



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2A
ACG211E / ACG211

SUPPLEMENTARY QUESTION PAPER

JULY 2023

ASSESSOR : Mrs Ntombi Mnconywa

MODERATOR : Mrs C 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 1

10 MARKS (15 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.

Email from client

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 creams are 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) .

		Marks	
		Sub-total	Total
QUESTION 1 PART A - REQUIRED:			
Read all the information above and answer the following questions:			
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 2**20 MARKS (30 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 for the year ended 31 December 2022 in accordance with IAS 12. Your answer must show clearly the calculation of current tax and deferred tax. Please note that you are not required to do the Income Tax note.	20	20
TOTAL MARKS			20

QUESTION 3**70 MARKS (105 minutes)****Background information**

Black Shiba Limited was established in 1931 as the company that manufacture and deliver a wide range of tires to customers within the country, such as tires for passenger cars, trucks and buses, aircraft, construction and mining vehicles, motorcycles. Black Shiba Limited also, makes and sells a range of rubber products and other diversified products. Many of these products and technologies are used in a variety of everyday applications.

Black Shiba Limited Trial balance at 31 December 2022**Summarized "extract" Trial balance for the year ended 31 December 2022**

		Debit	Credit
Revenue	1		29 000 000
Cost of sales	2	36 000 000	
Property Plant and Equipment - Carrying amount	3	?	
Inventory		15 000 000	
Cash and bank		3 379 807	
Long term loans			18 000 000
Short term loan			7 173 264
Profit on sale of the old plant			3 250 000
Employee benefits expense		1 300 000	
Auditor's fees		17 800 000	
Remuneration to non-executive directors		2 500 000	
Salaries and bonuses to executive directors		12 000 000	
Depreciation expense	3	?	
Maintenance and insurance of PPE		1 250 000	
Retained earnings			10 179 807
Ordinary share capital 24 000 000 shares			28 800 000

QUESTION 3 (CONTINUED)

1. Revenue

1.1 During May 2022, the bookkeeper established that the company mistakenly omitted to account for revenue and , the VAT output to SARS in respect of the some of the invoices relating to 2021 financial period. These invoices amounted R2 300 000 including VAT. No journals have been passed to correct this error. SARS has indicated that the 2021 VAT assessment period will be re-opened for purposes of rectifying this error.

1.2 The revenue amount of R29 000 000 exclude revenue from contract with reputable car manufacturing company, Bella Barlos Limited. On 01 January 2020, Bella Barlos Limited, entered into a three-year contract with Black Shiba Limited for a specialised BS sport wheels produced using a specialised material that allowed Black Sheba to produce a BS sport wheel with: Best cornering & straight-line stability; Best braking on dry roads and Outstanding performance on wet roads. In terms of contract, Black Sheba will produce and sell 10 000 of BS sport wheels per year for Bella Barlos Limited. The standard selling price of each wheel is R8 557 excluding VAT. 10% discount rate is applicable .

2. Inventory

Black Shiba Limited's inventory policy is to value all trade inventories at the lower of cost and net realizable value. The calculation on an item-for-item has been conducted and due to their standard wheels winter and summer pressions wheels which are no longer selling, the calculation indicates that a write-down of R3 400 000 should be recognised.

3. Property Plant and Equipment

The land and building comprise an office block (used as company head office, located at 27 Ridge Road, Vorna Valley, Midrand) and the Black Sheba Limited Plants that are located in four provinces in South Africa.

Land

The land cost was R1 950 000 on 1 January 2003. The last acquisition was made on 06 January 2013 for R10 000 000. The land is not written off.

Buildings

All buildings were acquired on 01 January 2013. These buildings are all written off over a period of 50 years, on diminishing balance method. The cost of the Building was R50 000 000.

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 initially 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	
C	Prepare the following note to the financial statements of Black Sheba Limited for the financial year ended 31 December 2022 1. Property, plant and equipment	40	
D	Prepare journal entries to correct the error made by Black Sheba limited in relation to omitted revenue and VAT output in its 2022 financial records .	5	
TOTAL MARKS			70