



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
ACCOUNTING 2A
ACC211E

SUPPLEMENTARY QUESTION PAPER

JULY 2023

ASSESSOR	:	Mrs Ntombi Mnconywa
MODERATOR	:	Mr S Qakaza (Internal)
TIME	:	180 minutes (156 minutes writing & 24 minutes reading time)
MARKS	:	130
PAGES	:	9 pages (including front page)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show and reference all workings clearly – marks are allocated to workings.
4. Only silent, non-programmable calculators are allowed.
5. Students that contravene examination rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

QUESTION 1**20 MARKS (24 MINUTES)****Background information**

You have recently graduated BCom General degree from the University of Fort Hare .Due to high level of unemployment in South Africa you decided to start your own consulting business, WePush Pty (Ltd) with a financial year end 31 December.

The aim of this business is to provide bookkeeping services for small businesses operating around East London and provide basic accounting advices where necessary.

Emails from clients**Part A**

You received the following email from your client.

Email

From : SiyaMagadlela@SweetsT.co.za
To : CEO@WePush.co.za
Date : 30 May 2023
Subject : Request for Accounting advice

Dear sir

I trust that you are well.

May you please kindly advise me, I have been running the sweets shop business for the past 3 years and it has been doing well, however with the introduction of heavy stages of load shedding my business is struggling. Amongst others, we are losing a lot of customers, Ice cream is melting and we can no longer make reliable coffee.

I applied for a bank loan to invest in renewable energy, looking at solar, inverter and generator .The bank has asked us to submit basic financial statements listing our assets ,liabilities ,equity ,income and expenses before they can process our loan application .I have never done accounting before I only know Income and expense.

Let me share with you all I have as follows:

I started this business by contributing R500 000 from my personal savings to the business account. The business purchased a delivery vehicle on 01 January 2023 from East London Motors and took delivery of it on the same day. As the business did not have enough cash, an agreement was entered into with East London Motors, where the full purchase price of R200 000 will be settled by SweetT Pty (Ltd) on 31 January 2024. The legal title of the vehicle will be transferred to SweetT on 31 January 2024 once the full amount has been settled. I am not sure whether we shall list the vehicle as our asset even though the legal ownership has not been transferred to us.

We have no other assets other than the inventory worth R200 000. All other equipment we use in the business are rented on monthly basis as the need arises.

Kind Regards
CEO SweetsT Pty (Ltd) .

QUESTION 1 PART A - REQUIRED: Read all the information above and answer the following questions:		Marks	
		Sub- total	Total
1	Using the Conceptual Framework for Financial Reporting discuss whether or not SweetsT Pty (Ltd) should recognise the delivery vehicle as an asset in its books even though the legal ownership has not been transferred on 01 January 2023 .	10	10
TOTAL MARKS			10

QUESTION 1 (CONTINUED)

Part B

You received another email from another client as follows :

Email 2	
From	: TH@Ziyakhala.co.za
To	: CEO@WePush.co.za
Date	: 30 May 2023
Subject	: Accounting advice
<p>Dear Sir</p> <p>I trust that you are well .</p> <p>May you please kindly advice on the accounting treatment of the event below :</p> <p>We started a construction company Ziyakhala Pty (Ltd) responsible for construction of roads for the state .We have obtained a construction site license for purpose of crushing stones for 4 years ,We constructed the plant at a cost of R2 000 000 on 1 January 2021. The license terms require that our company dismantle and restore the site area to its equivalent original state after 4 years when the license expires. The Future decommissioning costs (costs of restoring the site) are expected to be R150 000. The company uses a discount rate of 9%.</p> <p>The company received a lawsuit on 01 June 2022 from residents due to the polluted water supplied to them. The residents wanted Ziyakhala Pty (Ltd) to pay R5 000 000 in compensation for the sickness that has been coursed by drinking contaminated water .</p> <p>We have consulted our lawyers and they have informed us that there is a possibility that Ziyakhala Pty (Ltd) might be partially liable for the damages. The provision of water supply is the responsibility of the department of water and sanitation and not our company. Our company was responsible only for the construction of infrastructure that is used to supply water. We are waiting to hear the outcome of the court .</p> <p>Kind regards CFO: Ziyakhala Pty (LTD)</p>	

QUESTION 1 PART B - REQUIRED:		Marks	
		Sub-total	Total
A.	Discuss, how, if at all, the lawsuit of R5 000 000 shall be recognised, measured and disclosed in the financial statements of Ziyakhala Pty (Ltd) for the year ended 31 December 2022 in terms of IAS 37 .	10	10
TOTAL MARKS			10

QUESTION 2**30 MARKS (36 MINUTES)****Background information**

Electroplus Limited is a company that manufactures electric appliances. The company is based in east London, South Africa.

Taxation matters

The company has just had their accountant resign because she was emigrating to Australia. They have requested that you help them with preparation of the income tax expense note.

The following information is extracted from the records of Electroplus Limited for the year ended 31 December 2022.

Sales	(2 900 000)
Rent received	(585 000)
Dividends received	(50 000)
Tax – Overprovision 2021	(40 000)
Administration expenses	1 079 000
Donations (Non-deductible)	20 000
Insurance	280 000
Profit before tax	700 000

1. Rent has been received for 13 months. No adjustments have been made to this account.
2. Insurance has been paid for 14 months with two months relating to the next financial period.
3. Depreciation for Electroplus Ltd has been included in the administration expenses as follows:

Depreciation - Vehicles R175 000

Depreciation is calculated at 20% per annum on cost using the straight-line method with no residual value. There were no additions nor disposals during the current financial period.

SARS allows wear and tear on vehicles over 6 years.

Depreciation - Equipment R67 000

On 31 March 2022, equipment with a cost of R100 000 was sold for R82 000. The equipment was purchased on 31 December 2020. The useful life was estimated at 4 years with a residual value of R20 000. The carrying amount at 31 December 2022 was R75 000 and the Tax base R58 750.

SARS allows a deduction of 33% on the cost of equipment per annum. Wear and tear on other equipment totalled R55 000. The profit on the sale of equipment has been included in sales.

QUESTION 2 - REQUIRED:		Marks	
		Sub-total	Total
A.	Calculate the tax expense (current and deferred taxation) for the year ended 31 December 2022 in accordance with IAS 12	20	20
B	Prepare the Income Tax expense note to the annual financial statements of Electroplus Limited for the year ended 31 December 2022 in accordance with IAS 12. The tax reconciliation could be done using either the amounts or percentages.	10	10
TOTAL MARKS			30

QUESTION 3 (CONTINUED)

Manufacturing Plant

The manufacturing plant is depreciated on straight-line bases over a period of 25 years. A new manufacturing plant was acquired On 01 March 2022, the cost prices was as follows:

- Cost price R25 300 000 (VAT included). A trade discount of 10% is applicable, but has not yet been taken into account.
- Initial delivery and handling costs amounting to R222 000.
- Installation cost of R100 000 and engineering fees, relating to installation of R30 000.
- Cost of testing- whether the plant is functioning properly amounted to R120 000. The products manufactured during the testing run were sold for R42 000, but a sales commission of R10 000 was paid to realise these sales.
- Losses incurred before the demand for the product stabilized at the expected levels amounted to R140 000

Machinery

Machinery is written off over its estimated useful life of 10 years. The estimated useful life of the machinery has remained unchanged. The residual value of the machinery was initial estimated at RNil. On 30 November 2022, an asset similar to the machine used by Black Shiba Limited and used under similar circumstances was sold for R50 000 when it had reached its useful life. The cost price of this machinery was R1 000 000 on

01 January 2017 when Black Sheba Limited acquired it.

Income tax rate is calculated at 30% and VAT at 15%

QUESTION 3 - REQUIRED:		Marks	
		Sub-total	Total
A.	Prepare the statement of profit or loss and other comprehensive income for Black Sheba Limited for the financial year ended 31 December 2022.		15
B	Prepare the statement of financial position for Black Sheba Limited for the financial year ended 31 December 2022.		10
	Prepare the following notes to the financial statements of Black Sheba Limited for the financial year ended 31 December 2022		
	1. Profit before tax	5	
	2. Prior period error	10	
	3. Property, plant and equipment	40	55
TOTAL MARKS			80