



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting
Financial Accounting 2B
FAC22B2 / FAC2BB2

Last Assessment Opportunity

21 November 2016

Time: 3 hours

Marks: 100

Assessors: Mr N Ebrahim Mrs L Mathebula Mr K Morake Dr N Rhodes

Moderator: Mrs S Adam (internal)

INSTRUCTIONS:

- This paper consists of **8** pages (including the cover page).
- Answer all questions. Show all calculations and workings clearly.
- Answer each question in the **different colour book** as indicated
- Silent, non-programmable calculators may be used.
- Where applicable, round all calculations to two decimal places, unless stipulated otherwise.
- Use **ONLY BLUE OR BLACK INK. NO PENCIL WORK WILL BE MARKED**
- **ANSWER EACH QUESTION IN NEW BOOK**

Question	Topic	Marks	Time
1	Sage Evolution & Financial Instruments	25	45 minutes
2	PPE and Events after BS date	25	45 minutes
3	Impairment & Provisions	25	45 minutes
4	Integrated & Disclosure	25	45 minutes
		100	180 minutes

Question 1**25 Marks**

The following is an extract of Exclusia Ltd's trial balance for the reporting period 30 April 2016:

Balance Sheet		
Net Profit		27 766.49
5110 (Share Capital Class A)	Share Capital	800 000.00
5120 (Share Capital Class B)	Share Capital	100 000.00
5200 (Accumulated Profit8772)	Retained Earnings	4 077 472.33
5400 (Loans Payable8772)	Non Current Liability	1 000 000.00
6000>010 (Buildings>Acc.	Property, Plant and Equipment	75 136.00
6000>020 (Buildings>Cost8772)	Property, Plant and Equipment	1 878 400.00
6100>010 (Computer	Property, Plant and Equipment	17 550.00
6100>020 (Computer	Property, Plant and Equipment	46 800.00
6200>010 (Furniture &	Property, Plant and Equipment	22 875.00
6200>020 (Furniture &	Property, Plant and Equipment	61 000.00
6500>010 (Plant &	Property, Plant and Equipment	166 666.67
6500>020 (Plant &	Property, Plant and Equipment	500 000.00
6600 (Land 8772)	Other Fixed Assets	1 000 000.00
6700 (Investment 8772)	Share Capital	400 000.00
7100 (Receivables Control8772)	Trade Receivables	655 040.80
7400 (Stock8772)	Inventories	738 087.55
7450 (Input VAT 8772)	Other Current Asset	1 939.13
8420 (Current Account8772)	Cash and Cash Equivalents	1 060 943.20
9300 (Purchases Accrual)	Other Current Liability	0.01
9620 (Output VAT 8772)	Other Current Liability	54 744.18
		6 342 210.68
		6 342 210.68

REQUIRED:

- 1.1 Define Financial Liabilities in terms of section 11 of IFRS for SME's. (4)
- 1.2 Identify and list all the Financial Liabilities (account number and name only) from above extract of the Exclusia Ltd trial balance for the reporting period ended 30 April 2016. (4)
- 1.3 Explain the hierarchy in terms of section 11 of IFRS for SME's to determine the fair value of a financial instrument. (6)
- 1.4 Exclusia Ltd uses Sage Evolution as their accounting software. What is the correct account type for account 6700 in the extract of Exclusia's trial balance above? (2)
- 1.5. Prepare an extract of the Statement of financial position for Exclusia (Ltd) as at 30 April 2016 for the Non-current assets section using the information in the trial balance above. (9)

(25 Marks)

Question 2**25 Marks**

The annual financial statements for the reporting period ended 31 December 2015 of Tiger Ltd were approved and signed by the management of the entity on 16 March 2016.

The following is an extract obtained from the fixed asset register of Tiger Ltd on the 31 December 2014.

The entity uses the historic cost model to account for Property, Plant and Equipment

<u>Asset Type</u>	<u>Date of Purchase</u>	<u>Cost R</u>	<u>Useful Life</u>	<u>Depreciation Method</u>
Land	01 January 2014	1 800 000	-	-
Buildings	01 January 2014	2 500 000	20 years	Reducing Balance
Vehicles	01 January 2014	1 600 000	8 years	Straight line

Additional information:

- Improvements amounting to R 135 000 were effected on buildings on 1 January 2015
- On 31 December 2015, a motor vehicle with a carrying amount of R 120 000 in the records of Tiger Ltd and a fair value of R 140 000, was exchanged for a delivery vehicle of Delta Ltd, with a fair value of R142 000. The fair value of both vehicles can be readily determined, since an active market for similar vehicles exists.
- A vehicle with an original cost of R 160 000, and a residual value of R 20 000, was sold on 30 June 2015 for R 115 000
- On 28 February 2016 one of the company's customers was declared bankrupt. At 31 December 2015 this client owed the company R100 000 .The customer has been in financial difficulty for most of the past year. Liquidators have suggested that no payments would be forthcoming.

REQUIRED:

- 2.1 Prepare the journal entry for the acquisition of the delivery vehicle in exchange of the motor vehicles in the books of Tiger Limited for the reporting period ended 31 December 2015 (3)
- 2.2 Prepare the Accounting Policy Note for Property, Plant and Equipment for Tiger Limited for the reporting period ended 31 December 2015 (4)
- 2.3 Prepare an extract of the Profit before tax note after taking into account the above transactions points 1-3 in the books of Tiger Limited for the reporting period ended 31 December 2015 (8)
- 2.4 Explain in detail how Tiger Ltd would account for dividends that are declared after the end of the reporting period but before the AFS have been authorised for issue? (3)
- 2.5 Explain in detail how Tiger Ltd would account for non-adjusting events that have occurred after the end of the reporting period in terms of recording and disclosure as per IFRS for SME's? (3)
- 2.6 With regards to the matter that came to the director's attention above (Point 4). Discuss whether the above matter is an adjusting or non - adjusting event. Provide reasons for your answer. (2)

2.7 Discuss how the entity should account for this event in its accounting records for the reporting period ended 31 December 2015. (2)

Example of required journal layout:

		Account Debited	Account Credited
Bank (50% x R20 469.12)	SFP	R10 234.56	
Accounts Receivable (50%x 20 469.12)	SFP		R10 234.56

Journal narrations are not required. Show all workings next to account description. Work to two decimal places. Use the format given for each journal. Insert additional lines if necessary. Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position
P/L = Statement of profit and loss
SOCE = Statement of changes in equity

(25 Marks)

Question 3**25 Marks**

Example (Pty) Ltd is a manufacturing entity based in Johannesburg. Example Pty (Ltd) has a 31 December reporting date. You are the financial manager for the entity and you are busy preparing the financial statements for the reporting period ended 31 December 2015.

Example (Pty) Ltd has the following assets on the 31 December 2015

	Cost	Acc depreciation	FV	Cost to sell	Value in use
Land and buildings	R1 400 000	R650 000	R750 000	R50 000	R720 000
Equipment	R800 000	R400 000	R500 000	R0	R380 000
Vehicles	R550 000	Note 1	R450 000	R0	R380 000

Note 1

All vehicles were acquired on 01 July 2015. Vehicles are depreciated using the straight line method over a useful life of 5 years. They will be sold for R50 000 at the end of their useful lives.

Note 2

The following incident came to your attention and has not been accounted for:

During their manufacturing process, Example (Pty) Ltd contaminated a local river with oil without being aware of it. According to the environmental law in South Africa, when an entity contaminates a river, it is held liable for all the costs to clean it. Example (Pty) Ltd consulted with its lawyers and it was confirmed that there is no way that the entity will avoid these costs. The costs to clean the river are estimated to be R5 000 000 and will have to be settled within 6 months after year end.

REQUIRED:**PART A**

3.1 Calculate impairment loss for the above assets for the reporting period ended 31 December 2015. (11)

3.2 Prepare all the journal entries to account for the impairment in the records of Example Pty Ltd for the reporting period ended 31 December 2015. (4)

SHOW ALL CALCULATIONS AND IGNORE VAT

PART B

3.3 Complete the definition below

A provision is a _____ of _____ (2)

3.4 State whether the above **Note 2** transaction is a legal or constructive obligation and provide reasons for your answer? (3)

3.5 Prepare the journal entries to account for the above transaction in the books of Example Pty Ltd for the financial reporting period ended 31 December 2015 (2)

3.6 Present the provision in the statement of financial position of Example (Pty) Ltd for the financial reporting period ended 31 December 2015. (3)

Example of required journal layout:

		Account Debited	Account Credited
Bank (50% x R20 469.12)	SFP	R10 234.56	
Accounts Receivable (50% x 20 469.12)	SFP		R10 234.56

Journal narrations are not required. Show all workings next to account description. Work to two decimal places. Use the format given for each journal. Insert additional lines if necessary. Please use the following abbreviated classifications next to each account name in your journal entries as marks have been allocated to this:

SFP = Statement of financial position
P/L = Statement of profit and loss
SOCE = Statement of changes in equity

(25 Marks)

Question 4**25 Marks**

RioPic (Pty) Ltd is a specialist company that provides state of the art training for Olympic athletes. RioPic (Pty) Ltd has the most advanced software and training equipment to enhance and improve athlete's performance. The companies reporting period ends on the 31 December 2015. Below is the pre-adjusted Trial balance for the reporting period ending 31 December 2015.

Trial balance as at 31 December 2015	R Debit	R Credit
Land	R 1 000 000	
Building	R 2 300 000	
Computer Equipment	R 1 850 000	
Equipment	R 5 000 000	
Accumulated Depreciation: Building		R 750 000
Accumulated Depreciation: Computer Equipment		R 980 000
Accumulated Depreciation: Equipment		R 1 200 000
Inventory	R 500 000	
Accounts Receivable	R 750 000	
Bank	R 1 500 000	
Prepaid Expenses	R 60 000	
Share Capital		R 1 200 000
Retained Earnings: 1 January 2015		R 6 040 000
Accounts Payable		R 625 000
Provision for warranty : 1 January 2015		R 1 400 000
Revenue		R 9 500 000
Cost of Sales	R 3 500 000	
Advertising	R 125 000	
Bad Debts	R 60 000	
Depreciation	R 2 150 000	
Repairs and Maintenance	R 990 000	
Salaries and Wages	R 2 300 000	
Water and Electricity	R 130 000	
	R 21 695 000	R 21 695 000

Additional information not yet taken into account

1. Team Instinct has been a material debtor to RioPic (Pty) Ltd for many years. On the 3 January 2016 Team Instinct was declared insolvent. During the current reporting period, RioPic was aware of the financial difficulty Team Instinct was experiencing. Team Instinct's balance owing as at 31 December 2015 amounted to R 550 000. 35% of the balance owing will be recovered and repaid to RioPic (Pty) Ltd. The AFS was authorized for issue by the board on the 10 January 2016.

2. During the current reporting period, RioPic (Pty) Ltd sold AwesomeFit watches to athletes. These watches were sold under a warranty. It is estimated that it will cost the company R 10 000 to repair a watch if it has a major defect and R 3900 if a watch has a minor defect. 1 200 were sold under warranty. It is estimated that 12% of the units sold will have a minor defect and 2% of the units sold will have a major defect. None of the above has been accounted for during the current year.

3. On the 1 November 2015, a power surge hit the company due to the constant load shedding. Equipment with a cost of R 500 000 was damaged. The Value in Use on this date amounted to R 251 000 and the Fair Value less Cost to Sell amounted to R 245 000. The asset was purchased on the 1 January 2013. The asset is depreciated of its useful life of 6 years using the diminishing balance method. Depreciation has been correctly accounted for.

REQUIRED:

4.1 From the additional information above **complete the table below for any journal entries not taken into account.** *Show all workings/calculations* (16)

Debit	Credit	Sage Module where Transaction is Recorded	A	= OE	+ L

4.2 Prepare the **statement of profit and loss** for the reporting period ended 31 December 2015. (7)

4.3 Prepare the **notes** to AFS for **Provisions** for the reporting period ended 31 December 2015. (2)

(25 Marks)