continued

QUESTION 1 - REQUIRED		Marks	
		Sub-total	Total
(a)	List and briefly explain four (3) primary users of financial statements.	3	3
(b)	State and briefly discuss four (4) limitations of ratio analysis.	4	4
(c)	<p>Calculate the following ratios for Masson Limited for the year 2019. Where applicable, round off answers to two decimal places.</p> <ul style="list-style-type: none"> <li>• Net profit margin percentage</li> <li>• Current ratio</li> <li>• Debtors collection period</li> <li>• Inventory turnover</li> <li>• Acid test / Quick ratio</li> <li>• Interest coverage</li> </ul> <p><b>Start your answer by stating the formula for the ratio.</b></p>	<p>3</p> <p>3</p> <p>3</p> <p>5</p> <p>3</p> <p>3</p>	20
(d)	<p>Based on the calculations in © above, start your answer by explaining the ratio, compare the ratios below to the industry and briefly discuss your observations.</p> <ul style="list-style-type: none"> <li>• Current ratio</li> <li>• Debtors collection period</li> <li>• Net profit margin percentage</li> </ul>	<p>4</p> <p>4</p> <p>4</p>	12
(e)	Prepare the statement of changes in equity of Masson Limited for the year ended 31 December 2019. Do not show the total column.	16	16
	<b>Total</b>		<b>55</b>

**Question 2****25 marks (30 minutes)**

Palm Springs Ltd is a company that sells clothing to the public in the Eastern Cape. The entity has asked for your assistance in the preparation of their cash budget for the 2 months ending 30 November 2019. Palm Springs is registered for VAT at 15%. You have been provided with the following balances from the ledger on 30 September 2019:

	R
Motor Vehicle at cost	500 000
Accumulated depreciation on motor vehicles	200 000
Inventories	150 000
Receivables	?
Bank (Dr)	312 900
Loan	180 000
Investment (@ 5% per annum)	20 000

**Additional information:**

1	Actual sales (excluding VAT) for:		
		July	R186 000
		August	R219 000
		September	R252 000
2	Budgeted sales ( Including VAT) for:	October	R262 200
		November	R279 450
3	Actual purchases (excluding VAT) for:	August	R126 000
		September	R114 000
4	Budgeted purchases (Including VAT) for:	October	R144 900
		November	R172 500

**All purchases of merchandise are on cash basis. 10% cash discount is receivable on all cash purchases.**

5. Forty percent of sales are credit sales and the balance being cash sales. Amounts owing by accounts receivable are collected as follows:
- 25% during the month of sales.
  - 60% during the month after the sales.
  - 10% during the second month after sales.
  - 5% written off in the third month after sales.

**Question 2 (continued):**

6. Palm Springs Ltd plans to buy a machine and obtained a quotation from a supplier. The cost of the machine was R100 000 (excluding VAT). A deposit of 40% will be paid on 1 October 2019 and the balance will be payable over 6 monthly instalments beginning 30 November 2019. Interest of 12% per annum will be paid on the capital balance on the 1<sup>st</sup> day of the month beginning 1 November 2019. The machine will be depreciated at 20% per annum on the diminishing balance method on 30 November 2019 (at year-end).
7. Wages and salaries are estimated at R20 000 per month and are paid in the month in which they occur.
8. Sundry expenses will be R280 000 (excluding VAT), including depreciation on motor vehicles at 20 % per annum (but excluding depreciation on machinery). VAT will be included in the remaining sundry expenses, which are spread evenly over the year.
9. Interest receivable will be received in the bank account of the business on the following dates: 31 March 2019, 30 June 2019, and 30 September 2019 and 31 December 2019.

QUESTION 2 - REQUIRED		
	Sub-total	Total
Prepare the cash budget of Palm Springs Limited for the two months October and November 2019.	25	
<b>Total</b>		<b>25</b>

**Question 3****30 marks (36 minutes)**

Khaya Limited is a company that sells shoes to the public. Inventory of the entity is sold at the head office in Alice and the branch in East London. For the past couple of years, all goods were provided from the head office to the branch at a selling price (cost plus 33.3%). From the 31 December 2018 an increase in operating expenses necessitated a profit of 50% on cost.

The branch does not operate independently and the head office recognises all transactions. Branch expenses are paid by the head office. The entity decided that inventory losses exceeding R10 000 are regarded as material. The year end is 30 June each year and the entity is a registered VAT vendor at 15%. During the year ended 30 June 2019, the following transactions regarding the East London branch occurred:

	<b>R</b>
<b>Balances on 1 July 2018</b>	
Inventories on hand at cost	400 000
Branch receivables	453 333
<b>Transactions for the period 1 July 2018 – 31 December 2018:</b>	
Inventory delivered to branch at selling price (excluding VAT)	1 000 000
Credit sales (including VAT)	383 333
Inventory returned to head office at selling price (excluding VAT)	20 000
Receipts from receivables for credit sales	500 000
<b>Transactions for the period 1 January 2019 – 30 June 2019:</b>	
Cash sales of merchandise (excluding VAT)	525 000
A physical inventory count held on 30/6/2019 revealed that inventory on hand was valued at R790 000 at selling price (excluding VAT).	

**Question 3 (continued):**

<b>QUESTION 3 - REQUIRED</b>	<b>Marks</b>	
	<b>Sub-total</b>	<b>Total</b>
Prepare the following ledger accounts in the records of Khaya Limited for the year ended 30 June 2019: a) Branch Inventories b) Branch Receivables c) Branch Gross Profit d) Branch Profit and Loss e) VAT Output	12 4 9 3 2	
<b>Total</b>		<b>30</b>

**Question 4****40 Marks (48 Minutes)**

Vulindlela Limited is the largest manufacturer of balloons in the country. . The following is an extract from the records of Vulindlela Limited o 31 July 2019:

**Statement of financial position as at 31 July 2019**

	2019	2018
ASSETS	R	R
<b>Non-current Assets</b>		
Property, Plant and Equipment	3 366 000	2 220 000
<b>Current Assets</b>		
Inventories	2 000 000	1 000 000
Bank	?	?
Accounts receivable	2 000 000	1 950 000
Prepaid rent	10 000	8 000
<b>EQUITY AND LIABILITIES</b>	<b>2019</b>	<b>2018</b>
Ordinary share capital (R3 shares)	3 600 000	2 000 000
Revaluation surplus	500 000	-
Retained earnings	?	?
<b>Non-current Liabilities</b>		
Loan: TDC Bank	1 700 000	1 300 000
<b>Current Liabilities</b>		
Accounts payable (for inventory )	1 150 000	900 000
Shareholders for dividend	180 000	150 000
Accrued telephone expenses	20 000	25 000
Accrued interest expense	15 000	12 000

**Vulindlela Limited****Statement of comprehensive income for the year ended 31 July 2019.**

	R
Sales	8 000 000
Less cost of sales	(3 000 000)
Gross profit	5 000 000
Add other income: rental revenue	600 000
Profit before Tax	5 600 000
Less operating expenses	(3 000 000)
Profit before tax	2 600 000

**Question 4 (continued)**

**Additional information:**

1. The following amounts are included in operating expenses:
  - Depreciation ?
  - Interest expense 60 000
  - Profit on sale of assets ?
2. On 29 July 2019, the directors of Vulindlela Limited declared, final ordinary dividend of 15 cents per share payable on 21 August 2019.
3. Non-current assets consist of:

	Buildings	Machinery	Vehicles	Total
Carrying amount on 1 August 2018	1 120 000	600 000	500 000	2 220 000
Gross carrying amount on 1 August 2018	1 120 000	900 000	700 000	2 720 000
Accumulated depreciation on 1 August 2018	-	(300 000)	(200 000)	(500 000)
<b>Movements</b>				
Additions	466 000	240 000	300 000	1 006 000
Revaluation	500 000			500 000
Disposal at carrying amount		(35 000)	(40 000)	(75 000)
Depreciation		(105 000)	(160 000)	(265 000)
Gross carrying amount on 31 July 2019	2 066 000	940 000	900 000	3 906 000
Accumulated depreciation on 31 July 2019	-	(240 000)	(300 000)	(540 000)
Carrying amount on 31 July 2019	2 066 000	700 000	600 000	3 366 000

**Additional information:**

- Machinery with a cost of R200 000 and accumulated depreciation of R150 000 on 1 August 2018, was sold on 31 October 2018 for R50 000.
- One of the vehicle was sold for R60 000 cash.

QUESTION 4 - REQUIRED		Sub-total	Total
(a)	Prepare the cash flows from operating activities of the cash flow statement of Vulindlela Limited using <b>direct method</b> , for the year ended 31 July 2019. <b>Show all your calculations</b>	31	
(b)	Prepare the cash flows from investing activities of the cash flow statement of Vulindlela Limited for the year ended 31 July 2019. <b>Show all your calculations</b>	8	
	Presentation	1	
<b>Total</b>			<b>40</b>