



University of Fort Hare  
*Together in Excellence*

**NKUHLU DEPARTMENT OF ACCOUNTING**  
**ACCOUNTING 1B**  
**ACC121/ACC121E**

**FINAL EXAMINATIONS**  
**NOVEMBER 2018**

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

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

**TIME:** 3 hours

**MARKS:** 150

**PAGES:** 9 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	Financial Analysis	40	48
2	Cash Budget	30	36
3	Cash flow statement and Companies	50	60
4	Branches	30	36
	<b>TOTAL</b>	<b>150</b>	<b>180</b>

**Question 1****30 marks (36 minutes)**

You have been provided with the financial statements of Casper Limited.

**Statement of Financial Position of Casper Limited as at 30 June 2018**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3 650 000	2 365 000
Investments	1 500 000	1 350 000
Loans to employees	450 000	345 000
<b>Current assets</b>	<b>2 236 000</b>	<b>2 582 600</b>
Inventory	165 000	156 000
Trade receivables	1 760 000	1 670 000
Taxation receivable	75 000	
Cash and cash equivalents	236 000	756 600
<b>Total assets</b>	<b>7 836 000</b>	<b>6 642 600</b>
<b>Equity</b>		
Ordinary share capital	2 150 000	1 200 000
Accumulated profit	3 250 000	2 940 600
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Long-term loan	1 250 000	1 575 000
<b>Current liabilities</b>		
Trade payables	1 186 000	927 000

**Statement of Financial Performance of Casper Limited for the year ended 30 June 2018**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
Revenue	7 590 000	6 600 000
Cost of sales	(4 933 500)	(4 400 000)
Gross profit	2 656 500	2 200 000
Dividend income	150 000	135 000
Operating costs	(603 861)	(333 069)
Profit before interest and tax		
Finance costs	(106 250)	(133 875)
Profit before tax	2 096 389	1 868 056
Taxation	(586 989)	(523 056)
Profit for the year	1 509 400	1 345 000

- 80% of all sales are on credit.
- All purchases are on credit.
- Inventory as at 1 July 2016 amounted to R151 000.

**Question 1 continued:**

QUESTION 1 REQUIRED		Marks	
		Sub-total	Total
(1)	1.1 Calculate the gross profit percentage on sales for 2017 and 2018.	3	8
	1.2 Has the gross profit changed? Provide 2 reasons that could cause the gross profit percentage to change.	3	
	1.3 Briefly explain what the gross profit percentage in 2018 means.	2	
(2)	Calculate the following for 2018 and 2017.		17
	2.1 Inventory holding period.	3	
	2.2 Debtors collection period.	3	
	2.3 Creditors payment period	5	
	2.4 What is the length of the business' working capital cycle	2	
2.5 Briefly explain why the working capital cycle has changed from 2017 to 2018	4		
(3)	3.1 Calculate the current ratio and acid test ratio for 2018	5	9
	3.2 Briefly explain the difference between the current ratio and acid test ratio.	2	
	3.3 What are these ratios attempting to measure?	1	
	3.4 What type of companies would use acid test ratio?	1	
(4)	Why would a bank be interested in a debt ratio?	2	2
(5)	Briefly explain what you understand by the following terms		4
	<ul style="list-style-type: none"> <li>• Financial risk</li> <li>• Capital structure</li> </ul>	2 2	

**Question 2****30 marks (36 minutes)****Assume VAT of 15%**

Home Building Ltd provided you with the following extract of the trial balance for the year ended 30 September 2018:

	Dr	Cr
Cash and cash equivalents	R165 000	
Prepaid expenses	R7 000	
SARS (VAT payable)		R8 000
Trade payables		R85 000

You are also provided with the following additional information

1. Home Building Ltd maintains a constant gross profit margin of 30% on sales.
2. The SARS VAT must be paid or received on 1 October and 1 December.
3. Sales (including VAT) are as follows:

	Actual	Budgeted
July 2018	R287 500	
August 2018	R368 000	
September 2018	R402 500	
October 2018		R437 000
November 2018		R517 500

Sales are expected to be 45% cash, and 55% on credit.

4. The receivables are expected to be received as follows:
  - 40% during the month of the sale less 5% discount for prompt payment;
  - 30% in the month following the month of the sale;
  - 24% in the second month following the month of the sale and
  - The remainder will be written off as bad debts in the third month following the month of the sale.
5. Home Building Ltd maintains a fixed base inventory level of R40 000 (i.e. opening inventory and closing inventory remain constant at R40 000). All the purchases will be on credit and will be settled during the month following the month of purchases (i.e. July purchases will be settled in August).
6. Salaries and wages amounted to R55 000 per month in 2017. By end of January 2018 the staff union and management agreed that all salaries must increase by 10% from March 2018. The company paid a bonus of R50 000 in November to one of its directors for outstanding work done by the director.
7. Machinery with a cost price of R145 000 was purchased in September 2018 from a non-vendor. A deposit of 50% was paid and the remainder was paid in 2 equal instalments in October 2018 and November 2018.
8. Land worth R184 000 was purchased for cash from a non-vendor on 15 October 2018.
9. A dividend of R20 000 was declared on 30 September 2018 and paid on 1 November 2018
10. The business must maintain a positive bank balance of R100 000 in its bank account. If the money is not enough it will borrow funds to maintain the positive bank balance of R100 000

**Question 2 continued:**

<b>QUESTION 2 REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(1)	Prepare cash budget of Home Building for the 2 months ending 30 November 2018.	<b>26</b>	<b>26</b>
(2)	Prepare the Vat Input general ledger account that would be processed in the October month.	<b>4</b>	<b>4</b>

**Question 3**

**50 marks (60 minutes)**

You have been provided with the financial statements of Nyovest Limited.

**Extract from the Statement of Financial Position of Nyovest Ltd as at 31 December 2017**

	Refer to additional info	2017 R	2016 R
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1	4 136 000	3 750 000
Investments		155 000	120 000
<b>Current assets</b>	2	2 150 000	1 200 000
<b>Total assets</b>		6 441 000	5 070 000
<b>Equity</b>			
Ordinary share capital (200 000 shares: 01/01/2017)	3	?	800 000
Accumulated profit		?	1 135 000
Revaluation surplus	1	?	250 000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long-term loan	1	1 720 000	1 500 000
<b>Current liabilities</b>			
Trade payables		1 739 170	1 183 100
Shareholders for dividends		103 200	120 500
SARS (Income tax payable)		67 000	36 600
Interest payable		49 700	45 300

**Extract from the Statement of Financial Performance of Nyovest Ltd for the year ended 31 December 2017**

	Refer to additional info	R
Revenue		2 760 000
Cost of sales		(1 656 000)
Gross profit		1 104 000
<b>Less:</b> net operating costs	6	(717 600)
Profit before interest and tax		386 400
<b>Less:</b> Finance costs		(135 000)
Profit before tax		251 140
<b>Less:</b> Taxation	5	?
Profit for the year		?

**Question 3 continued:**

**Additional information:**

1. Property, plant and equipment note

	Land and Buildings	Vehicles	Machinery	Total
Carrying amount 1/1/2017	1 200 000	850 000	1 700 000	3 750 000
Gross carrying amount 1/1/2017	1 200 000	1 000 000	2 200 000	4 400 000
Accumulated depreciation 1/1/2017		150 000	500 000	650 000
Movements				
Additions	400 000	320 000	0	720 000
Revaluation loss	(65 000)			(65 000)
Disposal at carrying amount		44 000	65 000	(109 000)
Gross carrying amount		85 000	150 000	
Accumulated depreciation		41 000	85 000	
Depreciation		160 000	220 000	
Gross carrying amount 31/12/2017	1 535 000	1 235 000	2 270 000	5 040 000
Accumulated depreciation 31/12/2017		269 000	635 000	904 000
Carrying amount 31/12/2017	1 535 000	966 000	1 635 000	4 136 000

1.1 On 1 March 2017, Nyovest Ltd purchased land and buildings with a cost of R400 000. Long-term loan was obtained to finance portion to purchase land and buildings. This was the only loan that was borrowed. No loan payment was done during the year.

1.2 On 30 June 2017, a vehicle with cost price of R85 000 and accumulated depreciation of R41 000 was sold for cash. A new vehicle was bought on 15 July 2018 for R320 000 to replace the vehicle. A deposit of 50% was paid for the new vehicle and the rest will be settled on 30 June 2020.

1.3 On 1 August 2017, Nyovest Ltd sold machinery with a cost price of R150 000 at a loss of R12 900. The buyer paid a deposit but still owes Nyovest Ltd R32 100

2. Current assets consist of the following:

	<b>2017</b>	<b>2016</b>
Inventories	R123 000	R154 000
Trade receivables	R730 000	R695 000
Provision for bad debts	(R18 000)	(R12 000)
Outstanding debt: Machinery buyer	R32 100	
Cash and cash equivalents	R1 282 900	R363 000

3. On 1 March 2017, Nyovest Ltd issued 150 000 ordinary shares at R5 per share and was underwritten by Web Limited for a commission of 8%. The shares were undersubscribed by 30% at the closing date of 30 April 2017. Share issue costs (excluding underwriters commission) amounted to 50 cents per share and was paid on 1 May 2017. The underwriter and Nyovest Ltd settled each other on 1 May 2017.

4. On 30 June 2017, the directors declared dividends of 40 cents per share.

5. Taxable income amounted to 120% of profit before tax.

**Question 3 continued:**

6. Included in the Statement of Financial Performance of Nyovest Ltd for the year ended 30 September 2017, were net operating costs amounting to R717 600. This amount included, amongst others, the following items:

	<b>R</b>
Profit on sale of vehicle	15 000
Loss on sale of machinery	12 900
Bad debts expense	68 000
Depreciation on vehicles	160 000
Depreciation on buildings	220 000
Stationery expense	84 500
Salaries and wages	187 200

**Assume dividends tax of 15% and a company tax rate of 28%.**

<b>QUESTION 3 REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(1)	Prepare the general ledger of Ordinary share capital for the year ended 31 December 2017.	<b>9</b>	<b>9</b>
(2)	Should dividend declared be recognised as an expense? Support your answer by referring to the definitions in the accounting framework	<b>8</b>	<b>8</b>
(3)	Prepare the general journal entries to record <b>no. 4 above</b>	<b>5</b>	<b>5</b>
(4)	Prepare the <b>operating section and investing section</b> of the cash flow statement using <b>indirect method</b> for the year ended 31 December 2017. <b>Show all your calculations.</b>	<b>23</b>	<b>23</b>
(5)	Prepare the general ledger account for Asset disposal for Machinery.	<b>5</b>	<b>5</b>

**Question 4****30 marks (36 minutes)**

Dabs Limited is an entity based in Somerset and has recently opened a branch in Fort Beaufort. The Fort Beaufort branch will operate independently of the Dabs Limited, the head office and will accordingly maintain its own set of accounting records.

For the branch establishment, Dabs Limited made the following immediate transfers from its asset base:

- Cash amount of R18 000
- Vehicle: cost R25 000 and an accumulated depreciation of R15 000

**In addition to the above, the following transactions took place:**

1. Dabs Limited transferred inventories with a cost of R30 000 to Fort Beaufort branch.
2. Dabs Limited paid rent of R2 300 VAT inclusive on behalf of Fort Beaufort branch.
3. Dabs Limited bought stationery for R1 380 VAT inclusive on credit on behalf of Fort Beaufort branch.
4. Fort Beaufort branch sold inventories for R14 375 VAT inclusive cash.
5. Fort Beaufort branch paid salaries of R3 000.

**Note:** VAT rate of 15% is in use where applicable.

<b>QUESTION 4 REQUIRED</b>		<b>Marks</b>	
		<b>Sub-total</b>	<b>Total</b>
(a)	Record in the general journal the transactions that would be recognised by Dabs Limited.	<b>15</b>	<b>15</b>
(b)	Record the transactions that would be recognised by the Fort Beaufort branch	<b>15</b>	<b>15</b>