



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

**SPECIAL EXAMINATION 2018**

**ASSESSORS:** Mr Bonakele Ncemane

**MODERATOR:** Mrs Wendy Terblanche (Internal)

**TIME:** 3 hours (plus 15 minutes reading time)

**MARKS:** 150

**PAGES:** 12 pages (including notes 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.

<b>Question</b>	<b>Topics covered</b>	<b>Marks</b>	<b>Minutes</b>
1	Statement of comprehensive income, Revenue, Provision, Correction of error, Change in estimate	52	62
2	Notes to financial position, PPE, Inventory, Provision	47	56
3	Taxation	42	51
4	Inventory	9	11
	<b>TOTAL</b>	<b>150</b>	<b>180</b>

**QUESTION 1****52 marks****1 Background**

Amalfi Limited (“Amalfi”) operates a five-star hotel in Plettenberg Bay. The company has a 31 May year end.

**2 Information**

The trial balance for the **year ended 31 May 2016** is shown below. It reflects the draft amounts, before taking into account any of the adjustments required from the information below.

	<b>Note</b>	<b>R</b>
Revenue from contracts with customers	1, 2	10 650 000
Cost of sales	3	5 510 000
Operating expenses	6	3 720 900
Administration expenses	5	22 150
Interest on overdraft		45 500
Taxation expense	7	?

**Additional information:**

1. The hotel entered into a contract to offer an all-inclusive package to the organizers of an international medical conference which took place during the last week in May 2016. The package included the following:
  - Use of the hotel’s conference facilities for the three day conference (stand-alone price is R20 000 per day).
  - Accommodation and meals for all 120 delegates for the duration of the conference (stand-alone rates would amount to R450 000 in total).
  - A gift bag including various items from the hotel gift shop (stand-alone price is R400 per person).

The total package charged to the client amounted to R506 000.

At year end the revenue earned from the conference has not been recorded. Although the customer has not yet paid the amount due, it is expected that full payment will be received in June 2016. The conference was concluded prior to year-end and Amalfi Limited had satisfied all their obligations per the contract as at 31 May 2016.

2. The company reports revenue separately for each of the three main activities in order to measure performance:
  - Accommodation and meals
  - Conference venue hire
  - Gift shop sales.

The total revenue for the 2016 financial year represents a 70%, 25% and 5% split between the respective activities. This excludes revenue from the medical conference (refer to additional information 1).

3. The hotel gift shop sells an assortment of goods including African jewellery. During the year concerns were raised about some of the jewellery sets which contained ivory. Guests were hesitant to purchase these as they were concerned that it could be a by-product of animal poaching. At 31 May 2016 it was estimated that none of these sets could be sold. The shop had 25 of these sets in stock on 31 May 2016 which had been purchased at a cost of R1 800 each.

No entry has been recorded for this change in net realisable value for the current year.

4. On 5 April 2016 a guest at the hotel slipped in the foyer and injured her back. The hotel received a letter from the guest's lawyer demanding R40 000 in compensation.

The hotel has approached its lawyers who have indicated that it is very likely that the hotel will be found negligent and they believe the claim is reasonable. They have also notified the hotel that their fees for handling the case will be 15% of the claim. Management has agreed for the lawyers to start proceedings. The case is expected to be finalised during June 2016. No entries have been recorded regarding this matter.

5. During the current year there was a change in the estimated remaining useful life of the hotel's computer system. The system, which cost R180 000, was installed on 1 June 2011. It had an original estimated useful life of eight years and a nil residual value. However, due to the rapid development of technology, the remaining useful life as at 1 June 2015 was two years. There is still no expected residual value.

The company accounts for changes in accounting estimate on the cumulative catch-up method. The bookkeeper was not informed of this decision and processed the 2016 depreciation based on the previous estimate. The total depreciation expense of R395 500 for 2016 is included in operating expenses.

6. The tax rate is 28%.
7. There are no permanent differences between accounting profit and taxable income.
8. The company prepares a single statement of comprehensive income and classifies expenses by function.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
a)	i) Define a <b>liability</b> and a <b>provision</b> in terms of the <i>Conceptual Framework</i> and IAS 37 <i>Provisions, contingent liabilities and contingent assets</i> ; and		3
	ii) Referring to these definitions, briefly explain how <i>Amalfi</i> should account for the event in point 4 above.		9
b)	i) List the performance obligations in the contract with the customer in point 1; and		3
	ii) Show how the transaction price in this contract should be allocated to the performance obligations in the contract.		7
c)	Prepare a Revenue note to the financial statements for the year ended 31 May 2016 showing the revenue disaggregated by activity.		6
d)	Prepare the <u>statement of comprehensive income</u> of Amalfi Limited for the year ended 31 May 2016, in compliance with International Financial Reporting Standards.  Show your workings. No comparatives are required. Round off to the nearest rand.		21
<b>Presentation marks (language, logic, neatness)</b>			<b>3</b>
<b>Total</b>			<b>51</b>

Source: Nelson Mandela Metropolitan University (Adapted)

**QUESTION 2**

**45 marks**

**1 Background**

*Zakumi Limited* ("Zakumi") specialises in manufacturing and marketing FIFA World Cup accessories.

**2 Information**

The following information was extracted from the general ledger of Zakumi Limited for the year ended 31 December 2016:

<b>Financial position data as at 31 December 2016</b>		
	<b>Notes</b>	<b>R</b>
Land – cost	1	750 000
Buildings – cost	1	2 250 000
Buildings – accumulated depreciation	1, 2	637 500
Equipment – cost	3	?
Equipment – accumulated depreciation	3	?
Vehicles – cost	4	1 150 000
Vehicles – accumulated depreciation	4	575 000
Accounts receivable		225 000
Bank		100 000
Petty cash		5 000
<b>Comprehensive income data</b>		
Depreciation		
- Buildings		?
- Equipment		250 000
- Vehicles		230 000

**Additional information:**

Land and buildings

- Buildings comprise an office and a warehouse. Both the office and the warehouse are depreciated on the straight line basis over 15 years. The buildings were purchased on 1 October 2012 for R3 million. An extract of the purchase agreement is shown below:

<b>Purchase agreement for the non-current assets (situated at 1 Recreation Road, East London): 1 October 2012</b>	<b>R</b>
Land	750 000
Office	300 000
Warehouse	1 950 000
<b>Total purchase price</b>	<b>3 000 000</b>

- Depreciation and accumulated depreciation on buildings was correctly calculated.

## Equipment

3. The equipment which originally cost R2 400 000 was brought into use on 1 July 2014 with an expected useful life of 8 years with a zero residual value. On initial acquisition the motor inside the equipment (original cost R400 000) was not identified as a separate component. On 30 September 2016 the motor ceased and needed to be replaced. The new motor was imported and the following costs were incurred in bringing the equipment available for use on 31 October 2016. The new motor has an expected useful life of 3 years:
- |   |           |
|---|-----------|
| o Purchase price (carriage, insurance and freight)                  | R 750 000 |
| o Import duties (non-refundable)                                    | R112 500  |
| o Installation costs  | R 32 750  |
| o Re-training staff on correct operation and maintenance Procedures | R 7 685   |
| o Testing the machine before re-starting production                 | R 17 300  |
| o Proceeds from sale of units produced during test                  | R 6 300   |
| o Loss suffered due to lost production                              | R356 378  |

## Motor vehicles

4. Motor vehicles have a useful life of 5 years. At the end of the year, the carrying amount of one of the motor vehicles declined in value. An impairment adjustment was NOT passed. The following information is relevant:
- Carrying amount: R450 000
  - Original cost: R600 000
  - Fair value less cost to sell: R200 000
  - Value in use: R330 000

## Events after the reporting

5. An accident occurred when certain prototype “vuvuzela’s” were delivered to Danny Jordan of the Local Organising Committee. The truck’s tail-gate flung open and the “vuvuzela’s” fell across one of the national highways. The accident resulted in the death of 30 foreign tourists. A class action law suit was brought against *Zakumi* because the truck was not roadworthy. An extract of the letter from *Zakumi* ‘s legal advisors states:

*“...it is not probable that we will lose the case, however the possibility of losing is stronger than remote”.*

The legal advisors estimate that the total cost of being found liable will be approximately R9 million. This information was NOT recorded in the accounting records.

6. On 14 February 2017, one of *Zakumi*’s drivers had an accident that caused a car to explode which resulted in damages of approximately R250 000 to the warehouse. *Zakumi* entered into a contract with Buddy Builders (Pty) Limited to repair the damaged warehouse. *Zakumi* did not insure their buildings, and the repairs for the damaged

warehouse will be financed by a bank loan. The accountant is not sure how to record the above transaction in the financial statements, and NO entry for the damage/repairs was recorded in the accounting records.

QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
(a)	<p>Prepare the journal entries to record the following transactions related to Equipment for the financial year ended 31 December 2016:</p> <ul style="list-style-type: none"> <li>- Disposal of the ceased motor</li> <li>- Purchase of the imported equipment including all relevant costs</li> <li>- Depreciation of equipment for the year</li> </ul> <p>Closing journals, journal narrations and taxation entries are NOT required.</p> <p>Journal dates are required.</p>		9
(b)	<p>After you have corrected ALL errors or omissions based on the information provided, prepare the following notes to the financial statements of Zakumi Limited for the year ended 31 December 2016 in compliance with International Financial Reporting Standards and the minimum requirements of the Companies Act</p> <ul style="list-style-type: none"> <li>• Property, plant and equipment (Total column not required)</li> <li>• Contingent liabilities</li> <li>• Events after the reporting period</li> </ul> <p><u>Note:</u> Comparative information is NOT required. You should ignore VAT and deferred tax. Show ALL your workings. Indicate clearly which elements of cost you have included in equipment.</p>	<p>26 2 2</p>	36
<b>Communication marks</b>			2
<b>Total</b>			47

**PART A**

You are the audit manager of Trixie Comestics. The bookkeeper, who is new at the company, is trying to understand the accountant's journal entries relating to deferred taxation. The journal entry is as follows:

Dr	Deferred tax expense	134 000	
Cr	Deferred tax liability		134 000

Please assist the bookkeeper in understanding this entry by answering some questions.

**PART B****1 Background**

*Rocky Mountains Ltd* ("Rocky") is a distributor of mountain gear for outdoor enthusiasts. The accountant has had an emergency operation and left you with the calculation of normal tax and deferred tax for the year ended 31 March 2017.

**2 Information**

You are given an extract of the trial balance:

<b>Rocky Mountains Ltd</b>			
<b>Extract of the draft trial balance at 31 March 2017</b>			
	<b>Notes</b>	<b>Debit R</b>	<b>Credit R</b>
Dividends received		5 000	
Vehicles - Cost	1	930 000	
Vehicles - Accumulated depreciation	1		485 500
Profit on disposal of vehicles	1	?	
Depreciation on vehicles	1	?	
Fines and penalties	2	2 000	
Expenses prepaid	3	25 000	
SARS - current tax payable at 1/4/2016	4	5 000	

**Notes**

- All vehicles were purchased on 1 April 2014. A Land Rover which originally cost R450 000 was sold on 1 September 2016 for R300 000. This transaction has been correctly recorded.

Vehicles are depreciated at 20% per annum using the straight line method. South African revenue services (SARS) allows the company to deduct wear and tear on a straight line basis over 3 years.

- For the last 2 years, the bookkeeper of Rocky Mountains Ltd has forgotten to pay the annual subscriptions to its licensing body, Extreme Sports of South Africa. As a result, the company incurred a penalty of R2 000.

3. The bookkeeper is going abroad in April 2017 and therefore paid the rental in advance. SARS allows expenses to be deducted when paid. This expense was not prepaid last year.
4. The following payments were made during the 2017 tax year:
  - First provisional tax payment for 2017: R400 000
  - Second provisional tax payment for 2017: R450 000
  - Third provisional tax payment for 2017: R 40 000

Settlement of the balance of 2016 tax due including an underprovision of tax of R45 000 was made.

Other information:

5. Profit before tax has been correctly calculated at R 2 600 000.
6. There are no other differences between accounting profit and taxable profit other than those evident from the information given.
7. Dividends of R30 000 were declared during the year. The accountant discovered that this transaction has not yet been journalised.
8. The normal tax rate is 28%

QUESTION 3 – REQUIRED		Marks	
		Sub-total	Total
	<b>PART A</b>		
a)	Why is it necessary to provide for deferred tax when we have already accounted for current tax expense?		1
b)	What does the debit to the deferred tax expense account represent?		2
	<b>PART B</b>		
c)	Calculate taxable income for the year ended 31 March 2017, separately identifying all temporary and permanent differences. Show all your workings		20
d)	Prepare the tax expense note to the annual financial statements of Rocky Mountains Limited for the year ended 31 March 2017, in accordance with International Financial Reporting Standards.		9
e)	Calculate the balance of current tax payable in the statement of financial position of Rocky Mountains Limited at 31 March 2017. Show all your workings.		7
<b>Communication marks</b>			<b>3</b>
<b>Total</b>			<b>42</b>

**QUESTION 4****9 marks****1 Background**

MATLABAS LIMITED is a retail company. Matlabas values its inventory using the first in first out (FIFO) method. The new management accountant that joined Matlabas during the 2015 financial year **incorrectly calculated the cost of inventory** at 30 September 2015 using the weighted average method. He continued to use the weighted average method during 2016. The financial director has recently identified this error and the necessary corrections need to be made.

The following is an extract from the management reports as prepared by the management accountant:

**2 Information**

	Year ended 30/09/2015	Year ended 30/09/2016
	R	R
Opening inventories		
- At 1 October 2014 (FIFO)	515 000	
- At 1 October 2015 (Weighted average)		3 387 353
Closing inventories (Weighted average)	3 387 353	676 102

The closing inventories balance on 30 September 2014 comprised 112 500 units.

The following transactions occurred during the financial years ended 30 September:-

**2015**

1 November 2014 Purchased 1 800 000 units at R3,90 each for cash.

31 January 2015 Sold 1 040 000 units at R6,50 each for cash.

**2016**

30 April 2016 Purchased 220 000 units at R3,00 each for cash.

31 July 2016 Sold 910 000 units at R7,00 each for cash.

The net realisable value of all inventories at the end of each financial year exceeded the cost thereof, valued on both the weighted average and the first-in, first-out methods.

QUESTION 4 – REQUIRED		Marks	
		Sub-total	Total
a)	Calculate the correct closing inventory at 30 September 2015 and 30 September 2016 using the first in first out method.		9
<b>Total</b>			<b>9</b>

Source: University of Pretoria (Adapted)