

Tutorial letter 102/2012
Financial accounting for companies
(FAC2601)

FAC2601

Semester 1 & 2

Department Financial Accounting

Dear Student

Enclosed please find additional questions and solutions

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With kind regards,

LECTURERS: FINANCIAL ACCOUNTING FOR COMPANIES (FAC2601)

ANNEXURE A: ADDITIONAL QUESTIONS AND SOLUTIONS

ANNEXURE A: ADDITIONAL QUESTIONS AND SOLUTIONS**QUESTION 1 (37 marks)(45 minutes)**

Players Limited entered into the following transactions in the ordinary shares and options to ordinary shares of Jacey Limited, a company listed on the JSE Securities Exchange. Players Limited's financial year ends on 31 December.

20.6

2 January	Purchased	6 000 ordinary shares at 150 cents
15 February	Sold	2 000 ordinary shares at 160 cents
19 March	Purchased	4 000 ordinary shares at 156 cents
3 April	Sold	2 000 ordinary shares at 164 cents
15 April	Received	one bonus ordinary share in Jacey Limited for every five ordinary shares held on 10 April
18 May	Purchased	4 000 ordinary shares at 135 cents
23 June	Sold	3 200 ordinary shares at 133 cents
11 August	Purchased	1 000 ordinary shares at 140 cents
1 September	Received	from Jacey Limited an option to subscribe for one ordinary share at 80 cents for every four ordinary shares held on 25 August 20.6. On 31 August 20.6 the closing price per ordinary share was R1,45.
15 October	Sold	4 000 ordinary shares at 130 cents
30 October	Sold	500 options to ordinary shares at 48 cents
6 November	Purchased	1 000 options to ordinary shares at 45 cents
10 December	Sold	2 050 options to ordinary shares at 48 cents
30 December	Converted	500 options to ordinary shares to ordinary shares

Additional information:

- Investment transactions are accounted for using the first-in-first-out method.
- Options to ordinary shares in Jacey Limited expire on 31 December 20.6.
- The closing price for an ordinary share in Jacey Limited on the JSE Securities Exchange on 31 December 20.6 is 126 cents.
- Options to shares are not acquired for hedging purposes.

REQUIRED:

Prepare the share and option accounts in respect of the investments in Jacey Limited in the general ledger of Players Limited for the year ended 31 December 20.6. All general ledger accounts prepared must be properly closed off.

SOLUTION 1

General ledger of Players Limited

Investment in shares - Jacey Limited

		Price	Number	Amount			Price	Number	Amount
		R		R			R		R
20.6					20.6				
02/01	Bank	1,50	6 000	9 000	15/02	Bank	1,60	2 000	3 200
15/02	Profit on investment			¹ 200		Balancec/d	1,50	4 000	6 000
			<u>6 000</u>	<u>9 200</u>				<u>6 000</u>	<u>9 200</u>
15/02	Balancec/d	1,50	4 000	6 000	03/04	Bank	1,64	2 000	3 280
19/03	Bank	1,56	4 000	6 240		Balancec/d	1,50	2 000	3 000
03/04	Profit on investment			² 280		Balancec/d	1,56	4 000	6 240
			<u>8 000</u>	<u>12 520</u>				<u>8 000</u>	<u>12 520</u>
03/04	Balancec/d	1,50	2 000	3 000	14/04	Balancec/d	1,50	2 000	3 000
	Balancec/d	1,56	4 000	6 240		Balancec/d	1,56	4 000	6 240
			<u>6 000</u>	<u>9 240</u>				<u>6 000</u>	<u>9 240</u>
15/04	Balancec/d	1,25	2 400	3 000	23/06	Bank	1,33	3 200	4 256
	Before capitalisation issue					Balancec/d	1,30	4 000	5 200
	Capitalisation issue	-	400	-		Balancec/d	1,35	4 000	5 400
	Balancec/d	1,30	4 800	6 240					
	Before capitalisation issue								
	Capitalisation issue	-	800	-					
18/04	Bank	1,35	4 000	5 400					
23/06	Profit on investment			³ 216					
			<u>11 200</u>	<u>14 856</u>				<u>11 200</u>	<u>14 856</u>
23/06	Balancec/d	1,30	4 000	5 200	31/08	Balancec/d	1,45	9 000	13 050
	Balancec/d	1,35	4 000	5 400					
11/08	Bank	1,40	1 000	1 400				<u>9 000</u>	<u>13 050</u>
31/08	Fair value adjustment			⁴ 1 050					
			<u>9 000</u>	<u>13 050</u>					
31/08	Balancec/d	1,45	9 000	13 050	01/09	Options			⁵ 1 170
			<u>9 000</u>	<u>13 050</u>		Balancec/d	1,32	9 000	⁵ 11 880
01/09	Balancec/d	1,32	9 000	11 880				<u>9 000</u>	<u>13 050</u>
			<u>9 000</u>	<u>11 880</u>	15/10	Bank	1,30	4 000	5 200
						Loss on investment			⁶ 80
						Balancec/d	1,32	5 000	6 600
15/10	Balancec/d	1,32	5 000	6 600				<u>9 000</u>	<u>11 880</u>
30/12	Options	1,25	500	⁹ 625	31/12	Balancec/d	1,26	5 500	6 930
			<u>5 500</u>	<u>7 225</u>		Fair value adjustment			¹¹ 295
31/12	Balancec/d	1,26	5 500	6 930				<u>5 500</u>	<u>7 225</u>

SOLUTION 1 (continued)

	Number	Amount R
5.		
Before rights issue	9 000 x R1,45	13 050
Rights issue (9 000/4)	2 250 x R0,80	1 800
	<u>11 250</u>	<u>14 850</u>
Ex-rights value per share (R14 850/11 250 shares)		1,32
Rights issue price		<u>(0,80)</u>
Rights value		<u>0,52</u>
Value of options/rights (2 250 x R0,52)		<u>1 170</u>
Ex-rights value of shares (9 000 x R1,32)		<u>11 880</u>
6. Proceeds on sale (4 000 x R1,30)		5 200
Carrying amount of shares sold (4 000 x R1,32)		<u>(5 280)</u>
Loss on sale		<u>(80)</u>
7. Proceeds on sale (500 x R0,48)		240
Cost of options sold (500 x R0,52)		<u>(260)</u>
Loss on sale		<u>(20)</u>
8. Proceeds on sale (2 050 x R0,48)		984
Carrying amount of options sold (1 750 x R0,52)		(910)
(300 x R0,45)		<u>(135)</u>
Loss on sale		<u>(61)</u>
9. To convert options to shares		
Pay cash amount	(R0,80 x 500 options)	400
Transfer option value to investment in shares account	(R0,45 x 500 options)	225
	<u>R1,25 x 500 options</u>	<u>625</u>
10. Options not converted to shares on 31 December have no value and must be written off (200 options x R0,45)		<u>90</u>
11. Fair value of shares (subsequent measurement)		6 930
(5 500 x R1,26)		
Carrying amount of shares (6 600 + 625)		<u>(7 225)</u>
Fair value adjustment needed		<u>(295)</u>

QUESTION 1 (continued)

MARKING PLAN	Marks
Investment in shares	
Bank entries (1 each)	8
Profit on investments (1 each)	3
Loss on investments	1
Fair value adjustments	2
Balance after capitalisation issue	6
Options	3
Closing balance	2
Investment in options	
Investment entries	4
Bank entries	4
Loss on investments	4
Total	37

QUESTION 2 (30 marks)(36 minutes)

The following list of balances on 31 December 19.9 appeared in the books of All Limited:

	R
Inventories	240 000
Loans	110 000
Trade and other receivables	36 000
Trade and other payables	25 000
Provisional tax payments	30 000
Dividends payable	5 000
Deferred taxation (Cr)	2 000
Bank (Dr)	75 000
Retained earnings (31/12/19.9)	120 000
Long-term loan	150 000
Land at valuation	400 000
Buildings at cost	420 000
Machinery and equipment at cost	250 000
Motor vehicles at cost (31/12/19.8 - R280 000)	310 000
Accumulated depreciation (31/12/19.9)	
- Machinery and equipment	55 000
- Motor vehicles (31/12/19.8 - R80 000)	119 500
Investments	136 000

Additional information:

1. Inventory is valued at the lower of cost or net realisable value.

2. Inventory consists of:	R
- Raw material	100 000
- Finished products	50 000
- Consumables	30 000
- Work in progress	60 000

3. The long-term loan was incurred on 31 August 19.3 at an interest rate of 20% per annum and the capital portion is repayable in five equal annual instalments of R30 000 each beginning on 28 February 19.7. The loan is secured by a first mortgage bond over land and buildings.

4. Loans consist of the following:

- Loan to Tram Limited	R
	20 000
This loan was granted on 30 June 19.9 at an interest rate of 15% per annum and no security was provided.	
- Loan to parent Tol Ltd	90 000
The loan was granted on 1 January 19.5 at an interest rate of 12% per annum and Tol Ltd provided security. The loan fluctuated between R70 000 and R100 000 during the year. No fixed terms of repayment was agreed upon.	

5. Land and buildings are owner occupied and are situated on erf 10, Sunnyside, Pretoria and comprises a factory building and a shopping centre. The land was acquired on 1 March 19.4 for R240 000 and was revalued for the first time during April 19.9 by Mr Pal, a sworn appraiser. Buildings were erected during October 19.9. It was completed on 31 October 19.9 at a cost of R420 000. No depreciation is written off on land, but it is company policy to revalue land every three years at replacement value.

QUESTION 2 (continued)

6. Other non-current assets are depreciated at the following rates and methods:

Machinery and equipment - 15% per annum using the straight line method.
Motor vehicles - 25% per annum using the reducing balance method.
Buildings - 2% per annum using the reducing balance method.

7. The only other transaction regarding non-current assets apart from the transaction in note 5 is the following:

On 2 January 19.9 a motor vehicle which originally cost R40 000 and on which depreciation of R24 000 was already written of, was traded in on a new vehicle costing R70 000.

8. Investments consist of the following:

- 60 000 Ordinary shares in Tram Ltd at a cost of R60 000. The issued share capital of Tram Ltd consists of 80 000 ordinary shares. Each share has one vote. The market value of the investment was R60 000 on 31 December 19.9.
- 20 000 Preference shares in Trok Ltd purchased for speculative purposes. The issued share capital of Trok Ltd consists of 200 000 ordinary shares and 40 000 preference shares. Each ordinary share has one vote. The shares of Trok Ltd are traded on the Johannesburg Stock Exchange and the market value of the preference shares on 31 December 19.9 amounted to R2,30 per share.
- 30 000 Ordinary shares in Lorry (Pty) Ltd. The issued share capital of Lorry (Pty) Ltd consists of 400 000 ordinary shares. Each share has one vote. The directors value the shares at R1,00 each. These shares are classified as assets at fair value through other comprehensive income (not held for trading).

9. The accountant neglected to make provision for tax for the current year amounting to R60 000.

REQUIRED:

Prepare the "Asset" section of the statement of financial position of All Ltd at 31 December 19.9, as well as the relevant notes, to comply with the requirements of the Companies Act, No 71 of 2008. Ignore comparative figures and the accounting policy note.

SOLUTION 2

ALL LIMITED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 19.9

ASSETS	Notes	R
Non-current assets		1 404 100
Property, plant and equipment	1	1 204 100
Investment in subsidiary	2	80 000
Financial assets at fair value through other comprehensive income (not held for trading)	4	30 000
Loan to parent	3	90 000
Current assets		397 000
Financial asset at fair value through profit or loss	4	46 000
Inventories	5	240 000
Trade and other receivables		36 000
Cash and cash equivalents		75 000
Total assets		<u>1 801 100</u>

ALL LIMITED NOTES AT 31 DECEMBER 19.9

1. Property, plant and equipment

	Land	Buildings	Machinery and equipment	Motor vehicles	Total
	R	R	R	R	R
Carrying amount 1/1/19.9	240 000	-	232 500	200 000	672 500
Cost/valuation	240 000	-	250 000	280 000	770 000
Accumulated depreciation	-	-	② (17 500)	(80 000)	(97 500)
Revaluation	160 000	-	-	-	160 000
Additions at cost	-	420 000	-	70 000	490 000
Disposals at carrying amount	-	-	-	(16 000)	(16 000)
Depreciation	-	(1 400)	① (37 500)	③ (63 500)	(102 400)
Carrying amount 31/12/19.9	400 000	418 600	195 000	190 500	1 204 100
Valuation/Cost	400 000	420 000	250 000	310 000	1 380 000
Accumulated depreciation	-	④ (1 400)	(55 000)	(119 500)	(175 900)

① 15% x R250 000

② Balancing figure

③ 25% x R(280 000 - 40 000 + 70 000) - (80 000 - 24 000)

④ 2% x R420 000 x 2/12

Land and buildings comprise erf 10 Sunnyside, Pretoria with a factory building on it. The land was revalued during 19.9 at replacement value by mr Pal, a sworn appraiser. A first bond over land serve as security for the long-term loan.

SOLUTION 2 (continued)

	R
2. Investment in subsidiary	80 000
Shares at cost	60 000
Loan to subsidiary	20 000
3. Loan to parent	
Secured loan	90 000
<p>The loan was granted to Tol Limited on 1 January 19.5. Highest outstanding balance during the year - R100 000. No fixed terms of repayment was agreed upon and interest is calculated at 12% per annum.</p>	
4. Financial assets	
Non-current assets	
Unlisted	30 000
30 000 Ordinary shares in Lorry (Pty) Ltd at fair value	
Current assets	
Listed	46 000
20 000 Preference shares in Trok Ltd at fair value	
5. Inventory	240 000
Raw materials	100 000
Finished goods	50 000
Consumables	30 000
Work in progress	60 000

MARKING PLAN	Marks
Statement of financial position	6
Notes	
Property, plant and equipment	15
Investment in subsidiary	2
Loan to parent	3
Financial assets	2
Inventory	2
Total	30

QUESTION 3 (40 marks)(48 minutes)

The following balances were taken from the financial records of Miller Ltd at 28 February 19.9:

	R
Share capital - 250 000 ordinary shares	480 000
100 000 8% Preference shares	200 000
Reserve for increased replacement value of non-current assets	6 000
Share issue expenses	1 000
Retained earnings (1/3/19.8)	80 500
Loan from McDonald Ltd	80 000
10% Long-term loan	45 000
Land at cost	772 500
Trade and other payables	52 000
Bank overdraft	14 000
Profit after tax (year ended 28/2/19.9)	121 500
Fair value adjustment (Cr)	2 000
Adjustment was done on financial asset at fair value through other comprehensive income (not held for trading)	

Additional information:

1. Miller Ltd was incorporated on 1 March 19.6 with an authorised share capital of:
 - 400 000 Ordinary shares
 - 120 000 8% Preference shares.
2. The long-term loan is secured by a bond over land and the capital portion is repayable in 10 equal annual instalments from 1 December 19.8.
3. The loan from McDonald Ltd is unsecured and interest is payable at the rate of 15% per annum. The loan was acquired on 30 June 19.8 and is repayable in a single instalment on 1 July 20.1.
4. Included in profit after tax is a fair value adjustment (profit) amounting to R1 000 in respect of held for trading investment in shares.

The following information **must** still be taken into account in the order that it occurred:

1. On 28 February 19.9 20 000 ordinary shares were issued at R1,25 each. No entries have been recorded as yet.
2. On 28 February 19.9 the directors decided to make a capitalisation issue to ordinary shareholders on the basis of one share for every six ordinary shares held at R1,00 each out of profits.
3. Land is revalued by an appraiser, Mr Worthy, on 28 February 19.9 at R800 000 according to the replacement basis.
4. The reserve for increased replacement value of non-current assets, must be decreased to R4 000.
5. A final ordinary dividend of 8 cents per share is declared to all shareholders registered on 26 February 19.9.
6. The directors decided to write off share issue expenses against retained income.

QUESTION 3 (continued)

7. On 28 February 19.9 McDonald Ltd informed Miller Ltd that the interest payment on the loan is still outstanding. After an investigation into the matter Miller Ltd confirmed that the payment is still outstanding. The two parties reached an agreement that the payment will take place on 1 March 19.9.

REQUIRED:

Prepare the "Equity and liabilities" section (including the relevant notes) of the statement of financial position of Miller Ltd at 28 February 19.9 as well as the statement of changes in equity for the financial year ended 28 February 19.9 to comply with the requirements of the Companies Act, No 71 of 2008. Ignore the accounting policy note and comparative figures.

SOLUTION 3

MILLER LTD STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 19.9

EQUITY AND LIABILITIES	Notes	R
Total equity		898 500
Share capital	1	750 000
Other reserves	2	33 500
Retained earnings		115 000
Non-current liabilities		120 000
Long-term loan	3	120 000
Current liabilities		101 000
Trade and other payables (52 000 + 8 000)		60 000
Current portion of long-term loan		5 000
Dividends payable (20 000 + 16 000)		36 000
Total equity and liabilities		<u>1 119 500</u>

MILLER LTD

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 19.9

	Share capital	8% Preference share capital	Surplus on revaluation of non-current assets	Reserve for increased replacement cost of non-current assets	Mark to market reserve	Retained earnings	Total
	R	R	R	R	R	R	R
Balance: 1 March 19.8	480 000	200 000	-	6 000	-	80 500	766 500
Total comprehensive income for the year	-	-	27 500	-	2 000	113 500	143 000
Ordinary shares issued	25 000	-	-	-	-	-	25 000
Capitalisation shares issued	45 000	-	-	-	-	(45 000)	-
Share issue expenses written-off	-	-	-	-	-	(1 000)	(1 000)
Transfer to retained earnings	-	-	-	(2 000)	-	2 000	-
Dividends declared (3)	-	-	-	-	-	(20 000)	(20 000)
- Ordinary dividends	-	-	-	-	-	(20 000)	(20 000)
- Preference dividends	-	-	-	-	-	(16 000)	(16 000)
Balance: 28 February 19.9	550 000	200 000	27 500	4 000	2 000	114 000	897 500

SOLUTION 3 (continued)**MILLER LTD****NOTES AT 28 FEBRUARY 19.9****1. Share capital**

	R
Authorised	
400 000 Ordinary shares	
120 000 8% Preference shares	
Issued	
315 000 Ordinary shares	
- (calculation 2)	550 000
100 000 8% Preference shares	200 000
	<u>750 000</u>

During the accounting period 20 000 ordinary shares were issued at R1,25 per share.

2. Other reserves

Reserves consist of:	
Non-distributable reserve	29 500
Surplus on revaluation of non-current asset	27 500
Mark to market reserve	2 000
Distributable reserve	4 000
Reserve for increased replacement cost of non-current assets	4 000
	<u>33 500</u>

3. Non-current liabilities**Long-term loan****Secured**

	R
Amount outstanding	
Short term portion	45 000
	(5 000)
	<u>40 000</u>

The loan bears interest at 10% per annum and is repayable in 10 equal annual instalments of R5 000 each as from 1 December 19.8 and is secured by a bond over land (refer to note).

Unsecured

Amount outstanding	<u>80 000</u>
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The 15% loan is repayable on 1 July 20.1.

SOLUTION 3 (continued)

Calculations

1. Profit for the year (adjusted)

Profit (given)	121 500
Interest paid (15% x 8/12 x 80 000)	(8 000)
	<u>113 500</u>

2. Ordinary share capital

	Number of shares	R
Balance	250 000	480 000
Issued on 27/2/19.9 (20 000 x R1,25)	20 000	25 000
Capitalisation (270 000/6 x R1)	45 000	45 000
	<u>315 000</u>	<u>550 000</u>

3. Dividends

Ordinary	250 000 x 8c	20 000
Preference	R200 000 x 8%	16 000

MARKING PLAN	Marks
Statement of financial position	
Share capital	3
Reserves	4
Long-term loan	2
Creditors	1½
Current portion of long-term loan	½
Dividends payable	1
Statement of changes in equity	
Share capital	2
8% Preference share capital	3
Surplus on revaluation of non-current assets	1
Reserve for increased replacement cost of non-current assets	1
Mark to market reserve	1
Retained earnings	5
Notes	
Share capital	4
Reserves	4
Non-current liabilities	7
Total	40

QUESTION 4 (20 marks)(24 minutes)

The following balances were extracted from the books of Jens Limited at 29 February 20.0:

	R
Revenue (sales) (Including VAT @ 14%)	6 840 000
Cost of sales (Including VAT @ 14%)	2 280 000
Non-distributable reserve (1/3/19.9)	100 000
Retained earnings (1/3/19.9)	450 000
Investments at cost	310 000
Dividends paid - Preference shares	28 000
- Ordinary shares	40 000
Provisional tax paid	600 000
Dividends received - Thakalaka Limited	2 800
Distribution costs	665 000
Trade and other receivables	755 000
Trade and other payables	433 500
Administrative expenses	
Rent paid	180 000
Salaries and wages	575 000
Stationery	14 500
Auditors' remuneration	19 000
Credit losses	90 000
Interest paid	8 800
Sales returns (Including VAT @ 14%)	228 000
Equipment at carrying amount (1/3/19.9)	360 000
Other expenses (including depreciation)	200 000

Additional information:

- Thakalaka Ltd is a listed company.
- The company was incorporated on 1 March 19.7 and all equipment was purchased on 1 March 19.7. The company provides for depreciation at 20% per annum according to the straight-line method.

- Auditors' remuneration consists of the following:

	R
Travelling expenses	5 000
Fee for audit	14 000

- Included under salaries are the following amounts paid to directors:

Amount paid to chairman	10 000
Amount paid to managing director - salary	160 000
Amount paid to financial director - salary	70 000
Travelling expenses reimbursed to managing director	2 300
Travelling allowance paid to chairman	5 000
Amount paid to managing and financial directors for attending directors' meetings	30 000

- It was decided to declare a final dividend of R120 000 on 29 February 20.0.

- Normal tax of R573 356 must still be provided for.

QUESTION 4 (continued)

7. Credit losses written off over the previous years amounted to:
- | | R |
|------|----------|
| 19.9 | 15 000 |
| 19.8 | 14 300 |
8. Investments consist of the following:
- 8.1 120 000 Ordinary shares in Quattro Limited at a cost of R200 000. The issued share capital of Quattro Limited consists of 200 000 ordinary shares. Each share has one vote. The market value of the investment was R200 000 on 29 February 20.0.
- 8.2 20 000 Preference shares in Thakalaka Limited at a cost of R40 000. The issued share capital of Thakalaka Limited consists of 30 000 ordinary shares and 30 000 preference shares. Each share has one vote. The shares of Thakalaka Limited are traded on the Johannesburg Securities Exchange and the market value of the preference shares on 29 February 20.0 amounted to R3 each. These shares are designated as at fair value through other comprehensive income (not held for trading).
- 8.3 70 000 Ordinary shares in Sugar Limited at a cost of R70 000. The issued share capital of Sugar Limited consists of 4 000 000 ordinary shares. Each share has one vote. The shares of Sugar Limited are traded on the Johannesburg Securities Exchange and the market value on 29 February 20.0 amounted to R2 each. This investment is regarded as an investment at fair value through profit or loss (held for trading / speculative purposes) in the books of Jens Limited.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income and applicable notes of Jens Limited for the year ended 29 February 20.0. Your answer should comply with the requirements of the Companies Act, No 71 of 2008. (Ignore the note on accounting policy, comparative figures and the statement of changes in equity.)

SOLUTION 4**JENS LIMITED****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 29 FEBRUARY 20.0**

	Note	R
Revenue (6 000 000 - 200 000)		5 800 000
Cost of sales		<u>(2 000 000)</u>
Gross profit		3 800 000
Other income (2 800 + 70 000)		72 800
Distribution cost		(665 000)
Administrative expenses (calculation 1)		(878 500)
Other expenses		(200 000)
Finance cost		<u>(8 800)</u>
Profit before tax	1	2 120 500
Income tax expense	2	<u>(573 356)</u>
Profit for the year		1 547 144
Other comprehensive income for the year		
Gain on financial assets at fair value through other comprehensive income (not held for trading financial assets)		20 000
Total comprehensive income for the year		<u><u>1 567 144</u></u>
Profit attributable to:		
Owners		<u><u>1 547 144</u></u>
Total comprehensive income attributable to:		
Owners		<u><u>1 567 144</u></u>

SOLUTION 4 (continued)

JENS LIMITED NOTES FOR THE YEAR ENDED 29 FEBRUARY 20.0

1. Profit before tax

Profit before tax after the following had been taken into account, amongst others:

	R
Income	
Revenue consists of sale of goods	5 800 000
Fair value adjustment - Financial asset at fair value through profit and loss [(R70 000 x 2) – R70 000]	70 000
Income from other financial assets	2 800
Listed investments - dividends	2 800
Expenses	
Depreciation (calculation 2)	120 000
Auditors' remuneration	19 000
- Fee for audit	14 000
- Travelling expenses	5 000
Directors' remuneration	275 000
Executive directors	
- Emoluments (160 000 + 70 000 + 30 000)	260 000
Non-executive directors	
- Emoluments (10 000 + 5 000)	15 000
Significant item	
- Credit losses written off	90 000
2. Income tax expense	
SA Normal tax - current year	573 356

SOLUTION 4 (continued)**Calculations****1. Administrative expenses**

	R
Rent paid	180 000
Salaries and wages	575 000
Stationery	14 500
Credit losses	90 000
Auditors' remuneration	19 000
	<u>878 500</u>

2. Depreciation

Cost of equipment (100/60 x R360 000)	600 000
Depreciation (20% x R600 000)	<u>120 000</u>

MARKING PLAN	Marks
Statement of profit or loss and other comprehensive income	
Revenue	1
Cost of sales	½
Other income	1½
Distribution cost	½
Administrative expenses	2
Other expenses	½
Finance cost	½
Income tax expense	½
Gain on not held for trading financial asset	1
Profit attributable to owners	½
Total comprehensive income attributable to owners	½
Notes to the financial statements	
Profit before tax	10
Income tax expense	1
Total	<u>20</u>

QUESTION 5 (35 marks)(42 minutes)

The following information represents an extract from the trial balance of Stuttgart Limited at 31 December 19.9.

	R
Revenue (sales)	5 414 000
Cost of sales	4 060 200
Dividends received	17 900
Interest received	3 500
Other expenses:	
- Loss on disposal of motor vehicle	8 500
- Auditor's remuneration - for audit	10 800
- Salaries and wages	863 500
- Sundry expenses	101 600
- Municipal charges	1 380
Interest paid to Frankfurt (Pty) Ltd	9 300
Furniture and equipment:	
- Cost	63 500
- Accumulated depreciation (1/1/19.9)	21 200
Retained earnings (1/1/19.9)	783 400
Dividends paid to ordinary shareholders	110 000
Machinery at cost	150 000
Sales returns	400

Additional information:

1. Dividends received consist of the following:

- R2 300 from Frankfurt (Pty) Ltd
- R7 600 from Manheim Ltd
- R8 000 from Koblenz Ltd

2. Investments consist of the following:

- 9 000 Ordinary shares in Koblenz Limited purchased at R9 000 for speculation purposes. The issued share capital of Koblenz Limited consists of 200 000 ordinary shares. Each share has one vote. These shares are traded on the Johannesburg Stock Exchange and the fair value of the shares was R2,00 each on 31 December 19.9.
- 30 000 Ordinary shares in Manheim Limited at a cost of R40 000. The issued share capital of Manheim Limited consists of 40 000 ordinary shares. Each share has one vote. These shares are traded on the Johannesburg Stock Exchange and the market value was R40 000 on 31 December 19.9.
- 7 000 Preference shares in Frankfurt (Pty) Ltd purchased for R15 000. The issued preference share capital of Frankfurt (Pty) Ltd consists of 10 000 shares. The directors valued the shares at R2,50 each on 31 December 19.9. These shares are classified as an investment at fair value through other comprehensive income (not held for trading).

3. Stuttgart Ltd charges Manheim Ltd a management fee of R1 000 per month. This fee must still be provided for the year ended 31 December 19.9.

QUESTION 5 (continued)

4. Sundry expenses include amongst other the following:

	R
Travelling allowance - Mr Wolfgang	4 800
Entertainment expenses - Mr Ludwig	260
Pension fund contribution - Mr Karl	6 400
Auditors' travelling expenses	150

5. Salaries and wages include the following remuneration:

Mr F Heinrich - Financial director	72 000
Mr D Wolfgang - Chairman of the Board of Directors	90 000
Mr G Ludwig - Marketing director	60 000
Mr D Karl - General manager	66 000
Mr C Axel - Retired chairman of the Board of Directors (pension)	24 000
Mr C Boris - Non-executive director (loss of office on 1/1/19.9)	10 000
Directors' fees at R5 000 per director per annum	15 000
	<hr/>
	337 000
	<hr/> <hr/>

6. Mr Heinrich is a director of Manheim Ltd and received R5 000 per annum for attending directors meetings.
7. Tax for the current year to the amount of R97 045 must still be provided for.
8. On 1 October 19.9 the company purchased machinery to the value of R150 000.
9. The company's policy is to depreciate non-current assets as follows:
Furniture and fittings at 10% per annum - reducing balance method
Machinery at 20% per annum - reducing balance method.
No depreciation has been provided for the current year and no furniture and fittings were purchased during the current year.
10. Koblenz Ltd is a listed company with an issued ordinary share capital of R23 000 000. A dividend of 10 cents per ordinary share was paid to its shareholders on 31 August 19.9.
11. The interest income was received from Manheim Ltd.
12. A reserve for replacement of assets to the amount of R20 000 must still be created.

REQUIRED:

1. The statement of profit or loss and other comprehensive income and relevant notes of Stuttgart Ltd for the year ended 31 December 19.9 in compliance with the requirements of the Companies Act, No 71 of 2008. Comparative figures and accounting policy note are not required.
2. The statement of changes in equity for the year ended 31 December 19.9. Show **only** the following columns:
 - Replacement reserve
 - Retained earnings
 - Mark to market reserve

SOLUTION 5

STUTTGART LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 19.9

	Notes	R
Revenue (5 414 000 - 400)		5 413 600
Cost of sales		<u>(4 060 200)</u>
Gross profit		1 353 400
Other income (23 100 + 10 300 + 9 000)		42 400
Other expenses (calculation 1)		(997 510)
Finance cost		<u>(9 300)</u>
Profit before tax	1	388 990
Income tax expense	2	<u>(97 045)</u>
Profit for the year		291 945
Other comprehensive income for the year		
Gain on financial asset at fair value through other comprehensive income (not held for trading) [(7 000 shares x R 2.50) – R15 000]		<u>2 500</u>
Total comprehensive income for the year		<u><u>294 445</u></u>
Profit attributable to:		
Owners		<u><u>291 945</u></u>
Total comprehensive income attributable to:		
Owners		<u><u>294 445</u></u>

STUTTGART LIMITED

NOTES FOR THE YEAR ENDED 31 DECEMBER 19.9

1. Profit before tax

Profit before tax after the following had been taken into account, amongst others:

	R
Income:	
Revenue consists of sale of goods	5 413 600
Fair value adjustment - Financial asset at fair value through profit or loss (R18 000 – R9 000)	9 000
Income from subsidiary	23 100
- Dividends received	7 600
- Interest received	3 500
- Management fees received	12 000
Income from other financial assets	
Dividends received	10 300
- From listed investments	8 000
- From unlisted investments	2 300

SOLUTION 5 (continued)

	R
Expenses:	
Auditors' remuneration	10 950
- Fee for audit	10 800
- Travelling expenses	150
Depreciation (calculation 1)	11 730
Loss on disposal of non-current asset	8 500
Directors' remuneration (calculation 2)	275 800
Executive directors	142 000
- Emoluments (142 000 + 5 000)	147 000
- Less: Paid by subsidiary	(5 000)
Non-executive directors	133 800
- Emoluments	99 800
- Pension	24 000
- Loss of office	10 000
 2. Income tax expense	
SA Normal company tax	
- Current year	97 045

STUTTGART LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 19.9**

	Reserve for the replacement of assets	Retained earnings	Mark to market reserve
	R	R	R
Balance at beginning of year	-	783 400	-
Total comprehensive income for the year	-	291 945	2 500
Transfer to reserve	20 000	(20 000)	
Dividends declared	-	(110 000)	
Balance at end of year	20 000	945 345	2 500

SOLUTION 5 (continued)

Calculations

1. Other expenses

	R
Loss on disposal of vehicle	8 500
Auditors' remuneration	10 800
Salaries and wages	863 500
Sundry expenses	101 600
Depreciation	
Furniture and equipment $[(63\ 500 - 21\ 200) \times 10\%]$	4 230
Machinery $(150\ 000 \times 20\% \times 3/12)$	7 500
Municipal charges	1 380
	<u>997 510</u>
Other expenses	<u>997 510</u>

2. Directors' remuneration

	Executive		Non-executive	
	Stuttgart (parent)	Manheim (subsidiary)	Stuttgart (parent)	Manheim (subsidiary)
	R	R	R	R
Emoluments				
Mr Heinrich				
- Salary	72 000			
- Fees for attending directors' meetings	5 000	5 000		
Mr Ludwig				
- Salary	60 000			
- Fees for attending directors' meetings	5 000			
Mr Wolfgang				
- Salary			90 000	
- Travelling allowance			4 800	
- Fees for attending directors' meetings			5 000	
	142 000	5 000	99 800	-
Pensions				
Mr Axel			24 000	
Loss of office				
Mr Boris			10 000	

SOLUTION 5 (continued)

MARKING PLAN	Marks
Statement of profit or loss and other comprehensive income	
Revenue	1
Cost of sales	1
Other income	2
Other expenses	4
Finance cost	$\frac{1}{2}$
Income tax expense	$\frac{1}{2}$
Gain on not held for trading financial asset	1
Profit attributable to owners	1
Total comprehensive income attributable to owners	1
Notes	
Profit before tax	15
Income tax expense	2
Statement of changes in equity	
Reserve for the replacement of assets	1
Mark to market reserve	1
Retained earnings	4
Total	35

QUESTION 6 (30 marks)(36 minutes)

The following information was taken from the books of Jobs (Pty) Ltd, a construction company on 31 December 19.9:

	R
Ordinary share capital	100 000
Retained earnings	250 000
Land at valuation	400 000
Factory buildings at cost	480 000
Motor vehicles at carrying amount (31/12/19.8)	210 000
Crane at cost	240 000
Machinery and equipment at cost (31/12/19.9)	180 000
Furniture and equipment at cost (31/12/19.9)	60 000
Accumulated depreciation:	
- Motor vehicles (31/12/19.8)	140 000
- Crane (31/12/19.8)	30 000
- Machinery and equipment (31/12/19.8)	60 000
- Furniture and equipment (31/12/19.8)	15 000
Investments at cost	73 000
Loans	40 000
Inventories	170 000
Trade and other receivables	313 600
Bank overdraft	135 000
Provisional taxation paid	25 000
Trade and other payables	186 000
Deferred expenses	2 300

Additional information:

The inexperienced accountant who supplied the above information also supplied the following information in respect of transactions that occurred during the year:

1. The factory buildings are situated on erf 6, Silverton, consisting of a factory and office block. The land was acquired on 1/3/19.6 for R190 000. Buildings at a cost of R480 000 were erected during the current year. The company withdrew its crane from production for a period of 4 months during which it was used in the process of improving the building. The building was completed on 31 December 19.9 The buildings are occupied by the owners. The land was revalued on 31 October 19.9 at replacement value by Mr J Nel, a sworn appraiser.
2. Non-current assets are depreciated as follows:
 - The crane that was acquired on 1/7/19.8 is depreciated on the straight-line basis over a period of 48 months.
 - Machinery and equipment: 20% per annum on the reducing balance method.
 - Motor vehicles: 20% per annum on the straight-line method.
 - Furniture and equipment: 10% per annum on the reducing balance method.
 - Buildings: 2% per annum on the straight-line method.
3. The following transactions in respect of plant and equipment took place during the year:
 - On 30 June 19.9 a motor vehicle costing R50 000 and on which R25 000 depreciation was already written off was traded in for R40 000 on a new vehicle costing R70 000.
 - On 2 January 19.9 furniture to the value of R14 000 was purchased.

QUESTION 6 (continued)

4. Normal tax of R70 000 must still be provided for the current year.
5. Inventories consists of:
 - Raw materials R 70 000
 - Work in progress R100 000
 Inventories is valued at cost on the first-in-first-out basis of valuation.
6. Investments consist of the following:
 - 9 000 Ordinary shares in Bricks Limited purchased for speculation purposes. The issued share capital of Bricks Limited consists of 200 000 ordinary shares. Each share has one vote. These shares are traded on the Johannesburg Securities Exchange and the fair value of the shares was R2,00 each on 31 December 19.9.
 - 30 000 Ordinary shares in Trucks Limited at a cost of R40 000. The issued share capital of Trucks Limited consists of 40 000 ordinary shares. Each share has one vote. These shares are traded on the Johannesburg Securities Exchange and the market value was R40 000 on 31 December 19.9.
 - 7 000 Preference shares in Diesel (Pty) Ltd. The issued preference share capital of Diesel (Pty) Ltd consists of 10 000 shares. The directors valued the shares at R2,50 each on 31 December 19.9. These shares are classified as an investment at fair value through other comprehensive income (not held for trading).
7. Loans consist of the following:
 - Loan to Trucks Limited to the amount of R25 000. The loan is interest free and is repayable in 2 equal annual instalments. The first instalment is payable on 31 December 20.0.
 - Loan to Jason (Pty) Ltd to the amount of R15 000. Interest is calculated on the loan at 15% per annum. The loan is secured by a first mortgage bond over the company's fixed property. The loan is repayable on 31 December 20.5.

REQUIRED:

Prepare the "Asset" section of the Statement of financial position as well as the relevant notes of Jobs (Pty) Ltd at 31 December 19.9, to comply with the requirements of the Companies Act No 71 of 2008. Comparative figures are not required. The accounting policy note is not required.

SOLUTION 6

JOBS LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 19.9

	Notes	R
ASSETS		
Non-current assets		1 467 000
Property, plant and equipment	1	1 369 500
Investment in subsidiary	2	65 000
Financial asset at fair value through other comprehensive income (not held for trading)	3	17 500
Loan		15 000
Current assets		501 600
Inventories	4	170 000
Trade and other receivables		313 600
Financial asset at fair value through profit or loss	3	18 000
Deferred expenses		2 300
Total assets		<u>1 970 900</u>

JOBS LIMITED

NOTES AT 31 DECEMBER 19.9

1. Property, plant and equipment

	Land R	Buildings R	Motor vehicles R	Crane R	Machinery and equipment R	Furniture R	Total R
Carrying amount 1/1/19.9	190 000	-	210 000	210 000	120 000	31 000	761 000
Cost	190 000	-	350 000	240 000	180 000	46 000	1 006 000
Accumulated Depreciation	-	-	(140 000)	(30 000)	(60 000)	(15 000)	(245 000)
Depreciation	-	-	(72 000)	(60 000)	(24 000)	(4 500)	(160 500)
Additions to cost	-	80 000	70 000	-	-	14 000	564 000
Disposals at carrying amount	-	-	(25 000)	-	-	-	(25 000)
Crane	-	20 000	-	-	-	-	20 000
Revaluation	210 000*	-	-	-	-	-	210 000
Carrying amount 31/12/19.9	400 000	500 000	183 000	150 000	96 000	40 500	1 369 500
Cost/Valuation	400 000	500 000	370 000	240 000	180 000	60 000	1 750 000
Accumulated depreciation	-	-	(187 000)	(90 000)	(84 000)	(19 500)	(380 500)

*Balancing figure

SOLUTION 6 (continued)

Factory buildings are situated on erf 6, Silverton, consisting of a factory and office block. The property was revalued during the year at replacement value by Mr J Nel, a sworn appraiser.

	R
2. Investment in subsidiary	65 000
Shares at cost	40 000
Loan to subsidiary	25 000
3. Financial assets	
Current financial asset at fair value through profit or loss	
Listed	
9 000 Ordinary shares in Bricks Limited at fair value	18 000
Non-current financial asset at fair value through other comprehensive income (not held for trading)	
Unlisted	
7 000 Preference shares in Diesel (Pty) Ltd at fair value	17 500
4. Inventories	170 000
- Raw materials	70 000
- Work in progress	100 000
Calculations	
1. Motor vehicles	
1.1 Cost at 1 January 19.9	
Carrying amount at 31 December 19.8	210 000
Accumulated depreciation at 31 December 19.8	140 000
	350 000
1.2 Depreciation for the year	
$(R350\ 000 \times 20\% \times 6/12) + (R370\ 000 \times 20\% \times 6/12)$	72 000
1.3 Cost at 31 December 19.9	
Cost at 1 January 19.9	350 000
Sales at cost	(50 000)
Purchases at cost	70 000
	370 000

SOLUTION 6 (continued)

2. Crane

2.1 Depreciation for the year

R240 000 / 4 years 60 000

2.2 Depreciation capitalised

R60 000 x 4/12 20 000

Thus, R20 000 debited to buildings

3. Furniture

3.1 Cost at 1 January 19.9

Cost at 31 December 19.9	60 000
Purchases on 2 January 19.9	<u>(14 000)</u>
	<u>46 000</u>

3.2 Depreciation for the year

R(31 000 + 14 000) x 10% 4 500

MARKING PLAN	Marks
Statement of financial position	
Loan	1
Trade and other receivables	1
Deferred expenses	1
Notes	
Property, plant and equipment	
Land	1½
Buildings	2
Motor vehicles	3½
Crane	3
Machinery and equipment	2½
Furniture	3
Total	1½
Factory buildings	2
Investment in subsidiary	2
Financial assets	5
Inventories	2
Total	<u>30</u>

QUESTION 7 (30 marks)(36 minutes)

The following information was taken, amongst others, from the books of Sun Limited, a listed company, for the financial year ended 30 June 20.0:

	R
Ordinary share capital (Issued at 50c)	1 000 000
12% Long-term loan	190 000
10% Preference shares	300 000
Retained earnings (1/7/19.9)	380 000
Machinery and equipment at cost (1/7/19.9)	160 000
Accumulated depreciation	
- Machinery and equipment (1/7/19.9)	75 000
Revenue (turnover)	3 500 000
Other income	8 550
Other expenses (refer note 6 and 9)	31 960
Administrative expenses	410 650
Investments at cost	245 000
Loan granted to Moon Limited	60 000
Income tax expense	263 421

Additional information:

- The 12% long-term loan was incurred on 1 January 20.0.
- Investments consist of:
 - 100 000 Ordinary shares in Star Limited, purchased at R2 each. Star Limited's total issued ordinary share capital consists of 1 000 000 shares. Star Limited's shares are traded on the Johannesburg Securities Exchange and the price on 30 June 20.0 was R2.50 each. This investment was designated as at fair value through other comprehensive income (not held for trading).
 - 30 000 Ordinary shares in Moon Limited at a cost of R45 000. Moon Limited's total issued ordinary share capital consists of 50 000 shares. Moon Limited's shares trade on the Johannesburg Securities Exchange and the price on 30 June 20.0 was R2 each.
- The loan to Moon Limited was granted on 1 July 19.9 at an interest rate of 10% per annum.
- Sun Limited maintained a gross profit percentage of 40% on sales during the year.
- Administrative expenses consist of the following:

	R
• Directors' remuneration - executive directors	180 000
• Auditors' remuneration	
- Travelling expenses	350
- Fee for audit	12 000
• Accountant's salary	60 000
• Wages	150 000
• Telephone	3 000
• Water and electricity	4 200
• Stationery	1 100

QUESTION 7 (continued)

6. Other expenses consist of the following:

• Interest paid	
- Long-term loan	11 000
- Bank overdraft	660
• Credit losses written off	1 300
• Sundry expenses	19 000

7. Other income consist of the following:

• Dividends received	
- Star Limited	1 200
- Moon Limited	800
• Interest received	
- Current account	800
- Trade and other receivables	1 750
- Moon Limited	6 000
• Profit on sale of machinery	1 000

8. The following must still be provided for:

- Depreciation on machinery and equipment at 20% per annum on the carrying amount. Machinery with a cost of R10 000 and a carrying amount of R4 000 was sold on 2 July 19.9 for R5 000. Depreciation is regarded as an operating expense.

9. Decisions taken and approved at an annual general meeting held on 29 June 20.0 but not yet executed:

- An ordinary dividend of 5c per share was declared.
- A asset replacement reserve of R20 000 must be created out of retained earnings.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income, statement of changes in equity and relevant notes of Sun Limited for the year ended 30 June 20.0 in accordance with the provisions of the Companies Act, No 71 of 2008. Ignore comparative figures and the note on accounting policy.

SOLUTION 7**SUN LIMITED****STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 20.0**

	Notes	R
Revenue		3 500 000
Cost of sales (60% x 3 500 000)		<u>(2 100 000)</u>
Gross profit (40% x 3 500 000)		1 400 000
Other income (800 + 1 750 + 1 000 + 6 800 + 1 200)		11 550
Administrative expenses		(410 650)
Other expenses		(36 500)
(31 960 + 16 200 - 11 000 - 660)		
Finance cost (11 400 + 660)		<u>(12 060)</u>
Profit before tax	1	952 340
Income tax expense	2	<u>(263 421)</u>
Profit for the year		688 919
Other comprehensive income for the year		
Gain on not held for trading financial asset		<u>50 000</u>
Total comprehensive income for the year		<u>738 919</u>
Profit attributable to:		
Owners		<u>688 919</u>
Total comprehensive income attributable to:		
Owners		<u>738 919</u>

SOLUTION 7 (continued)

SUN LIMITED

NOTES FOR THE YEAR ENDED 30 JUNE 20.0

1. Profit before tax

Profit before tax is disclosed after taking the following items into account, amongst others:

	R
Income:	
Revenue consists of sale of goods	3 500 000
Profit on sale of non-current assets	1 000
Income from subsidiary	6 800
- Dividends received	800
- Interest received	6 000
Income from other financial assets	
- Listed investment - Dividends	1 200
Expenses:	
Directors' remuneration	180 000
- Executive director	
Auditors' remuneration	12 350
- Fee for audit	12 000
- Travelling expenses	350
Depreciation	16 200

2 Income tax expense

SA Normal tax - current year	263 421
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Calculation

Depreciation

(Cost - Accumulated depreciation) x 20%
R(160 000 - 10 000) - R(75 000 - 6 000) x 20%
R(150 000 - 69 000) x 20%
R81 000 x 20%
= R16 200

SOLUTION 7 (continued)**SUN LIMITED****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 20.0**

	10% Preference share capital	Ordinary share capital	Asset replacement reserve	Mark to market reserve	Retained earnings	Total
	R	R	R	R	R	R
Balance - beginning of year	300 000	1 000 000	-	-	380 000	1 680 000
Transfer to asset replacement reserve			20 000		(20 000)	-
Total comprehensive income for the year				50 000	688 919	738 919
Dividends						
- Ordinary shares (2 000 000 x 5c)					(100 000)	(100 000)
- Preference shares (10% x R300 000)					(30 000)	(30 000)
Balance - end of year	300 000	1 000 000	20 000	50 000	918 919	2 288 919

MARKING PLAN	Marks
Statement of comprehensive income	
Revenue	1
Cost of sales	2
Other income	3½
Administrative expenses	1
Other expenses	1
Financing costs	2
Income tax expense	½
Gain on not held for trading financial asset	1
Profit attributable to owners	½
Total comprehensive income attributable to owners	½
Notes	
Profit before tax	
Directors' remuneration	1
Auditors' remuneration	2
Depreciation	2
Profit on sale of non-current assets	2
Income from subsidiary	1
Income from other financial assets	2
Income tax expense	1
Statement of changes in equity	6
Total	30

QUESTION 8 (30 marks)(36 minutes)

The following is an extract from the trial balance of Goblet Limited at 31 August 20.4:

	R
Ordinary share capital.....	1 000 000
Retained earnings (1/9/20.3).....	465 000
15% Redeemable preference shares.....	400 000
Motor vehicle at carrying amount..... (Cost R239 200 and accumulated depreciation R208 575)	30 625
Equipment at cost.....	152 000
Accumulated depreciation - Equipment (R22 500 at 1/9/20.3).....	31 950
Land at cost.....	160 000
Buildings at cost.....	340 000
Accumulated depreciation - Buildings.....	102 000
Revenue.....	9 400 000
Other income.....	82 875
Other expenses (including depreciation).....	980 000
Administration expenses.....	2 491 000
Sales returns.....	1 200 000
Distribution costs.....	750 000
Profit on sale of other financial assets (shares).....	40 000

Additional information:

1. Investments consists of:

60 000 Ordinary shares in Bobbin Ltd. Bobbin Ltd's total issued ordinary share capital consists of 100 000 shares. Bobbin Ltd's shares are traded on the Johannesburg Securities Exchange.

40 000 Ordinary shares in Sunbake Ltd. Sunbake Ltd's issued share capital consists of 300 000 shares.

2. Goblet Ltd maintained a gross profit percentage of 60% on sales during the year.

3. The key personnel are as follows:

	Goblet Ltd	Bobbin Ltd
Chairmen	Mr Pin	Mrs Swart
Directors	Messrs Blue, Pink	Messrs White, Green
Marketing managers	Mrs Henk	Mr Harris
Financial directors	Mr Dye	Mr Good
Managing directors	Mr White	Mrs Purple
Company secretaries	Mr Green	Mr Orange

During the current financial year the abovementioned directors of Goblet Ltd and Bobbin Ltd each attended four directors meetings. The directors of Goblet Ltd received R700 per meeting and the directors of Bobbin Ltd R350 per meeting.

QUESTION 8 (continued)

4. Included in the salaries paid during the year are the following amounts:

	Goblet Ltd	Bobbin Ltd
	R	R
Marketing managers	110 000	90 000
Financial directors	140 000	120 000
Managing directors	160 000	140 000
Company secretaries	85 000	70 000

5. Messrs Dye and Good each received an entertainment allowance of R15 000 per annum.
6. On 1 December 20.3 equipment with an original cost price of R60 000 and accumulated depreciation of R9 000 at the beginning of the year, was sold at its carrying amount and replaced with a new machine at a cost of R62 000.
7. On 28 February 20.4 a motor vehicle which originally cost R25 000 and on which depreciation of R21 875 has already been written off up to that date, was traded in for R6 000 on a new vehicle with a cost price of R35 000. All motor vehicles were purchased on 1 September 20.0.
8. The following rates of depreciation are applicable:

Equipment	15% Reducing balance method
Motor vehicles	25% Straight-line method
Buildings	5% Straight-line method

9. Administration expenses include the following:

	R
Credit losses	130 000
Stationery	45 000
Salaries and wages	2 000 000
Fees paid to the auditor	
- For travelling expenses	46 000
- For audit work done	220 000
Interest paid	50 000

10. Other income consists of the following:

	R
Dividends received	
- Bobbin Ltd	35 000
- Sunbake Ltd	20 000
Interest received	
- Debtors	15 000
- Sunbake Ltd	10 000
Profit on sale of motor vehicle	2 875

11. The redeemable preference shares are redeemable on 31 December 20.4 and is thus regarded as a liability for the company.
12. Normal tax of R197 925 must still be provided for.

QUESTION 8 (continued)

13. Credit losses written off over the previous two years amounted to:

	R
20.3.....	15 000
20.2.....	14 300

14. Goblet's land was revalued on 30 June 20.4 by Mr. Lion, a sworn appraiser, at replacement value of R200 000.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income and applicable notes of Goblet Limited for the financial year ended 31 August 20.4. Your answer should comply with the requirements of the Companies Act, 1973 as amended, and Generally Accepted Accounting Practice. (Ignore the note on accounting policy, comparative figures and the statement of changes in equity.)

SOLUTION 8

GOBLET LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR
ENDED 31 AUGUST 20.4

	Note	R
Revenue		8 200 000
Cost of sales		<u>(3 280 000)</u>
Gross profit		4 920 000
Other income (82 875 + 40 000)		122 875
Distribution costs		(750 000)
Administrative expenses (2 491 000 - 50 000)		(2 441 000)
Other expenses		(980 000)
Finance cost [(400 000 x 15%) + 50 000]		<u>(110 000)</u>
Profit before tax	1	761 875
Income tax expense	2	<u>(197 925)</u>
Profit for the year		563 950
Other comprehensive income for the year		40 000
Gain on revaluation of land		<u>40 000</u>
Total comprehensive income for the year		<u>603 950</u>
Profit attributable to:		
Owners		<u>563 950</u>
Total comprehensive income attributable to:		
Owners		<u><u>603 950</u></u>

SOLUTION 8 (continued)

GOBLET LIMITED NOTES FOR THE YEAR ENDED 31 AUGUST 20.4

1. Profit before tax	R
Profit before tax is shown after the following had been taken into account, amongst others:	
Income	
Revenue from sale of goods	8 200 000
Income from subsidiary - Dividends	35 000
Income from financial asset Unlisted - dividends - interest	20 000 10 000
Profit on disposal of non-current asset	2 875
Profit on disposal of financial asset	40 000
Expenses	
Auditors' remuneration	266 000
- Fee for audit	220 000
- Travelling expense	46 000
Depreciation (calculation 1)	95 913
Directors' remuneration (calculation 2)	329 000
Executive directors	320 600
- Emoluments	322 000
- Less paid by subsidiary	1 400
Non-executive directors	8 400
- Emoluments	8 400
Significant item - Credit losses written off	130 000
2. Income tax expense	
SA Normal tax - current	197 925

SOLUTION 8 (continued)**Calculations****1. Depreciation****1.1 Equipment**

	Cost R	Accumulated de- preciation R
Balance at end of year	152 000	31 950,00
Additions	(62 000)	6 975,00 ²
Depreciation on disposal		1 912,50 ¹
Transfer disposal (9 000 + 1 912,50)	60 000	(10 912,50)
Old machine		11 475,00 ³
Balance at beginning of year (Balancing figure)	150 000	22 500,00
¹ Sold [(60 000 - 9 000) x 15% x 3/12]		1 912,50
² New (62 000 x 9/12 x 15%)		6 975,00
³ Old [90 000 - (22 500-9 000) x 15%]		11 475,00
		<u>20 362,50</u>
1.2 Buildings (340 000 x 5%)		<u>17 000</u>
1.3 Motor vehicles		
New (35 000 x 25% x 6/12)		4 375
Sold (25 000 x 25% x 6/12)		3 125
Old [(239 200 - 35 000) x 25%]		51 050
		<u>58 550</u>
1.4 Total depreciation (58 550 + 17 000 + 20 362,50)		<u>95 913</u>

SOLUTION 8 (continued)

2. Directors' remuneration

	Executive		Non-executive	
	Goblet Ltd	Bobbin Ltd	Goblet Ltd	Bobbin Ltd
	R	R	R	R
Mr Pin - Fees			2 800	
Mr Blue - Fees			2 800	
Mr Pink - Fees			2 800	
Mr Dye				
- Salary	140 000			
- Fees	2 800			
- Entertainment allowance	15 000			
Mr White				
- Salary	160 000			
- Fees	2 800	1 400		
	320 600	1 400	8 400	

MARKING PLAN	Marks
Statement of profit or loss and other comprehensive income	
Revenue	2
Cost of sales	2
Other income	1½
Distribution costs	½
Administration expenses	1
Other expenses	½
Finance cost	1
Income tax expense	½
Revaluation of land	1
Profit attributable to owners	½
Total comprehensive income attributable to owners	½
Notes	
Profit before tax	
Income from subsidiary	1
Income from financial asset	2
Profit on disposal of non-current asset	1
Profit on disposal of financial asset	1
Auditor's remuneration	2
Depreciation	4
Directors' remuneration	5
Significant item	2
Income tax expense	1
Total	30