



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING

ACCOUNTING 1B ACC121/ACC121E

SUPPLEMENTARY EXAMINATIONS JANUARY 2019

ASSESSORS:	Mrs LH Mtshwelo Mr M Bomba Mr SM Msakatya
MODERATOR:	Ms S Mahintsho (Internal)
TIME:	3 hours
MARKS:	150
PAGES:	9 pages (including front page)

**TO BE HANDED
IN AFTER THE
EXAM – NOT TO
BE RETAINED
BY STUDENTS**

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 and Companies	35	42
2	Cash Budgeting	25	30
3	Financial Analysis	20	24
4	Cash Flow Statement	35	42
5	Branches	30	36
	TOTAL	150	180

Question 1**35 marks (42 minutes)**

Go Green Ltd is a company situated in East London. The company produces and sells dual energy (electricity and solar energy) products and appliances. The company was incorporated a number of years ago and has 31 October year-end. Provided below is an **extract** of the Statement of Financial Position for the 2018 and 2017 financial years.

Statement of Financial Position of Go Green Ltd as at 31 October:

	2018	2017
Share capital: Ordinary	17 324 000	14 972 000
Share capital: Preference	?	3 024 000
Retained earnings	8 372 150	9 782 800
Revaluation surplus	400 000	-
<u>Liabilities</u>		
Loan	3 000 000	?
Accrued expenses (including interest)	91 400	97 500

Additional information

- a) Ordinary shares have voting rights but no right to a fixed dividend. Preference shares have no voting rights but have a right to a fixed dividend distribution. The shares are redeemable in 5 years' time at the shareholders' option.
- b) *Go Green Ltd* issued a prospectus (invite to the public to buy shares) to the public on 1 March 2018. The company offered 250 000, R20 "15%" Preference shares at face value. The share issue was underwritten by Franc bank at a commission of 5%. By 15 April 2018, the closing date for the applications, only 80% of the shares had been applied for by the public. The shares were issued on 30 April 2018. Share issue costs of R45 000 excluding the underwriters commission were paid on the same date.
- c) The only loan owed by *Go Green Ltd* on 1 November 2017 had been granted by Franc Bank on 1 February 2016. The loan is repayable in five equal annual instalments commencing on 01 February 2017. Interest is charged at 16% per annum and is payable half yearly in arrears commencing on 1 August 2016. All payments were made on their respective dates.
- d) The following is an extract of Property, Plant and Equipment reconciliation appeared in the Notes to the financial statements of *Go Green Ltd*:

A delivery truck was purchased at a total cost of R2 000 000 on 31 January 2016 and was ready for use on the same day. The vehicle started to give problems in 2017. Management is considering replacing it in 2019. At 31 October 2018, the vehicle had a value in use of R900 000 and the fair value of R915 000 before selling costs of R12 000. Depreciation on motor vehicles is written off @ 20% per annum using the diminishing balance method.

Land is accounted for on the revaluation model. Land was revalued for the first time during the current year. No land was sold during the current year.

Question 1 continued

Go Green Ltd

Extract: Notes to the financial statements for the year ended 31/10/2018:

	<u>Land</u>	<u>Vehicles</u>
Gross Carrying Amount	3 200 000	?
Accumulated depreciation	-	
Carrying amount (31 October 2017)	3 200 000	2 000 000
<u>Movements</u>		
Revaluations	?	?
Additions	?	?
Disposal	?	?
Depreciation	?	?
Impairment	?	?
Carrying amount (31 October 2018)	3 950 000	?
Accumulated depreciation and impairment	?	?
Gross Carrying Amount	?	?

QUESTION 1 REQUIRED		Marks	
		Sub-total	Total
(1)	a) Prepare the journal entry that would have been processed in the books of <i>Go Green Ltd</i> on 30 April 2018.	4	
	b) What type of account have you credited in question (a) above? Use any relevant definition and recognition criteria as per the IFRS Framework to support your answer.	10	
	c) Prepare the closing entries required to close off the share issue cost incurred as a result of the share issue.	3	17
(2)	a) Prepare the loan account as it would appear in the books of <i>Go Green Ltd</i> for the year ended 31 October 2018.	3	
	b) Calculate and show where interest expense will be disclosed in the Statement of Comprehensive Income of <i>Go Green Ltd</i> for the year ended 31 October 2018.	5	8
(3)	a) Show how the movement of Land would appear in the Statement of Cash Flow as at 31 October 2018.	3	
	b) Prepare the journal entry that would have been processed in the books of <i>Go Green Ltd</i> on 31 October 2018 to record depreciation and impairment of vehicles. Refer to additional information (d). Narrations are not required.	7	10
	Total	35	35

Question 2**25 marks (30 minutes)**

The following items were extracted from the Statement of Financial position of Belinda Limited on 31 December 2017:

	R
Machinery Cost	180 000
Inventories	160 000
Trade Receivables	152 000
Bank	88 000
Prepaid Rent	7 200
Accumulated Depreciation on machinery	(50 000)
Share Capital: Class A	(300 000)
Retained Earnings	(117 200)
Water and Electricity Owing	(4 000)
VAT owing	(6 000)
South Africa Revenue Services (Tax)	(10 000)
Redeemable Class: C Shares.	100 000)

Additional Information

- a) All sales are on credit. It is expected that sales in 2018, will be at 25% higher than 2017 sales. Sales in 2017, (including VAT) amounted to R1 840 000. The trade receivables balance is expected to increase by 50% at the end of March 2018.
- b) Administrative expenses are estimated to be R25 300 (including VAT) for the first quarter. It is expected that R2 300 (excluding VAT) of the administrative expenses for the first quarter will be outstanding on 31 March 2018.
- c) Salaries and wages (not included in administrative expenses) amount to R132 000 per year.
- d) All purchases will be for cash, and estimated to be R125 000 month (excluding VAT).
- e) Commission of 5% on sales (excluding VAT) paid to sales personnel are excluded from wages and salaries.
- f) All outstanding expenses as at 31 December 2017 will be paid during January 2018.
- g) Machinery of R34 500 was ordered on 31 December 2017. The expected delivery and installation date is 1 February 2018 and payment will take place on delivery.
- h) Machinery depreciated at 10% per year on cost.
- i) Rent, including VAT amounts to R1 380 per month.
- j) Water and electricity amounts to R450 (excluding VAT) per month and is paid monthly.
- k) VAT and income tax due on 31 December 2017 will be paid on 25 January 2018 and VAT for January and February 2018 will be received or paid before 25 March 2018.

Question 2 (continued)

QUESTION 2 REQUIRED		Marks	
		Sub-total	Total
(1)	a) Prepare a a Cash Budget for the three months (quarter) ended 31 March 2018.	25	25

Question 3**20 marks (24 minutes)**

The following summarised financial statements appeared in the books of Dorington Stores Limited on 31 January 2018:

	2018 "R"	2017 "R"
ASSETS		
Non-current assets	640 000	250 000
Current assets	50 000	50 000
Inventory	25 000	20 000
Trade receivables	22 000	20 000
Bank	3 000	10 000
TOTAL ASSETS	690 000	300 000
EQUITY AND LIABILITIES		
EQUITY	480 000	200 000
Class A shares @ R2 each	50 000	50 000
Surplus on revaluation of land	230 000	30 000
Distributable reserve:		
Retained earnings	200 000	120 000
Non-current liabilities	150 000	53 000
Loans: 30% Debentures	150 000	53 000
Current liabilities	60 000	47 000
Trade payables	27 000	16 000
Taxation	20 000	20 500
Shareholders for dividends	10 000	10 500
TOTAL EQUITY AND LIABILITIES	690 000	300 000

Additional information:

Financial results for the year ended 31 January 2018 revealed the following:

Sales	1 406 785
Gross profit	562 000
Operating costs	244 000
Interest expense	45 000
Dividends	20 000

Question 3 (continued)

QUESTION 3 REQUIRED		Marks	
		Sub-total	Total
(1)	Calculate the following ratios for the year ended 31 January 2018. Begin your calculations by stating the relevant formula for each calculation.		
	a) Current ratio	2,5	
	b) Acid test ratio	2,5	
	c) Gross profit percentage on sales	3	
	d) Gross profit mark-up on cost	3	
	e) Debt Ratio	3	
	f) Debt-equity ratio	3	
	g) Interest cover ratio	3	20

Question 4

35 marks (42 minutes)

**Lisanda Limited
Trial Balance as at 30 June 2018**

	2018	2017
Plant @ cost	11 000 000	8 000 000
Fixed deposit	3 000 000	0
Accounts receivable	3 600 000	3 400 000
Inventory	5 000 000	3 600 000
Interest on fixed deposit receivable	400 000	0
Bank	1 200 000	800 000
Administration and selling expenses	24 200 000	0
Interest expense	1 000 000	800 000
Taxation expense	2 000 000	1 400 000
Dividends declared	800 000	800 000
	52 200 000	18 800 000
Share Capital	3 400 000	2 000 000
Dividends payable	400 000	800 000
Accounts payable	2 400 000	1 200 000
Accumulated depreciation - Plant	4 000 000	2 000 000
Taxation payable	600 000	200 000
Interest payable	200 000	800 000
Long-term loan	8 000 000	6 000 000
Gross Profit	30 000 000	3 800 000
Investment income	400 000	0
Accumulated profit	2 800 000	2 000 000
	52 200 000	18 800 000

Additional Information

- a) Depreciation of R2 400 000 was provided during the financial year ending 2018.
- b) Plant costing of R1 000 000 was sold during the year and a loss of R200 000 was incurred.
- c) Long term loans, R2 000 000 were repaid during the year.
- d) Lisanda Ltd marks up goods for resale by 50% on cost.
- e) Gross profit for the current year was R 30 000 000.

QUESTION 4 REQUIRED		Marks	
		Sub-total	Total
(1)	Prepare the statement of cash flows for Lisanda Limited for the period ended 30 June 2018, using the direct method. Notes to the cash flows are not required.	35	35

Question 5**30 marks (36 minutes)**

Muzi Limited, an Alice based business entity, opened a branch at Tsolo. The branch at Tsolo sells oranges to the surrounding locations. Muzi Limited uses the centralised method to account for all transactions between the head office and the branch as well as the transactions that take place between the branch and the branch customers.

Inventories are transferred to the branch at 15% mark-up on cost. All the branch administration is handled and managed by Muzi Limited.

Muzi Limited's general ledger had the following Tsolo branch accounts on 31 July 2018:

	R
Branch inventories (selling price including VAT)	32 775
Branch gross profit	?
Branch bank account	5 000
Branch receivables	19 380

During the period ending 30 August 2018, the following transactions took place:

- 1) Muzi Limited transferred inventories to value of R19 665 (selling price including VAT).
- 2) Tsolo branch received R14 535 from the branch receivables.
- 3) Tsolo sold 80% of inventories from Muzi Limited on credit.
- 4) Tsolo returned 5% of inventories from Muzi Limited due to the decrease in demand.
- 5) Tsolo salaries amounting to R7 500 were partly paid by Muzi Limited (60%) and by the branch.
- 6) Branch sold inventories from Muzi Limited for R14 250 cash (including VAT).

You are required to:

QUESTION 4 REQUIRED	Marks	
	Sub-total	Total
Record the transactions 1-6 in the general journal as they would be processed by Muzi Limited.	30	30

Note: Muzi Limited is a registered VAT vendor.