



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING

ACCOUNTING 1A ACC111/ACC111E

SUPPLEMENTARY EXAMINATION JULY 2018
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ASSESSORS: Mrs LH Mtshwelo
Mr M Bomba
Mr SM Msakatya

MODERATOR: Mrs S Mahintsho (Internal)

TIME: 3 hours

MARKS: 150

PAGES: 10 pages (including front page)

TO BE HANDED IN AFTER THE EXAM – NOT TO BE RETAINED BY STUDENTS
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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	Theory	15	18
2	Property, plant and equipment	43	52
3	Inventories	22	26
4	Trade payables and receivables	30	36
5	Adjustments and VAT	40	48
	TOTAL	150	180

Question 1**15 marks** (18 minutes)

The general ledger of Sonke Limited had the following year-end balances amongst others:

	R
Equipment at cost	110 000
Accumulated depreciation and impairment losses-equipment	(45 000)
Depreciation expense - equipment	20 000
Impairment - equipment	5 000

QUESTION 1 - REQUIRED		Marks	
		Sub-total	Total
(a)	Determine the accumulated depreciation amount of Sonke Limited at the beginning of the year.	2	
(b)	Indicate whether the impairment amount of R5 000 would be classified as an asset or expense in the financial statements of Sonke Limited at year-end.	1	
(c)	Give valid reasons for your classification in (b) above, relating to the definition(s) of the applicable element(s).	12	
Total			15

Question 2**43 Marks (52 minutes)**

Winnie MM Ltd (Winnie) is a company based in East London. Winnie owns boats that are used for travelling between South African harbours. Winnie is a registered VAT vendor. You have been provided with the information below and your assistance is required regarding the accounting treatment of Property, plant and equipment. VAT is included at 15% were applicable.

Additional Information:**1. Land**

Land was bought on 1 May 2010 when the company started at a total cost of R400 000. Land is valued on a revaluation model. Fair value of the land over the last 2 financial years was as follows:

At 30 April 2016	R1 050 000
At 30 April 2017	R975 000

2. Buildings

Buildings are used for administrative purposes and storing some of the small boats that can be removed from the ocean. Buildings cost R1 725 000 (including VAT) to erect and were ready for use on 30 April 2011. As the business is growing Winnie decided to erect more offices in the current year. The new offices were erected at a total cost of R943 000 (including VAT). The new offices were ready for use on 1 January 2018 but were used from 1 February 2018.

Buildings are depreciated at 4% on straight line method.

3. Office equipment

Winnie have office equipment that was bought on 1 May 2014 for R772 800 (including VAT). Winnie decided to sell all the existing equipment on 30 September 2017 to a non-vendor who paid R370 300 by cheque.

New office equipment was purchased on 1 October 2017 for R1 431 750 (including VAT) paid 50% deposit. On 31 December 2017 there was a burglary in the office and office equipment with a cost of R249 000 (excluding VAT) was stolen.

The insurance refused to pay after discovering that the security that was supposed to be on duty that day was absent at work without informing other securities.

Office equipment is depreciated on 10% on diminishing balance method.

4. Boats

Winnie owns 10 Commercial Boats that were bought on 1 May 2010 for R1 674 400 each (including VAT). Winnie also owns 4 small boats that were bought on 30 June 2015 from a non vendor for R456 000 each.

Question 2 continued:

One of the small boats had an accident on 29 April 2018 and had a minor damage. A valuation was done after the accident and revealed that the boat had a value in use of R238 500 and fair value of R270 000 if the minor damage was fixed for R35 000.

Boats are depreciated on at 10% on straight line basis. All the boats will be sold at a residual value of 15%.

QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
	Prepare the property, plant and equipment note for the year ended 30 April 2018.	43	
Total			43

Question 3**22 Marks (26 minutes)**

One of your friends who is studying Nursing at UFH buys clothes in Johannesburg and sells them to UFH students via social media. She has requested your assistance on how to record her transactions. She also wishes that you should advise her about the price she should sell her items as she wishes to make 50% mark-up on cost. She is not a registered VAT vendor. The following transactions occurred during March 2018:

1. On 1 March she travelled to Johannesburg to buy clothes and paid R1 500 for return flight (to go to Johannesburg and comeback to East London (EL)).
2. While in Johannesburg she had to hire a car for 2 days and spent R800 on car hire and petrol.
3. The following items were bought for cash in Johannesburg:
 - 20 jeans for R115 each (including VAT)
 - 20 pair of sneakers for R402.50 each (including VAT)
 - 30 T-shirts for R92 each (including VAT)
 - 10 wristle watches for R690 each (including VAT)
 - 20 tracksuits for R132.25 each (including VAT)
4. At the OR Tambo international Airport, she had to pay R200 at the counter as her bags were considered to be too heavy and more than the allowed weight of 20kg allowed for a person.
5. One of her brothers decided to wear 1 of the sneakers without her permission. The sneaker cannot be sold as it has already been worn.

QUESTION 3 – REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare the journal entries in the general journal and any closing entries to record number 1, 4 and 5 above. Assume she is using periodic inventory system.	8	
(b)	Prepare the journal entries in the general journal and any closing entries to record number 1, 4 and 5 above. Assume she is using perpetual inventory system.	5	
(c)	Calculate how much she should sell one jean for.	3	
(d)	If she was using perpetual inventory system. Prepare a journal entry if she sold all the 20 Jeans on credit.	6	
Total			22

Question 4**30 marks (36 minutes)**This question is made up of **TWO INDEPENDENT PARTS.****Part A**

Royal Jam Limited received a statement dated 30 June from Zalo suppliers. A 10% trade discount is allowed on supplies made to Royal Jam Limited.

The statement received reflected a debit balance of R22 430 while Zalo suppliers account in trade payables subsidiary ledger showed a credit balance of R18 448.

On comparing Zalo suppliers account in trade payables subsidiary ledger, the following issues were noted (the listed invoices are reflected net of the applicable trade discount, unless advised otherwise):

1. The debit side of the statement had been over-cast by R1 200.
2. The debit side of Zalo supplier's account in the trade payables subsidiary ledger had been under-cast by 500.
3. Invoice no.2800 for a gross amount of R550 had been entered in the purchases journal as R505.
4. Credit note no.224 for R130 had been correctly recorded in the accounts payables subsidiary ledger but had been entered as invoice in the statement.
5. Invoice no. 2777 for R428 had been recorded correctly in the purchases journal but had been entered in the trade payables subsidiary ledger as if it were a credit note.
6. Invoice no. 2683 for a gross amount of R960 had been entered on the statement as R846.
7. Invoice no.2690 for R800 for purchases made by Royal Jam Limited was charged to Royal Jim Limited, another customer of Zalo suppliers.
8. Invoice no. 2876 for R790 had been debited twice on the statement.
9. The statement reflects invoice no. 28902 for R604 . Goods received note of Royal Jam Limited indicated that these goods were received on 30 June. The invoice was, however, received on 3 July.

QUESTION 4 – REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare the corrected account of Zalo suppliers in the trade payables subsidiary ledger of Royal Jam Limited at 30 June.	12	
(b)	Prepare the remittance advice to accompany the cheque to be sent by Royal Jam Limited to Zalo suppliers for 30 June.	10	
Total			22

Question 4 continued:

Part B

The following information relating to the 2018 financial year was taken from the accounting records of Gregors Limited, a dealer in printers and computer accessories:

	R
Debit balance on accounts receivable control on 1 July 2017	50 820
Credit sales for the year from sales journal	613 180
Cash received from receivables	589 460
Reversal of settlement discount allowance on early settlement by customers	14 370

The total of the list of trade receivables prepared by the bookkeeper from the accounts receivables ledger on 30 June 2018 amounted to R55 020. No credit balances included.

After preparing the list, the following errors had to be addressed:

1. The sales journal had been over-cast by R900.
2. The debit side of T. Mbeki account in the trade receivables ledger had underscated by R 2 090.
3. Reversal of settlement discount allowance amounting to R480 had been credited to the personal account of the customer but no other entries had been made in the accounting records in respect of that amount.
4. Goods invoiced to Cyril R at R160 had been returned by him. The return of these goods had not been recorded.
5. A sales invoice of R1 320 entered in the sales journal had not been posted to J Jama's account in the trade receivables ledger.
6. A debit balance of R360 for R Mugabe's account had been omitted from the list of balances extracted from the trade receivables ledger.

QUESTION 4 – REQUIRED PART B	Marks	
	Sub-total	Total
Prepare the corrected balance of the trade receivables control account at 30 June 2018	8	
Total		8

Question 5**40 Marks (48 minutes)**

Paint and Tile (Pty) Ltd (P&T), has been operating since 2010 and is owned by Mr Jim Storm. P&T is located in an upscale community and sells high quality goods. Besides selling tiles, paint and bathroom accessories, they also have a division to do small-scale installations for homeowners. The following information appeared in the trial balance of P&T as at 30 April 2018:

	R
Cash on hand	3 600
Fixed deposit (11%) due on 1 May 2019	280 000
Property, plant and equipment (book value)	1 562 000
Inventory: 30 April 2017	82 000
Stationery on hand: 30 April 2017	10 600
Bank overdraft	6 400
Prepaid advertising	4 140
VAT control: credit balance	20 893
Capital	525 000
Drawings	152 000
Long-term loan: Regular Bank	56 000
Trade receivables	70 680
Allowance for credit losses	3 534
Trade	82 080
Income received in advance	11 628
Sales	3 450 000
Installation income	980 000
Purchases	1 480 000
Freight on sales	5 300
Freight on purchases	8 900
Stationery expense	29 000
Interest on 30-day deposit	30 800
Rent expense	77 280
Interest on loan	4 410
Other selling expenses	284 299
Other administrative expenses	345 000

Mr Storm had always been a hands-on owner and was always at the shop supervising all aspects of his business. In December 2017, he went on an overseas trip, leaving the supervision to his senior employees. When he returned he discovered that the inventory supervisor and his accountant had either conducted fraudulent transactions or errors.

Mr Storm contacted you to assist with the finalisation of the financial statements. You established that P&T has a 30 April year-end, is a registered VAT vendor and, where applicable, a VAT rate of 15% applies. You can assume that all transactions are with registered VAT vendors, unless otherwise stated.

Question 5 (continued)

Additional information:

Property, plant and equipment

For all entries related to property, plant and equipment and you can accept that all transactions were correctly recorded.

Inventories

P&T uses the periodic inventory system for trading inventory and values stock on a first-in-first-out basis. Inventory was counted on 30 April 2018 and the stock sheets revealed the following:

Type of inventory	R
Inventory	124 000
Stationery on hand	2 800

Mr Storm was concerned with the high value of inventory reflecting on the stock sheets at R124 000. There were 30 containers of luxurious silk white paint hidden in the back of the area where the lids had been removed and part of the paint was missing from each container. Each container was 20 litres and the supplier invoice price was R1 092.50 per container. Since the lids were removed, the few litres of paint were missing from container. It was estimated that 140 litres in total of paint were removed. Mr Storm contacted a friend in Johannesburg who said he could use the paint for his business complex and would pay Mr Storm R 20 (excluding VAT) per litre if he would send the paint to his premises. The cost of transporting all the paint was estimated to be R 1 150 (including VAT).

Long term liability

On 1 November 2015, P&T bought a specialised paint mixing machine with an invoice price of R97 750. A loan from Regular Bank was taken for R 70 000 on the same date with an interest rate of 14%. The loan is repayable over 10 years in equal annual instalments from 31 October 2016. Interest is payable twice per annum in arrears, on 1st May and 1st November. Loan repayments and interest have been made on time and recorded correctly.

Trade and other receivables

On 30 April 2018, P&T received two cheques from JJ Attorneys relating to two of their debtors. The accountant had put the two cheques in his drawer and no entries were made in the books. The first cheque was for R 2 760 and was for a debtor who had been written off in 2017. The second cheque was for Mr Cloud, a local tradesman, who declared bankruptcy during the current year. The cheque amounted to R 2 990, being 50 cents on the rand of the amount she owed. Mr Storm accepted this as full and final payment and the remainder of the account was written off. Mr Storm advised that he wanted to reduce the allowance for credit losses to 4% of gross outstanding trade debtors.

Prepaid advertising

The amount of prepaid advertising, R4 140 relates to an advertisement that P&T took in a local trade magazine, Sinekhaya Magazine (a non-vendor) for a period of six months starting on 1 March 2018. Mr Rain credited the bank and debited prepaid advertising for the full amount of the cheque.

QUESTION 5 (continued)

Question 5 Required		Marks	
		Sub-total	Total
(a)	Prepare general journal entries that that would have been processed to record all the adjustments above. <i>Narrations are not required.</i>		24
(b)	Prepare <u>asset section</u> of the statement of financial position as 30 April 2018.		16
Total Marks			40