DEPARTMENT OF FINANCIAL ACCOUNTING

ACCOUNTING I
Accounting reporting (ACN102N)
(Module 2)

Tutorial letter 202/2/2007

Dear student

Enclosed the solution to Assignment 02/2007, the October 2005 examination paper and the memorandum thereof.

The following questions or parts of questions of Assignment 02 have been marked:

Question		Marks
2 (1)	(Admission of a partner, dissolution of a partnership)	25
3 (1)	(Statement of changes in net investment of members)	9
3 (2)	(Balance sheet – ASSETS section)	11
4 (2)	(General journal – partial)	15
		60

It is in your own interest to work through the assignment and examination paper in conjuction with the solutions and your written answers.

With kind regards

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LECTURERS: ACCOUNTING I: Accounting reporting (ACN102N)

ANNEXURE A: SOLUTION TO ASSIGNMENT 02/2/2007
ANNEXURE B: EXAMINATION PAPER AND MEMORANDUM: OCTOBER 2005

ANNEXURE A: SOLUTION TO ASSIGNMENT 02/2007

Marking scheme for all questions: ^ = ½ mark; ✓ = 1 mark

NB: An encircled figure refers to a calculation. With each calculation, an analysis of the mark allotted is given. When assignments are marked, the calculation of an answer will only be referred to when an answer (of a calculation) is incorrect. If the answer of a calculation is correct, the full calculation marks will be given without referring to the details of the calculation. **However, you must show all calculations when answering an examination paper. Full marks will not necessarily be allotted if only the answer of a calculation is shown.**

QUESTION 1 (30 marks)

DO DI TRADERS^

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 20.2^

	Note	R	
Revenue ①		455 800	✓^
Cost of sales		(395 858)	
Inventory (1 April 20.1)		42 500	^
Purchases ②		386 558	✓^
Delivery expenses		6 500	^
		435 558	
Inventory (31 March 20.2)		(39 700)	^
Gross profit		59 942	^
Other income		5 003	
Profit on sale of office furniture		3 480	^
Discount received		1 523	^
		64 945	
Distribution, administrative and other expenses		(253 220)	
Bad debts ③		7 200	(4)
Bank charges		1 475	^
Delivery expenses - sales		3 450	^
Depreciation ④ & ⑤		38 640	(10)
Discount allowed		5 620	^
Fuel and sundry vehicle expenses		14 400	^
Maintenance and repairs – office furniture		1 250	^
Marketing fees		5 460	^
Rent expense		27 000	^
Salaries and wages R(155 000 - 15 000)		140 000	✓
Stationery consumed ⑥		5 105	✓✓
Telephone expenses		3 620	^
Finance costs		(22 500)	
Interest on long-term loan R(21 250 + 1 250)⑦		22 500	✓^
Loss for the year		(210 775)	^

(30)

QUESTION 1 (continued)

Calculations

① **Revenue**

	R
Sales	462 800 ^
Sales returns	(7 000) ^
	455 800 ^
	(1½)

② **Purchases**

	R
Purchases	391 643 ^
Purchases returns	(2 585) ^
Drawings: D Do	(2 500) ^
	386 558
	(1½)

③ **Bad debts**

The closing balance of the provision for bad debts account on 31 March 20.2 must be:

5%^ x R(100 000 – 5 000)^ = R4 750^ (new provision)

New provision – old provision = amount of increase in provision for bad debts:

R(4 750^ – 2 550^) = R2 200

The bad debts that must be disclosed in the income statement is equal to:

Bad debts written off + amount of increase in the provision for bad debts:

= R(5 000^ + 2 200^)
= R7 200^

(4)

④ **Depreciation: office furniture**

- Calculation of the cost price of the office furniture at the beginning of the year:

	R
Cost price at the end of the year	190 000 ^
Office furniture sold - 30/9/20.1	20 000 ^
	210 000
Office furniture purchased - 30/9/20.1	(40 000) ^
Cost price at the beginning of the year	170 000 ^

<u>QUESTION 1</u> (continued)

- Depreciation on the office furniture in possession for the whole year:

  R(170 000^ – 20 000^) = R150 000 (cost price) **or**
  R(190 000^ – 40 000^) = R150 000

  R(150 000 – 73 200^) = R76 800^ (carrying amount)
  R76 800 x 20%^ = R15 360^

  <u>Comment</u>:
  The accumulated depreciation pertaining to the sold office furniture was journalised out of the books at the date of sale. Therefore, the amount of R73 200 at 30 September 20.1 pertains only to the office furniture that Do Di Traders had in its possession for the whole year, namely R150 000.

- Depreciation on the office furniture that was sold during the year:
  Given: R1 280

- Depreciation on the office furniture that was purchased during the year:
  R40 000^ x 20% x $^{6}/_{12}$^ = R4 000

- Total amount of the (current) depreciation on the office furniture:
  R(15 360 + 1 280 + 4 000) = R20 640^^

(7)

⑤ **Depreciation - vehicles**

R(200 000^ – 20 000✓) ÷ 10✓ = R18 000^

(3)

⑥ **Stationery consumed**

	R	
Opening inventory	3 250	^
Purchases	2 540	^
Closing inventory	(450)	^
Drawings: D Di	(235)	^
	5 105	

(2)

⑦ **Interest on long-term loan**

	R	
R125 000^ x 18%^	^22 500	(as shown in income statement)
Less amount already paid	(21 250)	(from list of balances)
Amount still payable	1 250	

R1 250 is included in "Trade and other payables" in the Balance Sheet.

(1½)

QUESTION 1 (continued)

The statement of changes in equity, the balance sheet and the notes to the financial statements were not required, but are included in the solution, should you be interested in preparing it.

DO DI TRADERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 20.2

	Capital		**Current accounts**		**Appro-**	
	D Do	**D Di**	**D Do**	**D Di**	**priation**	**Total**
	R	**R**	**R**	**R**	**R**	**R**
Balances at 1 April 20.1	300 000	250 000	(27 500)	15 000	-	537 500
Loss for the year					(210 775)	(210 775)
Salary to partner				15 000	(15 000)	-
Interest on capital			25 500	21 250	(46 750)	-
Interest on current accounts			(4 125)	2 250	1 875	-
Partners' share of loss ①			(147 627)	(123 023)	270 650	-
Drawings ②			(67 500)	(70 235)		(137 735)
Balances at 31 March 20.2	300 000	250 000	(221 252)	(139 758)	-	188 990

Calculations

① **Partners' share of loss**

Calculation of loss:

	R
Loss as per income statement	(210 775)
Salary to D Di	(15 000)
Interest on capital: D Do	(25 500)
D Di	(21 250)
Interest on current accounts: D Do	4 125
D Di	(2 250)
Loss to be appropriated	(270 650)

When the ratio according to which the profits/losses between the partners must be appropriated is not given, the partners' capital contributions are used to calculate the ratio:

Therefore: Capital: D Do : Capital: D Di
300 000 : 250 000

D Do's share is $\frac{300\ 000}{550\ 000} \times \frac{R270\ 650}{1}$

= R147 627.27
≈ R147 627 (shown to the nearest rand)

QUESTION 1 (continued)

D Di's share is $\frac{250\ 000}{550\ 000} \times \frac{R270\ 650}{1}$

= R123 022.73
≈ R123 023 (shown to the nearest rand)

② **Drawings**

	D Do	D Di
	R	**R**
Balance as per trial balance	65 000	55 000
Salary: D Di		15 000
Trading inventory/stationery inventory	2 500	235
	67 500	70 235

DO DI TRADERS

BALANCE SHEET AS AT 31 MARCH 20.2

	Note	R
ASSETS		
Non-current assets		268 640
Property, plant and equipment		268 640
Current assets		130 400
Inventories R(39 700 + 450)		40 150
Trade and other receivables R(100 000 - 5 000 - 4 750)		90 250
Total assets		399 040
EQUITY AND LIABILITIES		
Total equity		188 990
Capital * R(300 000 + 250 000)		550 000
Current accounts * R(221 252 + 139 758)		(361 010)
Total liabilities		210 050
Non-current liabilities		125 000
Long-term loan (unsecured)		125 000
Current liabilities		85 050
Bank overdraft		9 800
Trade and other payables R(74 000 + 1 250)		75 250
Total equity and liabilities		399 040

* See statement of changes in equity.

QUESTION 1 (continued)

DO DI TRADERS

NOTES FOR THE YEAR ENDED 31 MARCH 20.2

1. Accounting policy

1.1 Basis of presentation

The annual financial statements have been prepared on the historical cost basis to comply with Generally Accepted Accounting Practice, appropriate to the business of the partnership. The following principal accounting policies, which are consistent with those of previous years, were applied:

1.2 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation on assets is written off at a rate deemed to be sufficient to reduce the carrying amount of the assets over their estimated useful life to their residual value. The depreciation rates are as follows:

Office furniture: 20% per annum according to the diminishing-balance method.
Vehicles: According to the straight-line method.

1.3 Inventories

Inventories are valued at the lower of cost and net realisable value.

1.4 Revenue

Revenue consists of the total net invoiced sales excluding value-added tax. The revenue from sales is recognised when the ownership of the inventory of the business is transferred to the customer.

2. Property, plant and equipment

	Office furniture	**Vehicles**	**Total**
	R	**R**	**R**
Carrying amount: Beginning of year	89 600	189 200	278 800
Cost	170 000	200 000	370 000
Accumulated depreciation	(80 400) ①	(10 800)	(91 200)
Additions	40 000	-	40 000
Disposals R(20 000 - 8 480)	(11 520)	-	(11 520)
Depreciation for the year	(20 640)	(18 000)	(38 640)
Carrying amount: End of year	97 440	171 200	268 640
Cost	190 000	200 000	390 000
Accumulated depreciation	(92 560) ②	(28 800)	(121 360)

QUESTION 1 (continued)

Calculations

①

Dr Accumulated depreciation: office furniture Cr

	R		R
Realisation account (Total amount of depreciation written back) ❶	8 480	Balance b/d *	80 400
Balance (30/9/20.1) c/d	73 200	Depreciation (sold furniture)	1 280
	81 680		81 680

* Balancing entry

❶ **Total amount of depreciation written back**

Carrying amount of sold office furniture + Profit on sale of office furniture = Selling price

Carrying amount = R(15 000 - 3 480)
= R11 520

Cost price - Accumulated depreciation (AD) = Carrying amount
R20 000 - AD = R11 520
AD = R8 480

② **Accumulated depreciation: office furniture**

R(80 400 + 20 640 - 8 480) = R92 560

<u>QUESTION 2</u> (43 marks)

1.
A AND B TRADING AS:
AB TRADERS

GENERAL JOURNAL

		Debit	Credit
20.1		R	R
Feb 28 *	Furniture and equipment^ R(100 000 – 80 000)	✓20 000	
	Inventories^ R(35 000 – 30 000)	✓5 000	
	Valuation account^		^25 000
	Adjustments to the balances of the assets to that of their valuations in preparation for the admission of C		
*	Valuation account^	^1 000	
	Provision for bad debts^ (R20 000 x 5%)		^1 000
	Providing for bad debts in preparation for the admission of C		
	Valuation account^	^24 000	
	Capital: A^ ($^5/_8$ x R24 000)		^15 000
	Capital: B^ ($^3/_8$ x R24 000)		^9 000
	Closing off the balancing amount in the valuation account to the capital accounts of A and B in their profit-sharing ratio.		
	Goodwill^	✓✓^①36 000	
	Capital: A^ ($^5/_8$ x R36 000)		^22 500
	Capital: B^ ($^3/_8$ x R36 000)		^13 500
	Recording goodwill in preparation for the admission of C.		
	Transferral account^	^216 000	
	Furniture and equipment^		^100 000
	Goodwill^		^36 000
	Inventories^		^35 000
	Trade debtors^		^20 000
	Bank^		^25 000
	Closing off the balances of the assets accounts to the transferral account to record the dissolution of the partnership.		
	Capital: A^ R(87 500 + 15 000 + 22 500)	^125 000	
	Capital: B^ R(52 500 + 9 000 + 13 500)	^75 000	
	Trade creditors^	^15 000	
	Provision for bad debts^	^1 000	
	Transferral account^		^216 000
	Closing off the balances of the equity, liability and provision accounts to the transferral account to record the dissolution of the partnership		

(25)

QUESTION 2 (continued)

Comment
*Alternatively the first two (2) journal entries can be shown as one entry, as per the study guide and the prescribed textbook.

		Debit	Credit
20.1		R	R
Feb 28	Furniture and equipment^ R(100 000 – 80 000)	✓20 000	
	Inventories^ R(35 000 – 30 000)	✓5 000	
	Provision for bad debts^ (R20 000 x 5%)		^1 000
	Valuation account✓		✓24 000
	Recording the valuation adjustments		

(25)

Calculation

① Goodwill

Selling price of the net assets of the new partnership is:
R50 000^ x 5^ ($^{100}/_{20}$) = R250 000 (Fair value of net assets)

Fair value – Total of equity accounts = purchased goodwill
R250 000 – R[(87 500 + 15 000)^ + (52 500 + 9 000)^ + 50 000^]
= R250 000 – R214 000
= R36 000

(2½)

The general ledger is shown for explanatory purposes.

A AND B TRADING AS:
AB TRADERS

GENERAL LEDGER

Dr — Furniture and equipment — Cr

20.1		R	20.1		R
Feb 28	Balance b/d	80 000	Feb 28	Transferral account	100 000
	Valuation account	20 000			
		100 000			100 000

Dr — Goodwill — Cr

20.1		R	20.1		R
Feb 28	Capital: A ($^5/_8$ x R36 000)	22 500	Feb 28	Transferral account	36 000
	Capital: B ($^3/_8$ x R36 000)	13 500			
		36 000			36 000

<u>QUESTION 2</u> (continued)

Dr Inventories Cr

20.1			R	20.1		R
Feb 28	Balance	b/d	30 000	Feb 28	Transferral account	35 000
	Valuation account		5 000			
			35 000			35 000

Dr Trade debtors Cr

20.1			R	20.1		R
Feb 28	Balance	b/d	20 000	Feb 28	Transferral account	20 000

Dr Provision for bad debts Cr

20.1		R	20.1		R
Feb 28	Transferral account	1 000	Feb 28	Valuation account	1 000

Dr Bank Cr

20.1			R	20.1		R
Feb 28	Balance	b/d	25 000	Feb 28	Transferral account	25 000

Dr Capital: A Cr

20.1		R	20.1			R
Feb 28	Transferral account	125 000	Feb 28	Balance	b/d	87 500
				Valuation account		15 000
				Goodwill①		22 500
		125 000				125 000

Dr Capital: B Cr

20.1		R	20.1			R
Feb 28	Transferral account	75 000	Feb 28	Balance	b/d	52 500
				Valuation account		9 000
				Goodwill①		13 500
		75 000				75 000

QUESTION 2 (continued)

Dr Trade creditors Cr

20.1		R	20.1		R
Feb 28	Transferral account	15 000	Feb 28	Balance b/d	15 000

Dr Valuation account Cr

20.1		R	20.1		R
Feb 28	Provision for bad debts		Feb 28	Inventories	
	(R20 000 x 5%)	1 000		R(35 000 – 30 000)	5 000
	Capital: A ($^5/_8$ x R24 000)	15 000		Furniture and equipment	
	Capital: B ($^3/_8$ x R24 000)	9 000		R(100 000 – 80 000)	20 000
		25 000			25 000

Dr Transferral account Cr

20.1		R	20.1		R
Feb 28	Furniture and equipment	100 000	Feb 28	Capital: A	125 000
	Goodwill	36 000		Capital: B	75 000
	Inventories	35 000		Trade creditors	15 000
	Trade debtors	20 000		Provision for bad debts	1 000
	Bank	25 000			
		216 000			216 000

QUESTION 2 (continued)

2.
A, B AND C TRADING AS:
ABC TRADERS

GENERAL JOURNAL

		Debit	Credit
20.1		**R**	**R**
Mar 1	Furniture and equipment^ ($^{125\ 000}/_{200\ 000}$ x R100 000)	^62 500	
	Goodwill^ ($^{125\ 000}/_{200\ 000}$ x R36 000)	^22 500	
	Inventories^ ($^{125\ 000}/_{200\ 000}$ x R35 000)	^21 875	
	Trade debtors^ ($^{125\ 000}/_{200\ 000}$ x R20 000)	^12 500	
	Bank^ ($^{125\ 000}/_{200\ 000}$ x R25 000)	^15 625	
	Trade creditors^ ($^{125\ 000}/_{200\ 000}$ x R15 000)		^9 375
	Provision for bad debts^ ($^{125\ 000}/_{200\ 000}$ x R1 000)		^625
	Capital: A^		^125 000
	Recording the contribution of A		
	Furniture and equipment^ ($^{75\ 000}/_{200\ 000}$ x R100 000)	^37 500	
	Goodwill^ ($^{75\ 000}/_{200\ 000}$ x R36 000)	^13 500	
	Inventories^ ($^{75\ 000}/_{200\ 000}$ x R35 000)	^13 125	
	Trade debtors^ ($^{75\ 000}/_{200\ 000}$ x R20 000)	^7 500	
	Bank^ ($^{75\ 000}/_{200\ 000}$ x R25 000)	^9 375	
	Trade creditors^ ($^{75\ 000}/_{200\ 000}$ x R15 000)		^5 625
	Provision for bad debts^ ($^{75\ 000}/_{200\ 000}$ x R1 000)		^375
	Capital: B^		^75 000
	Recording the contribution of B		
	Bank^	^50 000	
	Capital: C^		^50 000
	Recording the contribution of C		

(18)

The general ledger is shown for explanatory purposes.

A, B AND C TRADING AS:
ABC TRADERS

GENERAL LEDGER

Dr Furniture and equipment Cr

20.1		**R**			
Mar 1	Capital: A	62 500			
	Capital: B	37 500			
		100 000			

<u>QUESTION 2</u> (continued)

Dr Goodwill Cr

20.1		R			
Mar 1	Capital: A	22 500			
	Capital: B	13 500			
		36 000			

Dr Inventories Cr

20.1		R			
Mar 1	Capital: A	21 875			
	Capital: B	13 125			
		35 000			

Dr Trade debtors Cr

20.1		R			
Mar 1	Capital: A	12 500			
	Capital: B	7 500			
		20 000			

Dr Provision for bad debts Cr

			20.1		R
			Mar 1	Capital: A	625
				Capital: B	375
					1 000

Dr Bank Cr

20.1		R			
Mar 1	Capital: A	15 625			
	Capital: B	9 375			
	Capital: C	50 000			
		75 000			

QUESTION 2 (continued)

Dr Capital: A Cr

20.1			**R**	20.1			**R**
Mar 1	Trade creditors		9 375	Mar 1	Furniture and equipment		62 500
	Provision for bad debts		625		Goodwill		22 500
	Balance	c/d	125 000		Inventories		21 875
					Trade debtors		12 500
					Bank		15 625
			135 000				135 000
				20.1			
				Mar 1	Balance	b/d	125 000

Dr Capital: B Cr

20.1			**R**	20.1			**R**
Mar 1	Trade creditors		5 625	Mar 1	Furniture and equipment		37 500
	Provision for bad debts		375		Goodwill		13 500
	Balance	c/d	75 000		Inventories		13 125
					Trade debtors		7 500
					Bank		9 375
			81 000				81 000
				20.1			
				Mar 1	Balance	b/d	75 000

Dr Capital: C Cr

			20.1		**R**
			Mar 1	Bank	50 000

Dr Trade creditors Cr

			20.1		**R**
			Mar 1	Capital: A	9 375
				Capital: B	5 625
					15 000

<u>QUESTION 3</u> (43 marks)

1.
AFRI TRADERS CC ^

STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.2 ^

	Members' contributions	Retained earnings	Asset replacement reserve	Loan from member	Loan to member	Total
	R	R	R	R	R	R
Balances at 1 March 20.1	✓350 000	✓56 600	✓82 000	✓70 000	✓(50 000)	508 600
Profit for the year		✓111 165 ①				111 165
Distribution to members		✓(120 000)				(120 000)
Balances at 28 February 20.2	350 000	47 765	82 000	70 000	(50 000)	499 765
Non-current liability				^55 000		
Current liability				^15 000		

(9)

Calculation

① **Profit for the year**

	R
Profit before tax	^179 380
Income tax expense	^(68 215)
	111 165

QUESTION 3 (continued)

2.
AFRI TRADERS CC ^

BALANCE SHEET AS AT 28 FEBRUARY 20.2 ^

ASSETS	**Note**	**R**	
Non-current assets ^		442 680	
Property, plant and equipment ^	2	312 680	^
Investment at fair value ^		130 000	^
Current assets		270 545	
Inventories ^ R(140 500 + 6 200)		146 700	✓
Loan to member ^		50 000	^
Trade and other receivables ^ R(50 290 - 3 000 + 20 150)		67 440	✓^
Prepayments ^		3 500	^
Income tax receivable ^ R(70 420 - 68 215)		2 205	✓
Cash and cash equivalents ^		700	^
Total assets ^		713 225	
EQUITY AND LIABILITIES			
Total equity ^		479 765	
Members' contributions ^		350 000	^
Retained earnings ^		47 765	^
Asset replacement reserve*^		82 000	^
Total liabilities ^		233 460	
Non-current liabilities ^		115 000	
Long-term loan from Aus Bank ^ (Secured by a first mortgage over land and buildings)		60 000	^
Loan from member (unsecured) ^		55 000	^
Current liabilities ^		118 460	
Bank overdraft ^		25 120	^
Trade and other payables ^ R(16 180 + 6 800 + 15 360)		38 340	✓^
Current portion of loan from member ^		15 000	^
Profit distribution payable ^ R(120 000 - 80 000)		40 000	✓
Total equity and liabilities ^		713 225	

(25)

***Please note:**
The term "General reserve" needs to be replaced with "Asset replacement reserve" in all study material, with one exception. Please refer to Tutorial Letter 103/1/2007 for details.

QUESTION 3 (continued)

3.
AFRI TRADERS CC

NOTES FOR THE YEAR ENDED 28 FEBRUARY 20.2 (EXTRACT)

2. Property, plant and equipment

	Land and buildings		**Equipment**		**Total**	
	R		**R**		**R**	
Carrying amount: Beginning of year	210 000	^	143 930	^	353 930	^
Cost	210 000	^	165 000	^	375 000	^
Accumulated depreciation	-		(21 070)	^	(21 070)	^
Depreciation for the year	-		(41 250)	^	(41 250)	^
Carrying amount: End of year	210 000	^	102 680	^	312 680	^
Cost	210 000	^	165 000	^	375 000	^
Accumulated depreciation	-		(62 320)	^	(62 320)	^

(9)

QUESTION 4 (42 marks)

1.
MAX4 LIMITED

Allotment schedule

Group	Number of applications in group	Total number of shares applied for	Cash received			Shares allotted	Cash repaid	
			Capital	Premium	Total		Capital	Premium
			R	**R**	**R**		**R**	**R**
A	^ 550	^ 60 000	^ 120 000	^ 15 000	^ 135 000	^ 60 000	-	-
B	^ 60	^ 40 000	^ 80 000	^ 10 000	^ 90 000	^ 20 000	^ 40 000	^ 5 000
C	^ 33	^ 80 000	^ 160 000	^ 20 000	^ 180 000	^ 20 000	^ 120 000	^ 15 000
Totals	643	180 000	360 000	45 000	405 000	100 000	160 000	20 000

(11)

Calculations

Group A	500 + 50 = 550	50 000 + 10 000 = 60 000	60 000 x R2 = R120 000
	60 000 x R0,25 = R15 000	R120 000 + R15 000 = R135 000	All shares allotted
Group B	40 + 20 = 60	20 000 + 20 000 = 40 000	40 000 x R2 = R80 000
	40 000 x R0,25 = R10 000	R80 000 + R10 000 = R90 000	50% of 40 000 = 20 000 20 000 x R2 = R40 000 20 000 x R0,25 = R5 000
Group C	25 + 8 = 33	50 000 + 30 000 = 80 000	80 000 x R2 = R160 000
	80 000 x R0,25 = R20 000	R160 000 + R20 000 = R180 000	25% of 80 000 = 20 000 60 000 x R2 = R120 000 60 000 x R0,25 = R15 000

QUESTION 4 (continued)

2.

MAX4 LIMITED

GENERAL JOURNAL

		Debit	Credit
20.1		R	R
Jun 1	Underwriter's commission^ (100 000 x R2,25 x 3%) City Merchant Bank ^ *3% underwriter's commission due on R225 000 in terms of the underwriter's agreement ^*	^^ 6 750	^ 6 750
Aug 1	Bank ^ (180 000 x R2,25) Application and allotment: Ordinary shares ^ *Receipt of application money from the public*	^^ 405 000	^ 405 000
	Application and allotment: Ordinary shares ^ Ordinary share capital ^ (100 000 x R2) Share premium ^ (100 000 x R0,25) *Allotment of 100 000 ordinary shares of R2 each at a share premium of R0,25 per share ^*	^^ 225 000	^^ 200 000 ^^ 25 000
	Application and allotment: Ordinary shares ^ Bank ^ *Application money repaid to unsuccessful applicants*	^^ 180 000	^ 180 000
	City Merchant Bank ^ Bank ^ *Underwriter's commission paid*	^ 6 750	^ 6 750
20.2 Nov 30	Bank ^ (60 000 x R1,70) Application and allotment: Ordinary shares^ *Receipt of application money from the public*	^^ 102 000	^ 102 000
	Underwriter's commission^ (80 000 x R1,70 x 4%) City Merchant Bank ^ *4% underwriter's commission due on R136 000 in terms of the underwriter's agreement*	^^ 5 440	^ 5 440
	Application and allotment: Ordinary shares ^ (60 000 x R1,70) Discount on shares ^ (60 000 x R0,30) Ordinary share capital ^ *Allotment of 60 000 shares of R2 each at a discount of R0,30 per share* *	^^ 102 000 ^^ 18 000	^^ 120 000
	City Merchant Bank ^ (20 000 x R1,70) Discount on shares ^ (20 000 x R0,30) Ordinary share capital ^ *Allotment of 20 000 shares of R2 each at a discount of R0,30 per share to City Merchant Bank* *	^^ 34 000 ^^ 6 000	^^ 40 000
	Bank ^ R(34 000 - 5 440) City Merchant Bank ^ *Balance paid by City Merchant Bank*	^ 28 560	^ 28 560

(31)

* You will not be examined on shares issued at a discount.

ANNEXURE B:
EXAMINATION PAPER AND MEMORANDUM: OCTOBER 2005
(ADJUSTED ACCORDING TO THE 2007 SYLLABUS)

PLEASE NOTE:

1. Ensure that you are writing the correct examination paper.
2. Ensure that you are handed the correct examination answer book (BLUE) by the invigilator.
3. All questions must be answered.
4. Basic calculations, where applicable, must be shown.
5. Each question must be commenced on a new (separate) page.
6. Please do not answer the paper in pencil.

PROPOSED TIMETABLE
(try not to deviate from this)

Question	Subject	Marks	Time in minutes
1	Statement of changes in equity, balance sheet and calculations: Partnership	22	26
2	Manufacturing cost statement and income statement: Manufacturing enterprise (CC)	28	34
3	Profit-sharing ratio and piecemeal liquidation: Partnerships	18	22
4	Journal entries: Share transactions (company)	18	22
5	General ledger: Branch adjustment account	14	16
	TOTAL	100	120

<u>QUESTION 1</u> (22 marks)(26 minutes)

U Beauty and S Beast are partners in a partnership trading as Animation Traders. Piglet is their inexperienced accountant. After Piglet recorded all the year-end adjustments that he was aware of, he closed off the nominal accounts. Thereafter he prepared the following list of balances in respect of Animation Traders at 30 June 2005:

	R
Capital: U Beauty (1 July 2004)	50 000
Capital: S Beast (1 July 2004)	75 000
Current account: U Beauty (credit) (1 July 2004)	5 900
Current account: S Beast (debit) (1 July 2004)	1 525
Drawings: U Beauty	13 500
Drawings: S Beast	9 000
Land and buildings at cost	100 000
Furniture and equipment at cost	20 000
Bank (debit)	15 000
Trading inventory	3 000
Provision for bad debts (1 July 2004)	300
12% Long-term loan	3 750
Accumulated depreciation: Furniture and equipment (1 July 2004)	3 600
Trade debtors	8 700
Wages prepaid	375
Accrued administrative expenses	270
Trade creditors	4 060
Profit and loss account (profit)	28 220

<u>Additional information</u>:

On 30 June 2005, after the above list of balances was prepared, Piglet took note of the following:

1. He forgot to record the depreciation for the financial year. Depreciation is calculated on the furniture and equipment at 10% per annum according to the diminishing balance method. No furniture and equipment were sold or purchased during the financial year. No depreciation is recorded on land and buildings.

2. He forgot to adjust the provision for bad debts account. The balance of the provision for bad debts account must be equal to 5% of the balance of the trade debtors at the end of the financial year.

3. Animation Traders rents office space to Winnie. A rental contract was entered into with her for the whole financial year, and a fixed monthly fee was stipulated. Piglet recorded the monthly rental fees that were received from Winnie correctly. During the year a total amount of R9 900 was received from Winnie in payment of her rental fees. No rental fee was received from her in respect of June 2005. Piglet forgot to record this receivable amount.

QUESTION 1 (continued)

4. On 1 June 2005, whilst unpacking a batch of toys that was purchased on 31 May 2005 by Animation Traders, Beast took a toy with a cost price of R200 as a birthday gift for his son. The purchase of the trading inventory (which included the gift) was correctly recorded by Piglet on 31 May 2005. Piglet applies the periodic inventory system. Piglet forgot to record that a toy was taken by Beast. On 30 June 2005 the closing balance of the trading inventory (R3 000) was determined by an inventory count and recorded as such.

5. According to the terms of the partnership agreement, interest at 8% per annum on the opening balances of the partners' capital and current accounts must be taken into account. The profit-sharing ratio was not stipulated in the partnership agreement.

REQUIRED:

1.1 Calculate the adjusted profit of Animation Traders for the year ended 30 June 2005 by taking the additional information into account. (5)

1.2 Prepare the statement of changes in equity of Animation Traders for the year ended 30 June 2005 to comply with the requirements of Generally Accepted Accounting Practice, appropriate to the business of the partnership. The total column need not be included. (10)

1.3 Prepare the ASSETS section of the balance sheet of Animation Traders as at 30 June 2005 to comply with the requirements of Generally Accepted Accounting Practice, appropriate to the business of the partnership. Notes and comparative figures are NOT required. (7)

NB: Show all calculations.

[22]

<u>QUESTION 2</u> (28 marks)(34 minutes)

The following information appeared in the accounting records of Teekay CC, a manufacturing entity:

Extract from balances as at 31 August 2005:

	R
Inventory - 1 September 2004	
Raw materials (direct)	15 750
Work-in-progress	22 500
Finished products	46 000
Purchases: Raw materials (direct and indirect)	53 130
Salaries and wages: Factory	33 000
Sales department	17 350
Water and electricity: Factory	26 730
Sales department	14 795
Administrative expenses: Factory	4 800
Sales department	12 500
Depreciation: Factory machinery	15 000
Equipment: sales office	3 200
Sales	250 000
Receiver of Revenue (income tax)(debit)	16 000
Interest expense: Long-term loan	13 260

<u>Additional information</u>:

1. Inventory balances – 31 August 2005:

	R
Raw materials (direct)	33 450
Work-in-progress	52 460
Finished products	63 250

2. Included in the purchases of raw materials are indirect materials amounting to R10 630 that were issued to production and consumed during the financial year.

3. Thirty percent (30%) of the salaries and wages in the above list of balances which pertain to the factory represents indirect labour. Of this indirect labour, R3 900 pertains to the salary of the factory manager.

4. At 1 September 2004 the provision for the unrealised profit in the inventory of the finished products (which is included in the finished products inventory) amounted to R6 000. A constant profit percentage is added to the cost of finished products manufactured.

5. The actual normal income tax for the financial year amounted to R42 279 and must still be recorded.

QUESTION 2 (continued)

REQUIRED:

2.1 Prepare the manufacturing cost statement of Teekay CC for the year ended 31 August 2005. (17)

2.2 Prepare the income statement of Teekay CC for the year ended 31 August 2005. Your answer must comply with the provisions of the Close Corporations Act, No 69 of 1984, as well as with the requirements of GAAP. Notes and comparative figures are NOT required. (11)

NB: Show all calculations.

[28]

QUESTION 3 (18 marks)(22 minutes)

3.1 Al and Leon are in partnership and their profit-sharing ratio is 7:5 respectively. They decided to admit Eddie as a partner. Eddie will share in a sixth of the profits and losses of the new partnership. Al and Leon will relinquish Eddie's profit-share on an equal basis.

REQUIRED:

Calculate the profit-sharing ratio of the partners of the new partnership. (5)

3.2 Mabuza, Ismael and Dan are in a partnership, sharing profits and losses in a ratio of 5:3:2 respectively. They decided to liquidate the partnership by disposing of the assets piecemeal. The first interim repayment will be made to the partners after the first liquidation of the assets. At the starting date of the liquidation, the following list of balances was drawn up:

	R
Capital: Mabuza	42 000
Capital: Ismael	31 200
Capital: Dan	12 500
Asset replacement reserve	10 000
Furniture and equipment at carrying amount	26 500
Inventory	49 000
Bank (debit)	20 200

At the first liquidation of the assets, all of the inventory was sold for R29 000, cash.

REQUIRED:

Calculate the amounts payable to the partners as a first interim repayment. Apply the loss-absorption-capacity method. (13)

[18]

<u>QUESTION 4</u> (18 marks)(22 minutes)

On 1 January 2004 Sabi Limited was registered with the following authorised share capital:

1 000 000 ordinary shares of no par value (NPV)
500 000 10%-convertible preference shares with a par value of R3 each

After an initial issue of shares to the founders of the company and the public in February 2004, Sabi Limited offered a further 200 000 ordinary shares during January 2005 to the public at R2,50 each. This offer was underwritten by Kudu Underwriters for a commission of 5%.

Sabi Limited also offered 200 000 10%-convertible preference shares during January 2005 to the public at R3,50 each. This offer was not underwritten.

The following transactions took place:

25/1/2005	Received applications (cash included) for 160 000 ordinary shares.
26/1/2005	Received applications (cash included) for 200 000 10%-convertible preference shares.
31/1/2005	Sabi Limited allotted 160 000 ordinary shares. The underwriter took up the remaining shares and paid the outstanding balance.
02/2/2005	Sabi Limited allotted 200 000 10%-convertible preference shares.

REQUIRED:

Record the above transactions (cash transactions included) with regard to the issue of the shares in the general journal of Sabi Limited for January and February 2005. Narrations (description of the reason for each general journal entry) are NOT required.

NB: Show all calculations.

<u>QUESTION 5</u> (14 marks)(16 minutes)

The following information pertains to the Violet branch of Aristea CC:

<u>Balances of branch</u>:

Inventory on hand (selling price) at:

	R
1 September 2004	15 840
31 August 2005	19 512

<u>Transactions of branch for the year ended 31 August 2005</u>:

	R
Inventory transferred to the branch at cost price	120 288
Returns to head office at cost price	7 920
Sales by the branch:	
Credit	49 544
Cash	108 720
Cash receipts from branch debtors	153 828
Discount allowed to branch debtors	7 692
Branch distribution and administrative expenses	27 288

<u>Additional information</u>:

1. Inventory is purchased by the head office (Aristea CC) and supplied to Violet branch at selling price, that is at cost plus 50%.

2. During July 2005 Violet branch purchased inventory locally for R1 200, cash. The money for this purchase was obtained from cash sales that were generated by the branch, after the cash sales were recorded. It is the policy of Violet branch to sell inventory that was purchased locally at the ruling mark-up.

3. R1 500 of the cash sales was embezzled. This amount is not included in the cash sales (R108 720) above. The CC is not insured against theft of cash.

4. Violet branch's annual sale took place during August 2005. Inventory was sold at selling price less 25%. The total proceeds, which are included in the amount of cash sales (R108 720) above, amounted to R21 648.

5. At 31 August 2005 there was no inventory shortage or surplus.

REQUIRED:

Prepare the branch adjustment account of Violet branch in the general ledger of Aristea CC, properly balanced, for the year ended 31 August 2005. Each entry must indicate the correct contra ledger account.

NB: Show all calculations.

MEMORANDUM: OCTOBER 2005 EXAMINATION PAPER (ADJUSTED ACCORDING TO THE 2007 SYLLABUS)

QUESTION 1 (22 marks)

1.1

Adjusted profit for the year ended 30 June 2005

	R	
Profit (given)	28 220	^
Less: Depreciation ①	(1 640)	1
Bad debts ②	(135)	2
Add: Rental income in arrears R(9 900/11)	900	1
Drawings - S Beast	200	^
Adjusted profit for the year	27 545	

(5)

Calculations

① **Depreciation**

R(20 000 – 3 600) x 10% = R16 400^ x 10%^ = R1 640

② **Bad debts (Adjustment of the provision for bad debts account.)**

		R
Closing balance (R8 700 x 5%)	^^	435
Less: Opening balance (given)	^	300
Increase in provision for bad debts	^	135

1.2

ANIMATION TRADERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2005

	Capital		Current accounts		Appro-	
	U Beauty	S Beast	U Beauty	S Beast	priation	Total
	R	R	R	R	R	R
Balances at 1 July 2004	^ 50 000	^ 75 000	^ 5 900	^(1 525)	–	129 375
Profit for the year					^27 545	27 545
Interest on capital			^^ 4 000	^^ 6 000	(10 000)	–
Interest on current accounts			^^ 472	^^ (122)	(350)	–
Partners' share of profit			^^ 6 878	^^10 317	(17 195)	–
Drawings			^(13 500)	^^(9 200)		(22 700)
Balances at 30 June 2005	50 000	75 000	3 750	5 470	–	134 220

(10)

<u>QUESTION 1</u> (continued)

When the profit-sharing ratio of the partners is not given, the partners' capital contributions are used to calculate the distribution of a profit/loss.

Therefore: Capital: U Beauty : Capital: S Beast
50 000 : 75 000

U Beauty's share is $\frac{50\ 000}{125\ 000}$ ^ x $\frac{R17\ 195}{1}$ ^ = R6 878

S Beast's share is $\frac{75\ 000}{125\ 000}$ ^ x $\frac{R17\ 195}{1}$ ^ = R10 317

1.3

ANIMATION TRADERS
BALANCE SHEET AS AT 30 JUNE 2005

		R
ASSETS		
Non-current assets		114 760
Property, plant and equipment ①	✓✓	114 760
Current assets		27 540
^ Inventories	^	3 000
^ Trade and other receivables R(8 700 - 435 + 900)	^^^	9 165
^ Prepayments	^	375
^ Cash and cash equivalents	^	15 000
Total assets		142 300

(7)

Calculation

① Property, plant and equipment

		R
Land and buildings at cost	^	100 000
Furniture and equipment at carrying amount [R20 000 - R(3 600 + 1 640)]	^^^	14 760
		114 760

QUESTION 1 (continued)

SECTION OF BALANCE SHEET NOT REQUIRED:

EQUITY AND LIBAILITIES	**R**
Total equity	134 220
Capital R(50 000 + 75 000)	125 000
Current accounts R(3 750 + 5 470)	9 220
Total liabilities	8 080
Non-current liabilities	
12% Long-term loan	3 750
Current liabilities	
Trade and other payables R(4 060 + 270)	4 330
Total equity and liabilities	142 300

QUESTION 2 (28 marks)

2.1
TEEKAY CC ^
MANUFACTURING COST STATEMENT FOR THE YEAR ENDED 31 AUGUST 2005 ^

	R	
Direct raw materials used ^	24 800	
Inventory: Raw materials (1 September 2004)	15 750	^
Purchases R(53 130 - 10 630)	42 500	^^
	58 250	
Inventory: Raw materials (31 August 2005)	(33 450)	^
Direct labour ^ R(33 000 x 70%)	23 100	^^
Primary costs ^	47 900	
Manufacturing overheads ^	67 060	
Indirect raw materials used	10 630	✓
Indirect labour [R(33 000 x 30%) - R3 900]	6 000	✓^
Salary: Factory manager	3 900	^^
Water and electricity	26 730	^
Administrative expenses	4 800	^
Depreciation	15 000	^
Total manufacturing costs ^	114 960	
Inventory: Work-in-progress (1 September 2004)	22 500	^^
	137 460	
Inventory: Work-in-progress (31 August 2005)	(52 460)	^^
Cost of finished products manufactured ^	85 000	
Manufacturing profit ①	12 750	✓✓^
Cost of finished products manufactured transferred to the sales department^	97 750	

(17)

Calculation

① **Manufacturing profit**

R46 000 ^ - R6 000 ^ = R40 000
(R6 000 ^ ÷ R40 000 ^) x 100 = 15%
(R85 000 x 15%) ^ = R12 750

QUESTION 2 (continued)

2.2

TEEKAY CC ^
INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2005 ^

		R	
Revenue ^		250 000	^
Cost of sales		(80 500)	
	Inventory: Finished products (1 September 2004)	46 000	^
	Cost of finished products transferred	97 750	^^
		143 750	
	Inventory: Finished products (31 August 2005)	(63 250)	^
Gross profit		169 500	
Manufacturing profit		12 750	^^
		182 250	
Distribution, administrative and other expenses		(50 095)	
	Salaries and wages	17 350	^
	Water and electricity	14 795	^
	Administrative expenses	12 500	^
	Depreciation	3 200	^
	Unrealised profit in inventory: Finished products ①	2 250	2
Finance costs		(13 260)	
	Interest on long-term loan	13 260	^
Profit before tax		118 895	
Income tax expense		(42 279)	^^
Profit for the year ^		76 616	

(11)

Calculation

① **Unrealised profit in inventory: Finished products**

(R63 250 ^ x 15/115 ^)* - R6 000 (existing provision)
= R(8 250 ^ - 6 000 ^) = R2 250

* ***[or]*** [R63 250 ^ - (R63 250/1.15 ^)]

<u>QUESTION 3</u> (18 marks)

3.1
Adjusted profit-sharing ratio

Al: 7/12 ^ - (1/2 ^ x 1/6 ^) = 7/12 - 1/12 = 6/12 ^ = 1/2 = 3/6
Leon: 5/12 ^ - (1/2 ^ x 1/6 ^) = 5/12 - 1/12 = 4/12 ^ = 1/3 = 2/6
Eddie: 1/6 ^
Profit-sharing ratio = 3:2:1 ^
between Al, Leon and Eddie, respectively. (5)

3.2
First interim repayment

Bank	Furniture and equipment	Capital		
		Mabuza	Ismael	Dan
R	R	R	R	R
49 200 ①	26 500 ^ (26 500) ^	(37 000) ✓✓^ ② 13 250 ^^ ③	(28 200) ✓✓^ ② 7 950 ^^ ③	(10 500) ✓✓^ ② 5 300 ^^ ③
49 200	-	(23 750) ^	(20 250) ^	(5 200) ^

(13)

Calculations

① **Bank (Cash available for first interim repayment.)**

R(20 200 + 29 000) = R49 200 (Shown for verification purposes only.)

② **Capital account balances immediately prior to first interim repayment**

Formula: Capital account balance + Share of reserve – Share of loss on sale of inventory

Mabuza:
R42 000 ^ + R5 000 ^^ *(R10 000 x.5)* - R10 000 ^^ *(R20 000 x.5)* = R37 000

Ismael:
R31 200 ^ + R3 000 ^^ *(R10 000 x.3)* - R6 000 ^^ *(R20 000 x.3)* = R28 200

Dan:
R12 500 ^ + R2 000 ^^ *(R10 000 x.2)* - R4 000 ^^ *(R20 000 x.2)* = R10 500

③ **Appropriation of the anticipated loss in respect of the unsold furniture and equipment** (Application of the assumption that all unsold assets immediately prior to the calculation of the first interim repayment are worthless.)

Mabuza: R26 500 ^ x .5 ^ = R13 250
Ismael: R26 500 ^ x .3 ^ = R7 950
Dan: R26 500 ^ x .2 ^ = R5 300

QUESTION 4 (18 marks)

SABI LIMITED
GENERAL JOURNAL

		Debit	Credit
2005		R	R
Jan 25	Bank ^ (160 000 x R2,50) Application and allotment: Ordinary shares ^ *Receipt of application money from the public*	400 000 ^^	400 000 ^
	Underwriter's commission ^ (200 000 x R2,50 x 5%) Kudu Underwriters ^ *5% underwriter's commission due on R500 000 in terms of the underwriter's agreement*	25 000 ^^	25 000 ^
Jan 26	Bank ^ (200 000 x R3,50) Application and allotment: 10%-convertible preference shares ^ *Receipt of application money from the public*	700 000 ^^	700 000 ^
Jan 31	Application and allotment: Ordinary shares ^ (160 000 x R2,50) Stated capital: Ordinary shares ^ *Allotment of 160 000* NPV ordinary shares*	400 000 ^^	400 000 ^
	Kudu Underwriters (40 000 x R2,50) ^ Stated capital: Ordinary shares ^ *Allotment of the shares not applied for by the public to Kudu Underwriters*	100 000 ^^	100 000 ^
	Bank ^ R(100 000 - 25 000) Kudu Underwriters ^ *Amount owing paid by Kudu Underwriters*	75 000 ^^	75 000 ^
Feb 2	Application and allotment: 10%-convertible preference shares ^ 10%-convertible preference share capital ^ Share premium ^ *Allotment of 200 000 10%-convertible preference shares of R3 each at a premium of R0,50 per share*	700 000 ^	600 000 ^ 100 000 ^

(18)

* Cannot allot more shares than applications received.

QUESTION 5 (14 marks)

ARISTEA CC (HEAD OFFICE)
GENERAL LEDGER

Dr Branch adjustment: Violet branch Cr

2005		R	2004		R
Aug 31	Branch inventory: Violet^ (Mark-up on returns)	3 960 ③ ✓^	Sep 1	Balance b/d ^ (Mark-up on opening inventory)	5 280 ① ✓^
	Branch inventory: Violet^ (Discount on sales)	7 216 ⑤ ✓^	2005		
	Balance c/d^ (Mark-up on closing inventory)	6 504 ⑥ ✓^	Aug 31	Branch inventory: Violet ^ (Mark-up on deliveries)	60 144 ② ✓^
	Branch expenses: Violet ^ (Branch gross profit for the year *)	48 344 ^		Branch inventory: Violet ^ (Mark-up on local purchases)	600 ④ ✓^
		66 024			66 024
			Sep 1	Balance b/d ^	6 504 ^

(14)

* Balancing entry

-½ for including an irrelevant entry, with a maximum deduction of 2 marks.

Calculations

① R15 840 ^ x 50/150 ^= R5 280 ^
② R120 288 ^ x 50% ^ = R60 144 ^
③ R7 920 ^ x 50% ^ = R3 960 ^
④ R1 200 ^ x 50% ^ = R600 ^
⑤ [(R21 648 x 100/75) ^ - R21 648 ^] = R(28 864 - 21 648)
= R7 216 ^

[or]

R21 648 ^ x 25/75 ^ = R7 216 ^
⑥ R19 512 ^ x 50/150 ^= R6 504 ^