



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2A
ACG 211/211E

EXAMINATION QUESTION PAPER

JUNE 2023

ASSESSOR : Mrs Ntombi Mnconywa
MODERATOR : Mrs Carolyn Birkholtz (Internal)
TIME : 150 minutes
MARKS : 100
PAGES : 8 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	TOPIC	MARKS	TIME
1	Conceptual Framework and IAS 37	20	30 Minutes
2	Taxation (IAS 12)	30	45 Minutes
3	IAS 1, IAS 2 and IAS 16 with IAS 36	50	75 Minutes

QUESTION 1**20 MARKS (30 MINUTES)****Background Information**

Ben Madikizela Local Municipality, is a South African municipality services the rural parts of the costal side of the Eastern Cape province. The Municipality has the financial year end 30 June each year and uses IFRS as a financial reporting standard. You have been recently employed by the Municipality as a finance intern to assist in the finance division of the Municipality .You received the following email from the Chief Financial Officer of the Municipality .

To : Finance intern

Subject :The Conceptual Framework for Financial Reporting and IAS 37

Good day Mr Madolo

I trust that you are well.

Congratulations on your appointment as finance intern. We are excited to welcome you to our team. Your line manager has indicated that you have an accounting background. This email serves to request that you apply your mind on the following issues in accordance with The Conceptual Framework for Financial Reporting and International Financial Reporting Standards as the municipality is in the process of preparing annual financial statements and getting ready for the audit.

The municipality has a landfill site (site for the disposal of waste materials, a dump site). In terms of environmental legislation, the Municipality is required to dispose of all waste generated by the Municipality in a socially and environmentally responsible manner, failing which penalties may be levied.

The municipality was granted a license for landfill site four years ago, on 01 July 2018 , In terms of their license , the municipality is allowed to dispose 150 tons of waste per annum from 1 July to 30 June each year, and after four years restore the site to its equivalent original state .

I have been informed by the Director of community services that the Municipality has been disposing 170 tons of waste each year at the site, resulting in the breach of licence requirements. On 01 July 2022 the municipality was fined R1 000 000 by the department of Environmental Affairs. On consulting with our lawyers on this matter, they have indicated that there is no alternative way of trying to avoid the fine. The municipality will have to settle the fine as the failure to do so will result in severe consequences.

Furthermore, four years has now ended at the beginning of the next financial period, as part of our initial agreement we are required to restore the landfill site to its equivalent original state, the future estimated cost of restoring the site back to its original state is R3 000 000 and we expect to complete the restoration in 24 months.

Please do not quote me on this, I am of the view that we should not show anything in our financial statements relating to R1 000 000 fine to avoid negative publicity. I am looking forward for your inputs in relating to the accounting treatment of the above issues,

Kind Regards

CFO

Date : 01 June 2022

QUESTION 1 - REQUIRED:		Marks	
		Sub-total	Total
a)	Discuss the appropriate accounting treatment in the financial records of Ben Madikizela Municipality for the fine levied against municipality by the department of environmental affairs due to municipality having not complied with the landfill sites license requirement. Your answer should refer to the Conceptual Framework.	10	
b)	Discuss the appropriate accounting treatment for the future restoring costs in the financial record of Ben Madikizela Municipality. Your answer should refer to the International Financial Reporting Standards (IAS 37). Assume discount rate of 11% is applicable where necessary.	10	
TOTAL MARKS			20

QUESTION 2

30 MARKS (45 MINUTES)

Background information

You have recently been employed as a Financial Accountant of Frontie Limited, a small shoe manufacturing company with head offices in East London. The finance department is in the process of finalising financial statements for the year ended 31 December 2022.

The CFO has asked you to calculate the tax amounts to be presented on the financial statements as the previous accountant finalised everything except the tax balance before he resigned. You requested assistance from the senior bookkeeper and you collected more information that will assist you to calculate the tax amounts

Information obtained was as follows:

- a) Profit before tax of R1 276 500 for the year ended 31 December 2022, included the following items:
- Depreciation (**see note b**)
 - Machinery 362 000
 - Plant 125 000
 - Vehicles 55 000
 - Provision for bad debts (**see note c**) 40 000
 - Insurance premium 17 500
 - Legal fees
 - Non-deductible 15 000
 - Deductible 27 500
 - Traffic fines 2 000
 - Dividends income received 59 500
 - Finance cost (**see note d**) 214 200
 - Profit on sale of vehicle A (**see note e**) 29 900
- b) Total wear and tear for the year amounted to R477 000
- c) An allowance of 25% of the allowance for doubtful debts is allowed by SARS for tax purposes.
- d) Interest comprises the following:
- Interest on loan 207 900
 - Penalty interest on the late payment of VAT 6 300

- e) Vehicle A, originally costing R350 000, was sold on 01 January 2022. On date of sale the carrying value and tax base were R78 000 and R96 000, respectively
- f) On 1 October 2022, the company made a payment for a delivery track and trace software, for R72 000, for the next 12 months. The amount was processed correctly. The prepayment is allowed as a deduction when paid.
- g) The 2021 financial year reflect an under-provision on tax for an amount of R10 967 and no information has been processed relating to this under-provision in 2022 financial year.
- h) Assume a normal tax rate of 28% and ignore value added tax.

QUESTION 2 - REQUIRED:		Marks	
		Sub-total	Total
a)	Calculate the current tax and deferred tax for the year ended 31 December 2022 in accordance with the Income Tax Act. Show all your workings	20	
b)	Prepare the income tax expense notes to the annual financial statements of Frontie Limited for the year ended 31 December 2022 in accordance with International Financial Reporting Standards.	10	
TOTAL MARKS			30

QUESTION 3**50 MARKS (75 MINUTES)**

Electroplus Ltd is a company based in East London, South Africa, manufacturing electric appliances. The financial year end of Electroplus Ltd is 31 December. You are given the extract of the Trial Balance of Electroplus Limited at 31 December 2022 with additional information.

ELECTROPLUS LIMITED		
EXTRACT FROM THE TRIAL BALANCE AT 31 DECEMBER 2022		
	Debit	Credit
Ordinary Share Capital		400,000
Retained earnings at 01 January 2022		15,976
Inventories: Raw materials	170,000	
Inventories: Work in progress	150,000	
Accounts receivable	177,643	
Cash and bank	175,000	
Trade payables		160,000
Long term loan		141,667
Insurance	45,000	
	717,643	717,643

ADDITIONAL INFORMATION:**INSURANCE**

Insurance in the Trial Balance includes an amount of R15 000 paid in advance for 2023 financial period.

INVENTORY

It is the policy of Electroplus to measure inventory at the lower of cost and net realisable value. The net realisable value of all finished goods is R156 910 whereas the total cost to manufacture these finished goods was R170 000.

PROFIT AFTER TAX

Assume a profit before tax and after the adjustments relating to delivery vehicles and equipment, to be R498 024 for the year ended 31 December 2022. Income tax rate is 28%. VAT is 15%.

DELIVERY VEHICLES

Electroplus purchased two delivery vehicles cash from Cape Town at a cost of R600 000 (R300 000 per delivery vehicle). The vehicles were purchased on 30 November 2020. It is the policy of Electroplus that the vehicles be galvanised before use to protect them against rust due to East London being the Coastal City. The cost of galvanising the vehicles was R50 000 per vehicle.

In a bid to market the company, Electroplus management decided to paint the vehicles with the company's brand name and pictures of the electric appliances. The cost of painting was R20 000 per vehicle.

The vehicles were at the condition intended by management at 2 January 2021 and available for use on the same date. Electroplus depreciated delivery vehicles at 20% on the straight-line method.

On 30 June 2022, one of the vehicles was involved in an accident. The management decided to dispose the vehicle on the same date at a cost of R120 000, cash.

At the end of 2022 Electroplus reviewed the depreciation of the remaining delivery vehicle and the depreciation was changed from 20% to 25%. It is the policy of Electroplus to use the re-allocation method for any changes in accounting estimates.

EQUIPMENT

The increase in demand of Electroplus products saw the company in need of equipment for manufacturing purposes. Electroplus purchased equipment on 30 days credit term for R110 000. Electroplus paid R5 000 to a transport company for the delivery costs on 2 January 2021. The equipment was assembled on the same day by the employees of Electroplus at no extra costs.

Electroplus brought this equipment to use on 1 March 2021. The equipment was in a condition for intended use by management on the 2nd January 2021. Equipment is measured using the cost model at 20% per annum on a straight-line basis. The residual value for this equipment at date of acquisition was estimated at R10 000.

At 31 December 2022, the market was flooded with cheap electric appliances from China. The cheap products resulted in management of Electroplus performing an impairment test on the equipment. At 31 December 2022, if Electroplus were to sell the equipment, the company will sell at R50 000 and incur selling costs of R5 000. If they continue to use the equipment,

they will generate net cash flows of R40 000. There were no changes in the useful life of equipment and residual value.

QUESTION 3 - REQUIRED:		Marks	
		Sub-total	Total
a)	Prepare the statement of financial position for Electroplus Limited as at 31 December 2022 in accordance with International Financial reporting Standards.	10	10
b)	Prepare the following notes to the financial statements of Electroplus Limited for the year ended 31 December 2022 in accordance with International Financial reporting Standards: Show ALL your workings as marks will be awarded for workings.		40
i)	Inventories	5	
ii)	Property, plant and equipment (totals are NOT required).	30	
iii)	Profit before tax	5	
TOTAL MARKS			50

For all workings round to the nearest Rand.

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