

DEPARTMENT OF FINANCIAL ACCOUNTING

FAC1601: FINANCIAL ACCOUNTING REPORTING 1

FAC1601 QUESTION BANK (SEMESTER 1 & SEMESTER 2)

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SU 2: Establishment and the financial statements of a partnership

QUESTION 2.1 (25 marks)(30 minutes)

Amanda and Sphindile are in a partnership trading as A&S Supermarket. The following information pertains to the partnership:

1. List of balances as at 31 December 2009

	R
Capital: Amanda (1 January 2009).....	350 000
Capital: Sphindile (1 January 2009)	250 000
Current account: Amanda (1 January 2009) (cr)	60 000
Current account: Sphindile (1 January 2009) (dr).....	40 000
Land and buildings at cost	494 000
Vehicles at cost.....	198 000
Accumulated depreciation: Vehicles (1 January 2009)	42 000
Debtors control	145 560
Creditors control	106 300
Bank (dr).....	26 582
Fixed deposit: Third National Bank	19 000
Drawings: Amanda.....	64 800
Drawings: Sphindile	43 200
Loan to Sphindile	40 800
Loan from Amanda	170 000
Allowance for credit losses.....	2 500
Sales.....	650 000
Purchases.....	304 000
Inventory (merchandise) (1 January 2009).....	70 800
Salaries and wages.....	132 960
Water and electricity	4 700
Interest expense: Loan from Amanda	5 400
Settlement discount granted	3 800
Interest income: Fixed deposit	1 710
Stationery consumed	5 000
Telephone expenses.....	26 208
Insurance on purchases.....	4 500
Freight on sales	3 200

2. Partnership agreement:

The partnership agreement stipulates the following:

- 2.1 The partners Amanda and Sphindile share the profits or losses in the ratio of 3:2 respectively.
- 2.2 Interest at 10% per annum is allowed on the opening balances of the partners' capital accounts.
- 2.3 Amanda is entitled to a 10% commission on sales.

QUESTION 2.1 (continued)3. Year-end adjustments:

3.1 Inventory on hand at 31 December 2009:

	R
Merchandise	83 000
Stationery (stationery purchased is recorded in the stationery consumed account)	850

3.2 On 30 September 2009, a delivery vehicle was purchased for R85 000 cash. All the necessary entries were made in the books.

3.3 Depreciation must be provided on vehicles at 10% per annum according to the straight-line method.

3.4 The loan from Amanda was obtained on 1 September 2007 at 5% interest per annum. The loan will be repaid in five equal annual instalments, starting from 31 December 2010. The interest must be paid to Amanda annually.

3.5 During the financial year Sphindile was granted an interest free loan which she agreed to settle in full on 30 June 2010.

3.6 The water and electricity account of R400 for December 2009 was received on 10 January 2010.

3.7 A debtor owing the business R5 560 has for the past financial year defaulted on his payments and his account must be written off as irrecoverable. The allowance for credit losses must be adjusted to R3 200.

3.8 During the financial year R40 000 was paid to Amanda as commission on sales. These payments were recorded in the salaries and wages account.

3.9 The fixed deposit at Third National Bank was made on 1 January 2008 for a period of 5 years at 9% interest per annum. The interest is receivable at the end of each borrowing year.

REQUIRED:

2.1.1 Prepare the statement of profit or loss and other comprehensive income of A&S Supermarket for the year ended 31 December 2009. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership (notes and comparative figures are not required). (20)

2.1.2 Prepare the current account of Amanda in the general ledger of A&S Supermarket for the year ended 31 December 2009. **The profit/loss for the year need not be appropriated and do not balance the account.** Each entry must disclose the correct contra ledger account. (5)

[25]

NB: Show all calculations.

SOLUTION 2.1 (25 marks)(30 minutes)

2.1.1

A&S SUPERMARKET**STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009**

	R
Revenue R(650 000 - 3 800)	646 200
Cost of sales	(296 300)
Inventory – 1 January 2009	70 800
Purchases	304 000
Insurance on purchases	4 500
	379 300
Inventory – 31 December 2009	(83 000)
Gross profit	349 900
Other income	1 710
Interest income: Loans and receivables: Fixed deposit	1 710
	351 610
Distribution, administrative and other expenses	(151 303)
Depreciation ①	13 425
Water and electricity R(4 700 + 400)	5 100
Credit losses R(5 560 + 700)	6 260
Salaries and wages R(132 960 – 40 000)	92 960
Stationery consumed R(5 000 – 850)	4 150
Telephone expense	26 208
Freight on sales	3 200
	200 307
Finance costs	(8 500)
Interest on loan (R170 000 x 5%)	8 500
Profit for the year	191 807
Other comprehensive income for the year	-
Total comprehensive income for the year	191 807

Calculation ①: Depreciation on vehicles

$$R(11\,300 \text{ ①} + 2\,125 \text{ ②}) = R13\,425$$

① In possession for the whole year

$$R(198\,000 - 85\,000) = R113\,000 \times 10\% = R11\,300$$

② Purchased during the year

$$R(85\,000 \times 10\%) \times 3/12 = R2\,125$$

SUGGESTED SOLUTION 2.1 (continued)

2.1.2

A&S SUPERMARKET**GEANERAL LEDGER**

Current account: Amanda

Dr			Cr		
2009		R	2009		R
Dec 31	Drawings R(64 800 + 40 000)	104 800	Jan 1	Balance b/d	60 000
			Dec 31	Interest on capital (R350 000 x 10%)	35 000
				Commission (R650 000 x 10%)	65 000

(5)
[25]

QUESTION 2.2 (25 marks)(30 minutes)

The following information pertains to the partnership of Phuza and Khemisi, trading as PK Pharmacy:

List of balances as at 30 June 2010, before the relevant additional information was taken into account:

	R
Capital: Phuza.....	100 000
Capital: Khemisi	100 000
Current account: Phuza (1 July 2009) (Dr)	14 080
Current account: Khemisi (1 July 2009) (Cr).....	43 520
Long-term loan	79 080
Furniture and equipment at cost.....	270 000
Accumulated depreciation: Furniture and equipment.....	48 600
Drawings: Phuza	30 360
Drawings: Khemisi	29 320
Inventory	234 360
Debtors control.....	321 000
Allowance for credit losses	16 568
Creditors control.....	131 160
Bank (overdraft)	18 600
Profit or loss account (Cr).....	361 592

Additional information:

1. On 1 January 2010 Phuza contributed a further R40 000 as capital to the partnership. This transaction was correctly recorded.
2. The partnership agreement stipulates that:
 - 2.1 The partners are entitled to the following salaries:

Phuza: R65 000 per annum
Khemisi: R65 000 per annum
 - 2.2 Interest on capital must be provided for at 12% per annum.
 - 2.3 Interest on the current accounts of the partners must be provided for at 5% per annum, calculated on the opening balances.
 - 2.4 The partners share in the profits or losses equally.
3. During the financial year R65 000 and R50 000 were paid as salaries to Phuza and Khemisi respectively. These amounts were erroneously debited to the debtors control account. The bank account was correctly credited.

REQUIRED:

Prepare the statement of changes in equity for the year ended 30 June 2010 of PK Pharmacy, to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership. Omit the total column of this statement. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

SOLUTION 2.2 (25 marks)**PK Pharmacy****Statement of changes in equity for the year ended 30 June 2010**

	Capital		Current accounts		Appropriation
	Phuza	Khemisi	Phuza	Khemisi	
	R	R	R	R	R
Balances at 1 July 2009	60 000	100 000	(14 080)	43 520	
Capital contribution	40 000				
Total comprehensive income for the year					361 592
Salaries to partners			65 000	65 000	(130 000)
Interest on capital ①			9 600	12 000	(21 600)
Interest on current accounts ②			(704)	2 176	(1 472)
Partners' share of total comprehensive income ③			104 260	104 260	(208 520)
Drawings ④			(95 360)	(79 320)	
Balances at 30 June 2010	100 000	100 000	68 716	147 636	–

Calculations**① Interest on capital**

Phuza: $(12\% \times R60\,000) + [(12\% \times R40\,000) \times 6/12] = R(7\,200 + 2\,400) = R9\,600$

Khemisi: $12\% \times R100\,000 = R12\,000$

② Interest on current accounts

Phuza: $5\% \times R14\,080 = R704$

Khemisi: $5\% \times R43\,520 = R2\,176$

③ Partners share of total comprehensive income

$R(361\,592 - 130\,000 - 21\,600 - 1\,472) = R208\,520$

Phuza: $50\% \times R208\,520 = R104\,260$

Khemisi: $50\% \times R208\,520 = R104\,260$

④ Drawings

Phuza: $R(30\,360 + 65\,000) = R95\,360$

Khemisi: $R(29\,320 + 50\,000) = R79\,320$

QUESTION 2.3 (30 marks) (36 minutes)

The following information was obtained from the accounting records of T Super and B Man, trading as Superman Traders:

1. Balances as at 28 February 2011:

	R
Profit for the year (before depreciation)	574 420
Asset replacement reserve (1 March 2010).....	30 000
Capital: T Super	775 000
Capital: B Man	775 000
Current account: T Super (Dr - 1 March 2010)	9 750
Current account: B Man (Cr - 1 March 2010)	4 340
Drawings: T Super	10 000
Drawings: B Man.....	7 630
Long-term loan: US Bank.....	660 000
Inventories	835 600
Debtors control	288 850
Creditors control	159 650
Land and buildings.....	1 500 000
Equipment at cost	280 000
Accumulated depreciation: Equipment (30 November 2010).....	80 000
Vehicles at cost.....	170 000
Accumulated depreciation: Vehicles(1 March 2010).....	24 000
Bank (Cr)	15 130
Allowance for credit losses.....	3 600
Allowance for settlement discount.....	5 250
Depreciation (Equipment as at 30 November 2010).....	1 860
Prepaid expenses (Insurance)	2 700

2. Additional information:

2.1 Land and buildings consists of:

- Land - Erf 529 Midrand, bought on 1 March 2008 for R900 000.
- Building - The building was erected during the year at a total cost of R600 000 and was only occupied on 1 January 2011.

2.2 On 30 November 2010 equipment with a cost price of R35 000 was sold at a loss of R3 000. At that date, the accumulated depreciation on the equipment sold amounted to R12 060. All the transactions regarding the sale were recorded correctly.

2.3 Depreciation must still be provided for as follows:

- Buildings: 2% per annum on the straight line method.
- Equipment: 10% per annum on the diminished balance method.
- Vehicles: 20% per annum according to the straight line method.

2.4 Inventories consist of:

- Merchandise, R830 000
- Stationery, R5 600

QUESTION 2.3 (continued)

- 2.5 The long-term loan was acquired on 1 May 2009 from US Bank and bears interest at a rate of 12% per annum. The loan is secured by a first mortgage over land and is repayable in 5 equal instalments as from 1 January 2012.
- 2.6 An amount of R10 000 must be transferred to the asset replacement reserve.
- 2.7 The remainder of the total comprehensive income for the year must be distributed between the partners in their profit sharing ratio.

REQUIRED:

With regard to Superman Traders:

- 2.3.1 Prepare the statement of financial position as at 28 February 2011. (13)
- 2.3.2 Prepare ONLY the note in respect of property, plant and equipment. (17)
The total column can be omitted.

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership. Comparative figures are not required.

[30]

NB: Show all calculations.

SOLUTION 2.3 (30 marks)(34 minutes)**2.3.1 SUPERMANN TRADERS****STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2011**

ASSETS	NOTE	R
Non-current assets		1 790 000
Property, plant and equipment	1	1 790 000
Current assets		1 118 300
Inventories		835 600
Trade receivables R(288 850 – 3 600 – 5 250)		280 000
Prepayments		2 700
Total assets		<u>2 908 300</u>
EQUITY AND LIABILITIES		
Total equity		2 073 520
Capital R(775 000 + 775 000)		1 550 000
Current accounts ①		483 520
Other components of equity R(30 000 + 10 000)		40 000
Total liabilities		834 780
Non-current liabilities		528 000
Long-term borrowings R[(660 000 – (660 000 ÷ 5)]		528 000
Current liabilities		306 780
Trade and other payables R(3 000 + 156 650)		159 650
Current portion of long-term borrowings		132 000
Other financial liabilities		15 130
Total equity and liabilities		<u>2 908 300</u>

① Current accounts

	T Super	B Mann
	R	R
Balance – 1 March 2010	(9 750)	4 340
Drawings	(10 000)	(7 630)
Share of total comprehensive income		
R[(574 420 - 57 860 – 10 000) ÷ 2]	253 280	253 280
	<u>233 530</u>	<u>249 990</u>

SOLUTION 2.3 (continued)**2.3.2 SUPERMANN TRADERS****NOTES FOR THE YEAR ENDED 28 FEBRUARY 2011****1. Property, plant and equipment**

	Land and buildings	Equipment	Vehicles	Total
	R	R	R	R
Carrying amount: Beginning of year	900 000	224 800	146 000	1 270 800
Cost	900 000	315 000 ¹	170 000	1 385 000
Accumulated depreciation	–	(90 200) ²	(24 000)	(114 200)
Additions	600 000	–	–	600 000
Disposals		(22 940) ³	–	(22 940)
Depreciation for the period/year	(2 000) ⁴	(21 860) ⁵	(34 000) ⁶	(57 860)
Carrying amount: End of period/year	1 498 000	180 000	112 000	1 790 000
Cost	1 500 000	280 000	170 000	1 950 000
Accumulated depreciation	(2 000)	(100 000)	(58 000)	(160 000)

CALCULATIONS:

$$^1 \quad R(280\,000 + 35\,000) = R315\,000$$

$$^2 \quad R80\,000 + R(12\,060 - 1\,860) = R90\,200$$

$$^3 \quad R(35\,000 - 12\,060) = R22\,940$$

$$^4 \quad R600\,000 \times 2\% \times 2/12 = R2\,000$$

$$^5 \quad R[(280\,000 - 80\,000) \times 10\%] + R1\,860 = R21\,860$$

$$^6 \quad R170\,000 \times 20\% = R34\,000$$

QUESTION 2.4 (24 marks) (29 minutes)

Go4Gold Trading is a partnership with Hilda and Gabby as partners. The information below pertains to the business activities of the partnership for the year ended 31 August 2011.

GO4GOLD TRADING
BALANCES AS AT 31 AUGUST 2011

	R
Capital: Hilda	282 500
Capital: Gabby	144 000
Land and buildings at cost	180 000
Vehicles at cost.....	144 000
Accumulated depreciation: Vehicles (1 September 2010)	12 000
Equipment at cost	130 000
Accumulated depreciation: Equipment (1 September 2010).....	24 000
Long-term loan.....	108 000
Bank	94 840
Creditors control	47 070
Debtors control	59 680
Sales.....	536 820
Purchases.....	302 530
Salaries and wages.....	123 600
Interest on long-term loan	4 320
General expenses.....	38 720
Water and electricity	41 160
Depreciation (28 February 2011)	75
Settlement discount received	2 400
Settlement discount granted	2 000
Credit losses recovered	3 000
Telephone expenses.....	23 160
Allowance for settlement discount granted	1 305
Property rates	17 010

Additional information:

Abstract from terms of the partnership agreement:

1. Interest on capital is calculated at a rate of 10% per annum on opening balances of the capital accounts.
2. Each partner is entitled to a monthly salary of R5 000 per month.
3. Hilda and Gabby share profits and losses in the ratio of 2:3 respectively.

Year-end adjustments:

1. On 31 August 2011, salaries for services rendered according to the partnership agreement were paid to the partners as follows:

Hilda: R36 000
 Gabby: R38 000

Both these amounts were debited to the salaries and wages account.

QUESTION 2.4 (continued)

2. The only transaction involving equipment occurred on 28 February 2011 when equipment with a cost price of R15 000 and accumulated depreciation of R14 000 on 1 September 2010, was traded in for a new one. The new machine was purchased at a cost of R25 000 and the supplier thereof allowed R1 500 as a trade-in value on the old equipment and the difference was paid in cash.
3. Depreciation is to be provided for as follows:

 Vehicles: 20% per annum according to the straight-line method
 Equipment: 15% per annum according to the diminishing balance method.
4. The long-term loan was obtained from Casha Bank on 1 March 2011 at an interest of 12% per annum, payable on 30 June of every year. The capital amount of the loan must be repaid on 1 September 2012.
6. Included in the amount of water and electricity is R10 400 relating to advertising expenses paid during the year. Advertising expenses are payable in advance in equal amounts and the September 2011 payment is included in this figure.
7. An invoice for an amount of R5 280 relating to delivery expenses in respect of purchases delivered on 31 August 2011 was received on 2 September 2011.
8. On 31 August 2011 the inventory on hand amounted to R28 080.

Required:

Prepare the statement of profit or loss and other comprehensive income of Go4Gold Trading for the year ended 31 August 2011 to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership. Notes and comparative figures are NOT required.

NB: Show all calculations.

SOLUTION 2.4 (24 marks)**GO4GOLD TRADERS****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 2011**

	R
Revenue R(536 820 – 2 000)	534 820
Cost of sales	(277 330)
Purchases R(302 530 – 2 400)	300 130
Delivery expenses on purchases	5 280
	305 410
Inventory (31 August 2011)	(28 080)
Gross profit	257 490
Other income	3 575
Credit losses recovered	3 000
Profit on sale of equipment R1 500 – R[15 000 – (14 000 + 75)]	575
Distribution, administration and other expenses	(213 850)
Salaries and wages R[123 600 – (36 000 + 38 000)]	49 600
Depreciation R(14 250 + 1 875 + 75 + 28 800)	① 45 000
Water and electricity R(41 160 – 10 400)	30 760
Advertising expenses R10 400 – R(10 400 ÷ 13 months)	9 600
Property rates	17 010
General expenses	38 720
Telephone expenses	23 160
Finance costs	(6 480)
Interest on long-term loan R(108 000 x 12%) x 6/12	6 480
Profit for the year	40 735
Other comprehensive income for the year	-
Total comprehensive income for the year	40 735

Calculations:

① Depreciation:

Equipment:

Old equipment: $R[(130\,000 - 25\,000) - (24\,000 - 14\,000)] \times 15\% = R14\,250$ New equipment: $R25\,000 \times 15\% \times 6/12 = R1\,875$ Disposed equipment: *R75 Given*Vehicles: $R144\,000 \times 20\% = R28\,800$

QUESTION 2.5 (30 marks) (36 minutes)

The following information is taken from the accounting records of B&B Travel, a partnership with Bok and Bafana as partners, at 29 February 2012 – the financial year end of the partnership.

B&B TRAVEL
BALANCES AS AT 29 FEBRUARY 2012

	R
Capital: Bok	200 000
Capital: Bafana	300 000
Current account: Bok (Dr)	15 000
Current account: Bafana (Cr)	9 000
Drawings: Bok.....	75 000
Drawings: Bafana.....	82 000
Asset replacement reserve	61 000
Land and buildings at cost	800 000
Vehicles at cost.....	401 000
Accumulated depreciation: Vehicles (1 March 2011).....	40 000
Mortgage	121 500
Long-term loan from Bafana	50 000
Bank overdraft	58 000
Creditors control	75 000
Debtors control	78 000
Profit for the year (before year-end adjustments)	536 500

Additional information:

Abstract from terms of the partnership agreement:

1. Each partner is entitled to an annual salary of R60 000.
2. Interest of 5% per annum is to be allowed on the opening balances of the partners' capital and current accounts.

Year-end adjustments:

1. The long-term loan from Bafana was acquired on 1 January 2012. Interest is calculated at 12% per annum and must be paid on 30 June of every year.
2. During the year Bafana received R12 000 as an entertainment allowance which was correctly debited to his drawings account. Bafana used the allowance to buy four private suite tickets to a soccer match at Orlando stadium at a cost of R2 000 per ticket. All of the tickets were awarded to clients of B&B Travel.
3. Due to cultural differences that nearly split the partnership into two factions, the partners decided to go for a cultural diversity programme. Each partner received R10 000 from the partnership to pay for the programme. These amounts were incorrectly included in the salaries paid to the partners during the year.

QUESTION 2.5 (continued)

4. Provision must still be made for depreciation on vehicles at 25% per annum according to the diminishing-balance method.
5. The accountant of the partnership inadvertently forgot to record the sale of a vehicle costing R60 000. The vehicle was sold for R30 000 on 1 December 2011. On 1 March 2011 this vehicle had an accumulated depreciation amounting to R24 000.
6. The partners decided that an amount of R16 000 from the comprehensive income must be transferred to the asset replacement reserve.

REQUIRED:

With regard to B&B Travel:

2.5.1 Calculate the total comprehensive income for the year ended 29 February 2012. (12)

2.5.2 Prepare the statement of changes in equity for the year ended 29 February 2012. (18)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership. Notes and comparative figures are NOT required.

NB:Show all calculations. [30]

SOLUTION 2.5 (30 marks)**2.5.1 Calculation of the total comprehensive income:**

	R
Profit for the year (before year-end adjustments)	536 500
Year end adjustments	(116 250)
Interest on long-term loan	① (1 000)
Entertainment allowance	(8 000)
Training expenses (Diversity workshop)	(20 000)
Depreciation	② (88 000)
Profit on sale of vehicle	③ 750
Comprehensive income for the year	<u>420 250</u>

Calculations:**① Interest on long-term loan:**

$$R50\,000 \times 12\% \times 2/12 = R1\,000$$

② Depreciation:

$$\text{Sold vehicle: } R[(60\,000 - 24\,000) \times 25\% \times 9/12] = R6\,750$$

$$\text{Remaining vehicles: } R[(401\,000 - 60\,000) - (40\,000 - 24\,000)] \times 25\% = R81\,250$$

$$\text{Total depreciation: } R(6\,750 + 81\,250) = R88\,000$$

③ Profit on sale of vehicle:

$$R30\,000 - R[60\,000 - (24\,000 + 6\,750)] = R750$$

SOLUTION 2.5 (continued)**2.5.2****B&B TRAVEL****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 29 FEBRUARY 2012**

	Capital		Current accounts		Asset Replace- mentt reserve	Appro- priation	Total
	Bok	Bafana	Bok	Bafana			
	R	R	R	R		R	R
Balances at 1 March 2011	200 000	300 000	(15 000)	9 000	61 000		555 000
Total comprehensive income for the year						420 250	420 250
Salaries to partners			60 000	60 000		(120 000)	
Interest on capital ①			10 000	15 000		(25 000)	
Interest on current accounts ②			(750)	450		300	
Drawings			(65 000)	(64 000)			(129 000)
Transfer to asset replacement reserve					16 000	(16 000)	
Partners' share of total comprehensive income ③			103 820	155 730		(259 550)	
Balances at 30 June 2010	200 000	300 000	93 070	176 180	77 000	-	846 250

Calculations**① Interest on capital****Bok:** $R200\,000 \times 5\% = R10\,000$ **Bafana:** $R300\,000 \times 5\% = R15\,000$ **④ Drawings****Bok:** $R(75\,000 - 10\,000) = R65\,000$ **Bafana:** $R(82\,000 - 10\,000) = R72\,000$ **② Interest on current accounts****Bok:** $R15\,000 \times 5\% = R750$ (Dr)**Bafana:** $R\,9\,000 \times 5\% = R450$ (Cr)**③ Partners share of total comprehensive income****Bok:** $R249\,550 \times \frac{2}{5} = R103\,820$ **Bafana:** $R249\,550 \times \frac{3}{5} = R155\,730$

QUESTION 2.6 (19 Marks) (23 Minutes)

Billy and Kid decided to start a business, trading as Outlaw Traders. The following information pertains to the business activities of the partnership for the year ended 30 June 2012:

1. Trial balance as at 30 June 2012:

	R
Capital: Billy	150 000
Capital: Kid	150 000
Current Account: Billy (Cr; 1 July 2011)	11 100
Current Account: Kid (Dr; 1 July 2011)	8 700
Drawings: Billy	71 500
Drawings: Kid	87 300
Asset replacement reserve	45 000
Mortgage	150 000
Long-term loan: Billy	40 000
Creditors control	30 000
Bank (Cr)	13 500
Land and buildings at cost	620 000
Equipment at cost	86 000
Vehicles at cost	98 500
Accumulated depreciation: Equipment	25 900
Accumulated depreciation: Vehicles	50 000
Inventory	10 000
Debtors control	22 000
Allowance for credit losses	1 750
Petty cash	500
Profit for the year	337 250

2. Terms of the partnership agreement:

- 2.1 Interest is calculated at 10% per annum on the opening balances of the partners' capital and current accounts
- 2.2 Both partners are entitled to a salary of R70 000 per annum

3. Additional information:

- 3.1 The long-term loan from Lincoln Bank was acquired on 1 July 2011 and bears interest at a rate of 10% per annum. The loan is secured by a first mortgage over land and buildings and is repayable in equal instalments over 10 years. The first repayment is due 2 July 2012.
- 3.2 Billy granted an unsecured loan to the partnership on 1 May 2012. According to the terms of the loan agreement, interest at 15% per annum will be charged and is payable in December of every year. The total amount of the loan will be repaid in full on 30 April 2015.
- 3.3 On 30 June 2012, a cheque was made out to Jesse James Computers Ltd for R12 000. This payment was for the rental of a server from 1 July 2012 to 30 June 2013. The transaction must still be recorded in the books of the entity.
- 3.4 During the year each partner received R55 000 as a salary and these amounts were debited to salaries and wages of the partnership.

QUESTION 2.6 (continued)**REQUIRED**

Prepare the **EQUITY AND LIABILITIES** section of the statement of financial position of Outlaw Traders as at 30 June 2012. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership. Notes and comparative figures are NOT required.

NB: Show all calculations.

SOLUTION 2.6 (19 Marks)**OUTLAW TRADERS****STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 201**

EQUITY AND LIABILITIES	
Total equity	524 850
Capital R(150 000 + 150 000)	300 000
Current accounts R(108 715 + 71 135)	179 850
Other components of equity	45 000
Total liabilities	246 500
Non-current liabilities	175 000
Long-term borrowings R[150 000 - (150 000 ÷ 10yrs)] + R40 000	175 000
Current liabilities	71 500
Trade and other payables R(30 000 + 1 000)	31 000
Current portion of long-term borrowings R150 000 ÷ 10yrs	15 000
Financial liabilities R(13 500 + 12 000)	25 500
Total equity and liabilities	771 350

Calculations**Partners' current accounts**

	Billy	Kid
	R	R
Balances at 1 July 2011	11 100	(8 700)
Interest on capital accounts: Billy R150 000 x 10%	15 000	
Kid R150 000 x 10%		15 000
Interest on current accounts: Billy R(11 100 x 10%)	1 110	
Kid R(8 700 x 10%)		(870)
Salaries	70 000	70 000
Drawings: Billy R(71 500 + 55 000)	(126 500)	
Kid R(87 300 + 55 000)		(142 300)
Share of comprehensive income	138 005	138 005
Balances at 30 June 2012	108 715	71 135

Comprehensive income:

$R[337\,250 - 1\,000 + (55\,000 + 55\,000)] - R[(15\,000 + 15\,000 + 1\,110 - 870 + 70\,000 + 70\,000)] = R276\,010$

Partners' share of total comprehensive income:

Billy: $R276\,010 \times 50\% = R138\,005$

Kid: $R276\,010 \times 50\% = R138\,005$

Profit for the year: $R\,337\,250 - \text{Interest: (Billy) } R1,000 + \text{Salaries and wages: } R110,000 = R\,446,250$.

CI: $446,250 - \text{Int Cap (30,000)} - \text{Int Curr (240)} - \text{Sal to Pn's (140,000)} = R276,010$

QUESTION 2.7 (20 marks) (24 minutes)

Williston Traders is a partnership with Bussie and Bettie as partners. The following information pertains to the business activities of the partnership for the year ended 28 February 2013:

1. Trial balance as at 28 February 2013:

	R
Capital: Bussie	200 000
Capital: Bettie	100 000
Current Account: Bussie (Cr; 1 March 2012).....	30 000
Current Account: Bettie (Dr; 1 March 2012)	5 000
Drawings: Bussie	4 800
Drawings: Bettie.....	3 200
Creditors control	56 300
Bank	36 617
Land and buildings at cost	253 000
Equipment at cost	94 000
Vehicle at cost	98 000
Accumulated depreciation: Equipment (1 March 2012)	29 400
Accumulated depreciation: Vehicles (1 March 2012).....	12 250
Inventory (1 March 2012)	15 500
Debtors control	20 500
Petty cash.....	1 500
Investment at cost.....	100 000
Loan to Bussie	99 000
Loan from Bettie	98 000
Asset Replacement Reserve.....	30 000
Sales.....	649 000
Purchases.....	320 000
Salaries.....	132 000
Interest on loan to Bussie.....	9 075
Water and electricity	4 700
Settlement discount granted	3 800
Stationary	5 000
Telephone expense	6 208
Insurance.....	8 000
Freight on sales	3 200

2. Terms of the partnership agreement:

- 2.1 The partners Bussie and Bettie share profits/losses in the ratio of 2:1 respectively.
- 2.2 Interest is calculated at 10% per annum on the opening balances of the partners' capital and current accounts
- 2.3 Both partners are entitled to a salary of R5 000 per month

3. Additional information:

- 3.1 Bussie and Bettie are the only staff members of Williston Traders.
- 3.2 On 28 February 2013 the inventory on hand amounted to R10 000.

QUESTION 2.7 (continued)

- 3.3 On 31 May 2012 equipment with a cost price of R24 000 and accumulated depreciation of R14 000 on 1 March 2012 was sold on credit for R12 000. Transaction relating to the sale is still to be recorded.
- 3.4 Depreciation is to be provided as follows:
- Vehicles: 25% per annum according to the straight balance method
Equipment: 10% per annum according to the diminishing balance method
- 3.5 Bettie granted an unsecured loan to the partnership on 1 January 2013. According to the terms of the agreement, interest at 15% per annum will be charged and capitalised to the loan. The total amount plus interest will be paid on 31 December 2025.
- 3.6 The partnership granted Bussie a loan on 1 January 2010 which is fully payable on 31 December 2020. The interest is charged at 11% per annum and is payable annually on 31 December. Bussie paid the interest on 31 December 2012 and it was recorded in the books.
- 3.7 Investments consist of 25 000 ordinary shares in Klipbak Ltd, purchased on 10 June 2012. On 28 February 2013 the fair value of the shares held in Klipbak Ltd was determined at R88 000.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income of Williston Traders for the year ended 28 February 2013.

Your answer must comply with the requirements of IFRS, appropriate to the business of the partnership. Notes and comparative figures are not required.

NB: Show all calculations.

SOLUTION 2.7 (20 Marks)**WILLISTON TRADERS****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2013**

Revenue (R649 000 – R3 800)	645 200
Cost of sales (R15 500 + R320 000 – R10 000)	<u>(325 500)</u>
Gross profit	319 700
Other income	13 140
Interest income: Loans and receivables: Loan to Bussie ①	10 890
Profit on sale of non-current assets: Equipment ②	2 250
Distribution, administrative and other expenses	(69 318)
Salaries to employees R(132 000 - 132 000)	0
Water and electricity	4 700
Stationary consumed	5 000
Telephone	6 208
Insurance	8 000
Freight on sales	3 200
Depreciation ③	30 210
Loss on financial assets at fair value through profit or loss: Held for trading:	
Listed investments (R30 000 - R18 000)	12 000
Finance costs	(2 450)
Interest on loan from Bettie ④	<u>2 450</u>
Profit for the year	261 072
Other comprehensive income for the year	0
Total comprehensive income for the year	<u><u>261 072</u></u>

Calculations**① Interest income: Loans and receivables: Loan to Bussie**

$R9\,075 + (R99\,000 \times 2/12 \times 11\%) = R10\,890$ OR

$R99\,000 \times 11\% = R10\,890$

② Profit on sale of non-current assets: Equipment

Selling price	12 000
Less Book value	(9 750)
Cost price	24 000
Accumulated depreciation	(14 000)
Depreciation 2013	(250)
Profit on sale	2 250

SOLUTION 2.7 (continued)**③ Depreciation****Vehicles**

$$R98\ 000 \times 25\% = 24\ 500$$

Equipment**Sold equipment**

$$(R24\ 000 - R14\ 000) \times 10\% \times 3/12 = R\ 250$$

Equipment used throughout the year

$$(R94\ 000 - R24\ 000) - (R29\ 400 - R14\ 000) \times 10\% = R5\ 460$$

$$\text{Total depreciation on equipment } (R250 + R\ 5\ 460) = R5\ 710$$

$$\text{Total depreciation expense } (R24\ 500 + R5\ 710)$$

$$R30\ 210$$

④ Interest on loan from Bettie

$$(R98\ 000 \times 2/12 \times 15\%) = R2\ 450$$

QUESTION 2.8 (22 marks) (26 minutes)

Grove and Steenkamp decided to start a business, trading as GroStamino Traders. The entity manufactures and sells energy enhanced supplements for athletes. The following information pertains to the business activities of the partnership for the year ended 28 February 2014:

1. Trial balance as at 28 February 2014

	R
Capital: Grove	225 000
Capital: Steenkamp	525 000
Current account: Grove (Dr)	60 000
Current account: Steenkamp (Cr)	80 000
Mortgage	1 500 000
Long term loan: Grove	250 000
Creditors control	85 000
Accrued expenses (insurance)	11 500
Bank overdraft	110 000
Land and buildings at cost	1 750 000
Equipment at cost	250 000
Vehicles at cost	350 000
Accumulated depreciation: Equipment	75 000
Accumulated depreciation: Vehicles	85 000
Inventory	15 000
Debtors control	535 000
Allowance for credit losses	5 500
Petty cash	7 500
Profit for the year (before year-end adjustments)	15 500

2. Terms of the partnership agreement

- 2.1 The partners will share in profits and losses in the ratio of their (fixed) capital.
- 2.2 Interest is calculated at 7% per annum on the partners' current account balances.
- 2.3 Each partner is entitled to a salary of R60 000 per annum.

3. Additional information (year-end adjustments)

- 3.1 The long-term loan from ABA Bank was acquired on 1 July 2013 and bears interest at 12% per annum. The interest on this loan is payable on 30 June every year. The loan is secured by a first mortgage over land and buildings and is repayable in ten equal annual instalments, starting on 30 June 2014.
- 3.2 Grove granted an unsecured loan on 1 January 2014 to the partnership. According to the terms of the loan, interest is calculated at a rate of 15% per annum and is paid on 31 December every year. The total capital amount of the loan will be repaid in full on 31 December 2018. Interest for the current financial year must still be provided.
- 3.3 During the year each partner withdrew a total amount of R45 000 from the partnership.

QUESTION 2.8 (continued)

3.4 On 3 March 2014, an invoice from a local supplier was received for an amount of R25 000 in respect of inventory delivered on 28 February 2014. This transaction was not yet accounted for in the accounting records of the partnership.

REQUIRED:

2.8.1 Prepare the **EQUITY** section of the statement of financial position of Grostamino Traders as at 28 February 2014. (12)

2.8.2 Prepare the "**FINANCIAL LIABILITIES**" note for the year ended 28 February 2014. (10)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the partnership. [22]

Comparative figures are **NOT** required.

NB: Show all calculations

Solution 2.8

1)

GROSTAMINO TRADERS**STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2014**

	R
EQUITY AND LIABILITIES	
Total equity	544,250
Capital (225,000 + 525,000)	750,000
Current accounts ② (118,845 + 61,905)	(180,750)

Calculations:**① Profit adjusted:**

	R
Profit before year-end adjustments – (Given)	15,500
<i>Less: Adjustments</i>	(126,250)
<i>Interest on mortgage (1,500,000 x 12% x 8/12)</i>	(120,000)
<i>Interest on loan from Grove (250,000 x 15% x 2/12)</i>	(6,250)
Loss after adjustments	(110,750)

② Current accounts:

	R Grove	R Steenkamp	R Appropriation
Closing balances (Given)	(60,000)	80,000	
Total comprehensive loss – ①			(110,750)
Interest on current accounts ③	(4,200)	5,600	(1,400)
Salaries provided	60,000	60,000	(120,000)
Partners share of loss (232,150 x 30%) & (232,150 x 70%)	(69,645)	(162,505)	232,150
Withdrawals	(45,000)	(45,000)	
Correct adjusted closing balances	(118,845)	(61,905)	-

③ Interest on current accounts:

Grove: (60,000 x 7%) = (4,200)

Steenkamp: (80,000 x 7%) = 5,600

2) GROSTAMINO TRADERS
NOTES FOR THE YEAR ENDED 28 FEBRUARY 2014.

Financial Liabilities	R
Non-current financial liabilities	1,600,000
Long-term borrowings:	
Mortgage: The long-term loan from ABA Bank was acquired on the 1 July 2013 and bears interest at a rate of 12% per annum. Interest is payable on 30 June every year. The loan is secured over land & buildings and is repayable in equal instalments over 10 years.	
The first payment is due 30 June 2014	
Mortgage:	1,500,000
Current portion	(150,000)
Non-current portion	1,350,000
Long-term loan: Grove : The loan is unsecured and was granted on 1 January 2014 at an interest rate of 15% per annum payable on 31 December every year. The loan will be repaid in full on 31 December 2018.	
Long-term loan: Grove	250,000
Current portion of loan	-
Non-current portion of loan	250,000
Current financial liabilities	501,500
Trade and other payables:	241,500
Trade payables	85,000
Accrued expenses:	
Interest on mortgage	120,000
Interest on long-term loan: Grove	6,250
Insurance	11,500
Other (Suppliers invoice)	25,000
Current portion of long-term borrowings	150,000
Other financial liabilities:	110,000
Financial liabilities at fair value through profit or loss	
Bank overdraft	110,000

Trade and other payables:

Trade payables (Given) = 85,000

Accrued expenses:

Interest on mortgage: $(1,500,000 \times 12\% \times 8/12)$ = 120,000

Insurance: Given = 11,500

Total: = **241,500**

Interest on loan: Grove $(250,000 \times 15\% \times 2/12)$ = 6,250 - capitalized

QUESTION 2.9 (26 marks)(31 minutes)

The following information relates to the partnership trading as Luklay Traders.

1. List of balances as at 30 April 2015

	R
Capital: Luk	400 000
Capital: Lay	420 000
Current account (1 May 2014): Luk (Dr)	47 070
Current account (1 May 2014): Lay (Cr)	33 780
Drawings: Luk	44 520
Drawings: Lay	38 500
Furniture and equipment at cost.....	390 000
Accumulated depreciation: Furniture and equipment (1 May 2014)	80 800
Inventory	76 640
Debtors control.....	224 100
Allowance for credit losses	12 200
Creditors control.....	152 000
Bank overdraft.....	85 400
Loss for the year (before any applicable additional information)	363 350

2. Partnership agreement

The partnership agreement stipulates the following:

- 2.1 Interest on capital accounts is provided for at 10% per annum.
- 2.2 Interest on current accounts is provided for as follows:
 - 5% per annum on current accounts with credit balances, and
 - 8% per annum on current accounts with debit balances
- 2.2 Luk and Lay are entitled to annual salaries of R90 000 and R130 000 respectively.
- 2.3 The partners share in profits or losses equally.

3. Additional information

- 3.1 On 1 April 2015, Luke contributed furniture with a fair value of R50 000 to the partnership and Lay contributed R40 000 in cash. These contributions were correctly recorded in the accounting records of Luklay Traders.
- 3.2 On 30 April 2015, salaries amounting to R40 000 and R60 000 were paid to Luk and Lay respectively. These amounts were included in the calculation of the loss for the year.
- 3.3 Included in the calculation of the loss for the year is an amount of R30 000 paid for rental for the period 1 September 2014 until 31 August 2015.
- 3.4 Depreciation for the year amounting to R22 000 must still be recorded in the accounting records of Luklay Traders.

REQUIRED:

- (a) Calculate the correct profit/loss for the year ended 30 April 2015 to be reflected in the statement of profit or loss and other comprehensive income of Luklay Traders (3)
- (b) Prepare the statement of changes in equity of Luklay Traders for the year ended 30 April 2015.

(23)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership.

Comparative figures and notes to the statement are **not** required.

All calculations must be shown and all figures must be rounded off to the nearest rand.**[26]**

Solution 2.9**a. Calculation of the profit for the year:**

	R
Loss for the year	(363 350)
Adjustments:	88 000
Prepaid rent expense (30 000 x 4/12)	10 000
Depreciation	(22 000)
Salaries paid to partners (40 000 + 60 000)	100 000
Loss for the year	<u>(275 350)</u>

b.**LUKLAY TRADERS****STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 APRIL 2015**

	Capital		Current accounts		Appropriation
	Luk	Lay	Luk	Lay	
	R	R	R	R	R
Balances at 1 May 2014	350 000	380 000	(47 070)	33 780	
Total comprehensive loss for the year					(275 350)
Capital contribution	50 000	40 000			
Salaries to partners			90 000	130 000	(220 000)
Interest on capital ①			35 417	38 333	(73 750)
Interest on current accounts ②			(3 766)	1 689	2 077
Drawings ③			(84 520)	(98 500)	
Partners' share of total comprehensive loss ④			(283 512)	(283 512)	567 023
Balances at 30 April 2015	400 000	420 000	(293 451)	(178 210)	-

CALCULATIONS**Capital: opening balances**

Luk: 400 000 – 50 000 = 350 000

Lay: 420 000 – 40 000 = 380 000

① Interest on capital

Luk: = (R350 000 x 10%) + (50 000 x 10% x 1/12)

= 35 000 + 417

= 35 417

Lay: = (R380 000 x 10%) + (40 000 x 10% x 1/12)

= 38 000 + 333

= 38 333

② Interest on current accounts

Luk: R47 070 x 8% = R3 766(Dr)

Lay: R33 780 x 5% = R1 689 (Cr)

③ Drawings

Luk: R44 520 + 40 000 = R84 520

Lay: R38 500 + 60 000 = R98 500

④ Partner's share of remaining income

Remaining income/loss = -275 350 - 73 750 + 2 077 - 220 000 = -567 023

Luk = -567 023 x 1/2 = -283 512

Lay = -567 023 x 1/2 = -283 512

SU 3: Changes in the ownership structure of a partnership

QUESTION 3.1 (16 marks)(20 minutes)

Chris, Brown and Rehanna were in a partnership trading as R&B Entertainment, and shared the profits and losses of the partnership in the ratio of 5:3:2 respectively. Due to claims of a disproportionate allocation of royalties earned from the hit *Umbreiro*, which consequently led to a war of words amongst the partners, Rehanna decided to quit the partnership. The last date that she acted as a partner was 30 April 2010, the end of the financial year of the partnership. Chris and Brown decided to continue with the business activities of the partnership and formed a new partnership on 1 May 2010. Chris and Brown agreed to take over Rehanna's profit share equally.

The following information pertains to R&B Entertainment:

1. Balances as at 30 April 2010

	R
Land and buildings.....	280 000
Furniture and equipment.....	45 000
Accumulated depreciation: Furniture and equipment	15 000
Debtors control (royalties receivable)	37 500
Bank (dr).....	6 000
Capital: Chris	76 000
Capital: Brown	73 600
Capital: Rehanna	60 400
Current account: Chris (dr).....	7 400
Current account: Brown (cr).....	21 600
Current account: Rehanna (cr).....	19 800
Asset replacement reserve	78 000
Creditors control	31 500

2. Additional information:

In preparation for the retirement of Rehanna on 30 April 2010, the following information must be taken into account:

- 2.1 The land and buildings were valued at R350 000.
- 2.2 The partners were advised that the royalties due to them were understated by R50 000.
- 2.3 As a result of the popularity of the *Umbreiro* song, the partners resolved that goodwill must be set at R50 000.
- 2.4 The partners agreed that Rehanna could take a fashionable set of microphones of the partnership with a carrying amount of R5 700 as partial payment of her account and that the outstanding balance on her account will be settled in cash at 31 May 2010.

REQUIRED:

- 3.1 Prepare the valuation account, properly closed off, in the general ledger of R&B Entertainment. (5)
- 3.2 Prepare the capital account of Rehanna, properly closed off, in the general ledger of R&B Entertainment for the year ended 30 April 2010. (7)
- 3.3 Calculate the profit sharing ratio of Chris and Brown at 1 May 2010. (4)

NB: Show all calculations

SOLUTION 3.1 (16 marks)

3.1

**R&B Entertainment
GENERAL LEDGER**

Dr			Valuation account			Cr
2010		R	2010		R	
Apr 30	Capital account: Chris	60 000	Apr 30	Land and buildings ①	70 000	
	Capital account: Brown	36 000		Debtors control (NB: not	50 000	
	Capital account: Rehanna	24 000		Goodwill then no marks)		
		120 000			120 000	

① **Land and buildings**

R(350 000 – 280 000) = R70 000 This is a calculation, if shown on the dr side then for the calculation. Remember to apply progressive marking. If L&B and Debtors are on the debit side and the student show the allocation to the capital account on the credit side you must award the marks so as not to penalise him twice for the same mistake.

3.2

Dr			Capital account: Rehanna			Cr
2010		R	2010		R	
Apr 30	Furniture and equipment at cost (microphones taken)	5 700	Apr 30	Balance b/d	60 400	
	Loan: Rehanna	124 100		Current account	19 800	
				Asset replacement reserve②	15 600	
				Goodwill③	10 000	
				Valuation account	24 000	
		129 800			129 800	

(7)

② R78 000 x 2/10 = R15 600. This is a calculation, if shown on the dr side then for the calculation.

③ R50 000 x 2/10 = R10 000. This is a calculation, if shown on the dr side then for the calculation.

3.3 Calculation of the profit-sharing ratio of Chris and Brown on 1 May 2010:

$$\frac{5}{10} + \left(\frac{1}{2} \times \frac{2}{10}\right) = \frac{10}{20} + \frac{2}{20} = \frac{12}{20} = \frac{3}{5}$$

$$\frac{3}{10} + \left(\frac{1}{2} \times \frac{2}{10}\right) = \frac{6}{20} + \frac{2}{20} = \frac{8}{20} = \frac{2}{5}$$

New profit-sharing ratio of Chris and Brown is 3:2 respectively.

There must be a calculation. It need not be exactly the same as this. If there is no calculation shown and the answer is 3:2 or 4:6 then award only per answer with ¼ for 2.3.

QUESTION 3.2 (20 marks) (24 minutes)

Manamela and Tsebe are in partnership trading as MaTshebe Catering Services, with a profit sharing ratio of 3:2 respectively. Moshe made an offer to join the partnership which was duly accepted by Manamela and Tsebe. The bookkeeper of the partnership is still battling to pass the module FAC1601 and has no clue on how to prepare accounts necessary to admit a partner to the partnership. The partners have approach you to assist in the preparation of accounts to admit Moshe. The following information is extracted from the accounting records of the partnership on 30 September 2010, the end of the financial year:

	R
Capital: Manamela	140 000
Capital: Tsebe.....	130 000
Current account: Manamela (Dr)	30 000
Current account: Tsebe.....	35 000
Asset replacement reserve	71 400
Vehicles at cost.....	125 000
Accumulated depreciation: Vehicle	31 000
Furniture and equipment at cost.....	128 000
Accumulated depreciation: Furniture and equipment	27 600
Inventory	64 000
Bank	88 000

Additional information:

- The partners agreed that Moshe will join the partnership on 1 October 2010 and that the new partnership will trade as MMT Catering Services. Manamela and Tsebe further decided that they would relinquish a third of interest in the profits/losses to Moshe in the ratio of 6:4 respectively. Moshe would contribute a vehicle worth R150 000, catering equipment worth R15 000 and R40 000 cash and thereby acquire a third interest in the equity of the new partnership.
- In preparation of Moshe's admission an appraiser made the following valuation on 1 October 2010:

Furniture and equipment	R96 400
Vehicles	R108 000
Inventory	R84 000

REQUIRED:

- 3.2.1 Calculate the goodwill acquired in MaTsebe Catering Services. (6)
- 3.2.2 Prepare the valuation account, properly closed off, in the general ledger of MaTshebe Catering Services as at 30 September 2010. (9)
- 3.3.3 Calculate the new profit sharing ratio for Manamela, Tsebe and Moshe. (5)

[20]

SOLUTION 3.2 (20 marks)(24 minutes)**3.2.1 CALCULATION OF GOODWILL:**

		R
Capital contribution of Moshe <i>multiplied</i> by the inverse of his share:		
	$R(150\ 000 + 15\ 000 + 40\ 000) \times \frac{3}{1}$	615 000
Capital: Manamela	$R(140\ 000 - 30\ 000 + 42\ 840 + 18\ 000)$	(170 840)
Tsebe	$R(130\ 000 + 35\ 000 + 28\ 560 + 12\ 000)$	(205 560)
Moshe		(205 000)
Goodwill		<u>33 600</u>

**3.2.2 MATSEBE CATERING
GENERAL LEDGER**

Dr			Valuation account		Cr
2010		R	2010		R
Sept 30	Furniture and equipment	①4 000	Sept 30	Vehicles	②14 000
	Capital: Manamela	18 000		Inventory	③20 000
	Capital: Tsebe	12 000			
		<u>34 000</u>			<u>34 000</u>

① $R96\ 400 - R(128\ 000 - 27\ 600) = R\ 4\ 000$

② $R80\ 000 - R(125\ 000 - 31\ 000) = R14\ 000$

③ $R(44\ 000 - 64\ 000) = R20\ 000$

3.3.3 NEW PROFIT SHARING RATIO:

Manamela : $\frac{3}{5} - (\frac{1}{3} \times \frac{6}{10}) = (\frac{3}{5} - \frac{6}{30}) = (\frac{18}{30} - \frac{6}{30}) = \frac{12}{30} = \frac{6}{15}$

Tsebe : $\frac{2}{5} - (\frac{1}{3} \times \frac{4}{10}) = (\frac{2}{5} - \frac{4}{30}) = (\frac{12}{30} - \frac{4}{30}) = \frac{8}{30} = \frac{4}{15}$

Moshe : $\frac{1}{5} = \frac{4}{20} = \frac{4}{15}$

QUESTION 3.3 (14 marks) (17 minutes)

Salom and Papiki are in partnership trading as SAPA traders. They shared profit and losses equally. On 30 July 2012 the equity of SAPA traders was as follow:

- | | |
|---|---------|
| • Capital (Salom, R42 000; Papiki, R42 000) | R84 000 |
| • Asset replacement reserve | R20 000 |

Salom and Papiki decided to admit Dineo from 1 August 2012. Dineo will contribute R25 000 cash and a vehicle worth R43 000 to acquire a third of net asset share. Salom and Papiki agreed to relinquish 1/5 of their share in profits or losses to Dineo in the ratio of 3:1 respectively. Assets were re-valued for the purpose of admitting Dineo and a valuation loss of R14 000 was correctly calculated.

REQUIRED:

- 3.3.1. Calculate the new profit sharing ratio of Salom, Papiki and Dineo. (5)
- 3.3.2. Calculate goodwill. (9)

SOLUTION 3.3 (14 marks)**3.3.1 Calculation of the profit-sharing ratio of Salom, Papiki and Dineo**

$$\text{Salom: } 1/2 - (1/5 \times 3/4) = 1/2 - 3/20 = 7/20$$

$$\text{Papiki: } 1/2 - (1/5 \times 1/4) = 1/2 - 1/20 = 9/20$$

$$\text{Dineo: } 3/20 + 1/20 = 4/20$$

The profit-sharing ratio of Salom, Papiki and Dineo will be 7:9:4 respectively.

3.3.2. Calculation of goodwill

$$\text{Salom: } R[42\,000 + (1/2 \times 20\,000) - (1/2 \times 14\,000)] = R45\,000$$

$$\text{Papiki: } R[42\,000 + (1/2 \times 20\,000) - (1/2 \times 14\,000)] = R45\,000$$

$$\text{Lilly: } R(25\,000 + 43\,000) = R68\,000$$

$$R68\,000 \times 3 - R(45\,000 + 45\,000 + 68\,000)$$

$$R(204\,000 - 158\,000) = \underline{R46\,000}$$

QUESTION 3.4 (20 marks) (24 minutes)

Douglas and Moses were in partnership and traded as DMOSS Traders and shared profits/losses in the ratio of 5:3 respectively. Douglas and Moses decided to admit Phill to the partnership. The following information is presented to you at 30 September 2013, the end of the financial year:

Balances as at 30 September 2013

	R
Capital: Douglas.....	177 000
Capital: Moses	160 000
Current account (Cr): Douglas.....	21 125
Current account (Cr): Moses	21 175
Long term loan	37 000
Land and buildings	283 000
Inventories	54 300
Debtors control.....	42 000
Creditors control.....	16 000
Bank (favourable).....	53 000

In preparation of the change in the ownership structure of DMOSS Traders, Douglas and Moses obtained the following appraisals on 30 September 2013:

1. A physical inventory count revealed an inventory shortage of R5 000. Part of the remaining inventory was deemed overvalued by R5 300.
2. Land and buildings were valued by a sworn appraiser at R300 000.

On 1 October 2013, Phill paid R60 000 for a 20% interest in the net assets of the partnership. The new partnership will trade as DMP Traders. Douglas, Moses and Phill agreed on a new profit sharing ratio of 5:3:2 respectively. Goodwill was correctly calculated as R55 500.

REQUIRED:

Prepare the journal entries in the general journal of DMOSS Traders on 30 September 2013 to record the admission of Phill as a partner. Apply the accounting procedure which is based on the legal perspective.

Journal entries to record the dissolution of the partnership are **NOT** required.

NB:Show all calculations.

Solution 3.4**DMOSS TRADERS
GENERAL JOURNAL**

2013 Sept 30		Debit	Credit
		R	R
	Current account: Douglas (21 125-(5000x5/8)	18 000	
	Current account: Moses (21 175-(5000x3/8)	19 300	
	Capital account: Douglas		18 000
	Capital account: Moses		19 300
	<i>Closing off current accounts of partners to the capital accounts</i>		
	Land and buildings (300 000 – 283 000)	17 000	
	Inventories		5 300
	Valuation account		11 700
	<i>Recording of the valuation adjustments</i>		
	Valuation account^	11 700	
	Capital: Douglas ($\frac{5}{8} \times 11\,700$)		7 313
	Capital: Moses ($\frac{3}{8} \times 11\,700$)		4 387
	<i>Closing off the balancing amount in the valuation account to the capital accounts of Douglas and Moses according to their profit-sharing ratio</i>		
	Goodwill^	55 500	
	Capital: Douglas ($\frac{5}{8} \times 55\,500$)		34 688
	Capital: Moses ($\frac{3}{8} \times 55\,500$)		20 812
	<i>Recording of goodwill in preparation for the admission of Phill</i>		

SU 4: The liquidation of a partnership

QUESTION 4.1 (17 marks)(20 minutes)

George and Lisa are in a partnership, selling office furniture. They are trading as GL Office Furniture, and share equally in the profits or losses of the partnership. Due to the economic downfall and the steady decline in customers, they decided to liquidate the partnership simultaneously as from 1 September 2010.

On 31 August 2010 the following list of balances was obtained from the accounting records of GL Office Furniture:

	R
Furniture and equipment at cost.....	55 600
Motor vehicle at cost	46 200
Accumulated depreciation: Furniture and equipment	27 800
Accumulated depreciation: Motor vehicle	18 480
Asset replacement reserve	4 000
Goodwill	3 000
Creditors control	3 600
Inventory	22 000
Debtors control	24 900
Capital: George.....	50 000
Capital: Lisa	50 000
Current account: George (Cr).....	1 010
Current account: Lisa (Cr)	3 010
Bank (Dr)	6 200

Additional information:

During September 2010 the following transactions took place:

1. The furniture and equipment were sold for R42 000, cash.
2. The motor vehicle was taken over by Lisa at an agreed value of R41 000.
3. All the creditors were paid and a settlement discount of R360 was received.
4. The inventory was sold for R19 000, cash.
5. A debtor with an outstanding balance of R4 200 was declared insolvent. His account must be written off. A 10% settlement discount was offered to all the other debtors if they paid their accounts before 30 September 2010. All of them settled their accounts accordingly.
6. Liquidation costs, amounting to R6 500, were paid.

REQUIRED:

Prepare the following accounts for September 2010, properly closed off, in the general ledger of GL Office Furniture:

- 4.1 The liquidation account. (13)
 - 4.2 The capital account of Lisa, including the final settlement of the account. (4)
- [17]

NB: Show all calculations.

SOLUTION 4.1 (17 marks)**4.1****GL OFFICE FURNITURE
GENERAL LEDGER**

Dr			Liquidation account		Cr	
2010		R	2010		R	
Sept 1	Furniture and fittings at cost	55 600	Sept 1	Accumulated depreciation: Office furniture	27 800	
	Motor vehicle at cost	46 200		Accumulated depreciation: Motor vehicle	18 480	
	Inventory	22 000		Creditors control	3 600	
	Debtors control	24 900		Bank (Office furniture)	42 000	
	Bank (Creditors control) ①	3 240		Capital: Lisa (Motor vehicle)	41 000	
	Bank (Liquidation costs)	6 500		Bank (Inventory)	19 000	
	Capital: Lisa ③	6 035		Bank (Debtors control) ②	18 630	
	Capital: George ③	6 035				
		<u>170 510</u>			<u>170 510</u>	

Calculations**① Bank (Creditors control)**

$$R(3\ 600 - R360) = R3\ 240$$

② Bank (Debtors control)

$$R(24\ 900 - 4\ 200) \times 90\% = R18\ 630$$

③ Capital: Lisa and Capital: George

$$R(170\ 510 - 158\ 440) \times 1/2 = R6\ 035$$

4.2**GL OFFICE FURNITURE
GENERAL LEDGER**

Dr			Capital: Lisa		Cr	
2010		R	2010		R	
Sept 1	Goodwill ①	1 500	Sept 1	Balance b/d	50 000	
	Liquidation account	41 000		Asset replacement reserve ②	2 000	
	Bank	18 545		Current account: Lisa	3 010	
		<u>61 045</u>		Liquidation account	6 035	
					<u>61 045</u>	

Calculations**① Goodwill**

$$R3\ 000 \times \frac{1}{2} = R1\ 500$$

② Asset replacement reserve

$$R4\ 000 \times \frac{1}{2} = R2\ 000$$

QUESTION 4.2 (18 marks) (21 minutes)

Bob, Morgan and Arthur were in partnership trading as Zimbabwe Chartered Accountants. The partners conducted their business in South Africa and shared profits/losses in the ratio of 5:3:2. Since the formation of the partnership, Bob and Morgan have been struggling to agree on matters affecting the day to day operations of the business. The partners have consequently agreed to dissolve the partnership piecemeal as from 1 October 2011.

The following information is extracted from the accounting records of the partnership on 30 September 2011:

	R
Capital: Bob	130 000
Capital: Morgan	100 000
Capital: Arthur	80 000
Asset replacement reserve	20 000
Property, plant and equipment	202 000
Investments: Shangai Limited	100 000
Loan from Morgan.....	12 000
Long-term loan.....	80 000
Fees receivable (Debtors)	105 000
Bank (Dr)	15 000

Additional information:

- The partners agreed to distribute the cash received from the sale of assets immediately in such a way that, while maximum distribution was to be made to the partners, under no circumstances would a partner be required to refund to the partnership any amount he had received.
- The partner's loan account is to be transferred to his capital account.
- The partnership had taken out an insurance policy on the life of the partners. The surrender value of the policy is currently R25 000 and is to be paid to the partnership on 8 October 2011.
- The partnership reached an agreement with all its clients (debtors) that if fees owing are settled before 31 October 2011, a discount of 10% will be granted. On 10 October 2011, 80% of clients had settled their accounts.
- The assets were sold for cash as follows:

		<u>Carrying amount</u>	<u>Proceeds</u>
12 October 2011	Furniture and equipment	R130 000	R130 000
18 October 2011	Investments	R100 000	R110 000
20 October 2011	Furniture and equipment	R 50 000	R 60 000

Required:

Record the liquidation of Zimbabwe Chartered Accountants in columnar format according to the loss-absorption capacity method from 1 October 2011 to 12 October 2011.

NB:Show all calculations

SOLUTION 4.2 (18 marks)**ZIMBABWE CHARTERED ACCOUNTANTS
GENERAL LEDGER (SUMMARISED IN COLUMNAR FORMAT)**

	Assets	Bank	Liabilities	Capital: Bob	Capital Morgan	Capital: Arthur
	R	R	R	R	R	R
Balance at the commencement of liquidation:	① 407 000	15 000	② (92 000)	③ (140 000)	④(106 000)	⑤ (84 000)
Loan: Morgan			12 000		(12 000)	
Insurance policy		25 000		(12 500)	(7 500)	(5 000)
Fees received from clients	⑥ (84 000)	⑦ 75 600	-	4 200	2 520	1 680
Sale of furniture and equipment	(130 000)	130 000				
Settlement of liabilities		(80 000)	80 000			
	193 000	165 600	-	(148 300)	(122 980)	(87 320)

① $R(202\ 000 + 100\ 000 + 105\ 000) = R407\ 000$

② $R(80\ 000 + 12\ 000) = R92\ 000$

③ $R[130\ 000 + R(20\ 000 \times 5/10)] = R140\ 000$

④ $R[100\ 000 + R(20\ 000 \times 3/10)] = R106\ 000$

⑤ $R[80\ 000 + R(20\ 000 \times 2/10)] = R84\ 000$

⑥ $R(105\ 000 \times 80\%) = R84\ 000$

⑦ $R(84\ 000 \times 90\%) = R75\ 600$

QUESTION 4.3 (25 marks) (30 minutes)

Sylvester and Kgothatso are in partnership, trading as SK Confectioners and sharing profits/losses of the partnership equally. The partners decided to liquidate the partnership piecemeal as from 1 May 2012 and to repay the creditors in full with a once off payment as soon as sufficient cash is received from the liquidation of assets. The partners further agreed that interim repayment will be made to them as cash becomes available in such a way that, while maximum distribution was to be made to the partners, under no circumstances would a partner be required to refund to the partnership any amount he had received.

The following information is extracted from the accounting records of the partnership on 30 April 2012:

	R
Capital: Sylvester	220 000
Capital: Kgothatso.....	250 000
Current account: Sylvester (Dr).....	43 000
Current account: Kgothatso	20 000
Land and buildings at cost	330 000
Equipment at cost	92 000
Accumulated depreciation: Equipment	8 000
Goodwill	15 000
Inventory	28 000
Creditors control	20 000
Bank (Dr)	10 000

Additional information:

- On 2 May 2012 the partners took a decision to donate inventory with a cost price of R18 000 to a local charity and the rest was sold on the same day for R9 000 cash.
- The partners negotiated a settlement discount of 10% with their creditor. The creditor agreed on condition that the account is settled on or before 10 May 2012. The due date for payment was met by the partnership.
- On 8 May 2012 equipment was sold at a public auction at a profit of R21 000 cash. The auctioneers fee amounted to R5 000.
- The partners received an offer for the purchase of the land and buildings for R350 000. The offer was accepted by both partners on 10 May 2012.

REQUIRED:

Record the liquidation of SK Confectioners in columnar format according to the loss absorption capacity method from 1 May 2012 to 10 May 2012.

NB:Show all calculations

SOLUTION 4.3 (25 marks)**SK CREATIONS****GENERAL LEDGER (SUMMARISED IN COLUMNAR FORMAT)**

	Bank	Land and buildings	Equipment	Inventory	Creditors	Capital: Sylvester	Capital: Kgotatso
	R	R	R	R	R	R	R
Balance at the commencement of liquidation:	10 000	330 000	84 000	28 000	(20 000)	①(169 500)	②(262 500)
Liquidation of inventory	9 000			(28 000)		③9 500	③9 500
Sale of equipment	④105 000		(84 000)			(10 500)	(10 500)
Auctioneers fee	(5 000)					2 500	2 500
Settlement of creditors account	(18 000)				20 000	(1 000)	(1 000)
	101 000	330 000	-	-	-	(169 000)	(262 000)

① $R[(220\ 000 - 43\ 000) - R(15\ 000 \times 50\%)] = R169\ 500$

② $R[(250\ 000 + 20\ 000) - R(15\ 000 \times 50\%)] = R262\ 500$

③ $R[(18\ 000 \times 50\%) + (1\ 000 \times 50\%)] = R9\ 500$

④ $R(92\ 000 - 8\ 000) + R21\ 000 = R105\ 000$

QUESTION 4.4 (17 marks)(21 minutes)

Tom and Dick are in a partnership, trading as T & D Toys. The partnership is in a business of manufacturing toys. The partners share in profits and losses equally. Since Harry left the partnership a year ago, the business could not meet all the demands of their major clients. Consequently, the partners decided to liquidate the partnership piecemeal as from 1 March 2015 and to repay the creditors in full with a once off payment as soon as sufficient cash is received from the liquidation of assets.

The partners further agreed that interim repayments will be made to them as cash becomes available in such a way that, while maximum distribution was to be made to the partners, under no circumstances would a partner be required to refund to the partnership any amount he had received.

The following information was extracted from the accounting records of T & D Toys as at 28 February 2015

	R
Capital: Tom.....	350 000
Capital: Dick.....	295 000
Current account: Tom.....	125 000
Current account: Dick (Dr).....	80 000
Land and buildings at cost.....	603 800
Furniture and equipment at cost.....	150 000
Accumulated depreciation: Furniture and equipment.....	75 000
Goodwill	20 000
Inventory	35 000
Bank (Dr).....	10 000
Creditors control.....	53 800

Additional information

- The assets of the partnership were liquidated as follows:

Date of liquidation	Asset	Carrying amount	Sales transaction
2 March 2015	Furniture and equipment	R 22 400	R 18 000 (cash)
10 March 2015	Furniture and equipment	R 30 600	R 30 600 (taken over by Tom)
10 March 2015	Inventory	R 35 000	R 25 000 (cash)
21 March 2015	Land and buildings	R550 000	R560 000 (cash)

- The partners negotiated a settlement discount of 12% with their creditor. The discount will be granted to the partnership on condition that the account is settled on or before 20 March 2015. The partners took advantage of the discount.
- Liquidation costs of R7 000 will be paid on 21 March 2015.

REQUIRED:

Record the liquidation of T & D Toys in columnar format according to the loss absorption capacity method from 1 March 2015 to 20 March 2015.

The calculation of the amount payable to partners is **NOT** required.

All calculations must be shown.

SOLUTION 4.4 (19 marks)**T&D Toys****GENERAL LEDGER (SUMMARISED IN COLUMNAR FORMAT)**

	Bank	Land and buildings	Furniture & Equipment	Inventory	Creditors	Capital: Tom	Capital: Dick
	R	R	R	R	R	R	R
Balance at the commencement of liquidation:	10 000	603 800	① 75 000	35 000	(53 800)	(465 000)	② (205 000)
Liquidation of furniture and equipment taken over by Tom	18 000		(22 400)			③ 2 200	③ 2 200
Inventory	25 000		(30 600)			30 600	
				(35 000)		④ 5 000	④ 5 000
Balances	53 000	603 800	22 000	-	(53 800)	(427 200)	(197 800)
Settlement of creditors account	(47 344)				53 800	(3 228)	(3 228)
Balances as at 20 March 2015	5 656	603 800	22 000	-	-	(430 428)	(201 028)
	(2)		(.5)	(2)	(1)	(1)	(4.5)

(4)

$$\textcircled{0} \text{ R } 150\,000 - \text{R } 75\,000 - \text{R } 75\,000$$

$$\textcircled{1} \text{ R}[(350\,000 + 125\,000) - \text{R}(20\,000 \times 50\%)] = \text{R}465\,000$$

$$\textcircled{2} \text{ R}[(295\,000 - 80\,000) - \text{R}(20\,000 \times 50\%)] = \text{R}205\,000$$

$$\textcircled{3} \text{ R } 18\,000 - \text{R } 22\,400 = \text{Loss R } 4\,400 \times 50\% = \text{R } 2\,200 \text{ (Each)}$$

$$\textcircled{4} \text{ R } 25\,000 - \text{R } 35\,000 = \text{Loss R } 10\,000 \times 50\% = \text{R } 5\,000 \text{ (Each)}$$

$$\textcircled{5} \text{ R } 53\,800 - (\text{R } 53\,800 \times 12\%) = \text{R } 47\,344$$

$$\text{R } 53\,800 - \text{R } 47\,344 = \text{R } 6\,456 \times 50\% = (\text{R } 3\,228) \text{ (Each)}$$

SU 5: Close corporations

QUESTION 5.1 (29 marks)(35 minutes)

The following information pertains to Riverland CC:

List of balances as at 28 February 2010:

	R
Member's contribution: A Showers	210 000
Member's contribution: J Sparrow	140 000
Member's contribution: R Willow	70 000
Land and buildings at cost.....	400 000
Furniture and equipment at cost.....	375 000
Accumulated depreciation: Furniture and equipment.....	62 320
Debtors control.....	111 820
Creditors control.....	31 540
Bank (overdraft)	25 120
Investment at fair value (1 March 2009)	130 000
Long-term loan (Last National Bank)	60 000
Allowance for credit losses.....	3 000
Retained earnings (1 March 2009)	295 180
SARS (income tax) (Dr).....	115 200
Loan to A Showers.....	50 000
Loan from R Willow	70 000
Distribution to member: A Showers	40 000
Distribution to member: J Sparrow	26 000
Distribution to member: R Willow.....	14 000
Inventory	147 400
Accrued expenses.....	6 800
Prepaid expenses	5 920

Additional information:

1. The investment consists of 130 000 ordinary shares of R1 each in Good Company Ltd.
2. The profit before tax was calculated as R441 380 before the valuation of the investment for the current financial year was taken into account. On 28 February 2010 the fair value of the shares was R143 000.
3. During the financial year A Showers experienced personal financial difficulties, resulting in the CC granting her a loan of R50 000 on 31 August 2009. The loan is immediately callable.
4. The long-term loan from Last National Bank is secured by the land and buildings and repayable on 1 March 2015.
5. The loan from R Willow is unsecured and interest free. An amount of R35 000 is repayable on 1 March 2010. The outstanding balance is repayable on 1 March 2012.
6. The income tax assessment, received from SARS on 15 March 2010, indicated that the actual normal income tax for the 2010 financial year amounted to R127 886.
7. Provide for a further total profit distribution of R42 000 to the members. This amount is payable to them on 1 March 2010.

QUESTION 5.1 (continued)**REQUIRED:**

Prepare the statement of financial position of Riverland CC as at 28 February 2010. Your answer must comply with the provisions of the Close Corporations Act, No. 69 of 1984, and with the requirements of International Financial Reporting Standards (IFRS), where appropriate to the business of the CC. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

SOLUTION 5.1 (29 marks)

Riverland CC
Statement of financial position as at 28 February 2010

ASSETS	R
Non-current assets	712 680
Property, plant and equipment ①	712 680
Current assets	455 140
Inventories	147 400
Trade receivables ②	108 820
Prepayments	5 920
Other financial assets ③	193 000
Total assets	1 167 820
 EQUITY AND LIABILITIES	
Total equity	919 674
Members' contributions ④	420 000
Retained earnings ⑤	(4) 499 674
Total liabilities	248 146
Non-current liabilities	95 000
Long-term borrowings ⑥	95 000
Current liabilities	153 146
Trade and other payables ⑦	38 340
Current portion of loan from member	35 000
Other financial liabilities	25 120
Distribution to members payable	42 000
Current tax payable ⑧	12 686
Total equity and liabilities	1 167 820

Calculations**① Property, plant and equipment**

Land and buildings at cost + (Furniture and equipment at cost – Accumulated depreciation:
Furniture and equipment)

$$R[400\,000 + (375\,000 - 62\,320)] = R712\,680$$

② Trade receivables

Debtors control - Allowance for credit losses
 $R(111\,820 - 3\,000) = R108\,820$

③ Other financial assets

Investment at fair value + Loan to A Showers

$$R(143\,000 + 50\,000) = R193\,000$$

④ Members' contributions

$$R(210\,000 + 140\,000 + 70\,000) = R420\,000$$

SOLUTION 5.1 (continued)**⑤ Retained earnings**

Retained earnings (beginning of year) + Profit before tax + Gain on financial assets at fair value through profit or loss: Held for trading – Income tax expense – Interim profit distributions – Additional profit distribution

$$\text{R}(295\,180 + 441\,380 + 13\,000 - 127\,886 - 40\,000 - 26\,000 - 14\,000 - 42\,000) \\ = \text{R}499\,674$$

⑥ Long-term borrowings

Long-term loan + Loan from R Willow
 $\text{R}[60\,000 + (70\,000 - 35\,000)] = \text{R}95\,000$

⑦ Trade and other payables

Creditors control + Accrued expenses
 $\text{R}(31\,540 + 6\,800) = \text{R}38\,340$

⑧ Current tax payable

Tax assessment - SARS (Income tax) (Dr)
 $\text{R}(127\,886 - 115\,200) = \text{R}12\,686$

QUESTION 5.2 (20 marks) (24 minutes)

Retief and Elizabeth are the only members of Shoe Fever CC. They each hold an equal share in the close corporation. You have been appointed by Shoe Fever CC as the accounting officer for the year ended 28 February 2011 and the following list of balances were presented to you.

1. Balances as at 28 February 2011:

	R
Member's contribution: Retief.....	150 000
Member's contribution: Elizabeth	200 000
Loan from Retief	50 000
SARS (Dr).....	5 200
Allowance for credit losses.....	2 000
Inventory.....	60 000
Long-term loan: Mercy Bank	112 000
Accrued expenses	5 400
Prepaid expenses	4 100
Sales.....	540 000
Purchases.....	199 000
Delivery expenses (in respect of sales).....	4 920
Depreciation.....	4 320
Rent income.....	5 450
Sales returns.....	19 000
Purchase returns.....	4 150
Salaries and wages.....	236 410
Land and buildings at cost	480 000
Debtors control	33 000
Interest on loan from member	2 000
Telephone expenses.....	6 400
Stationery consumed	3 300
Water and electricity	7 150
Insurance expenses.....	3 900
Advertising expenses.....	4 300

2. Additional information:

- 2.1 Inventory on hand on 1 March 2010 amounted to R23 000.
- 2.2 Interest on the long-term loan from Mercy Bank at 15% per annum must still be accounted for. The long-term loan was obtained on 1 March 2009 and is secured by a first mortgage over land and buildings. The long-term loan is repayable in four equal instalments as from 1 March 2011.
- 2.3 Mr Searl, a debtor who owes Shoe Fever CC R3 000 was declared insolvent and his debt must be written off as irrecoverable.
- 2.4 The allowance for credit losses must be adjusted to R3 000.
- 2.5 The loan from Retief bears interest at a rate of 10% per annum. The loan is repayable in five equal instalments as from 1 June 2011.
- 2.6 Insurance expenses include an amount of R300 relating to the insurance premium for March 2011.

QUESTION 5.2 (continued)

- 2.7 Retief and Elizabeth are entitled to a monthly salary of R5 000 each. The salaries were paid during the year and are included in salaries and wages.
- 2.8 The income tax for the year amounted to R26 376 and must still be recorded.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income for the year ended 28 February 2011 in respect of Shoe Fever CC to comply with the provisions of the Close Corporations Act, No 69 of 1984, and the requirements of International Financial Reporting Standards (IFRS). (Comparative figures are not required.)

NB: Show all calculations.

SOLUTION 5.2 (20 marks)(24 minutes)**SHOE FEVER CC****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2011**

	NOTE	R
Revenue R(540 000 – 19 000)		521 000
Cost of sales		(157 850)
Inventory – 1 March 2010		23 000
Purchases R(199 000 – 4 150)		194 850
		217 850
Inventory		(60 000)
Gross profit		363 150
Other income		5 450
Rent income		5 450
Distribution, administrative and other expenses		(274 400)
Delivery expenses on sales		4 920
Credit losses R[3 000 + R(3 000 – 2 000)]		4 000
Salaries and wages R236 410 – [(R5 000 x 12) x 2]		116 410
Salaries to members R(5 000 x 12) x 2		120 000
Depreciation		4 320
Telephone expenses		6 400
Stationery consumed		3 300
Water and electricity		7 150
Insurance expenses		3 600
Advertising expenses		4 300
Finance costs		(21 800)
Interest on long-term loan		16 800
Interest on loan from member		5 000
Profit before tax		72 400
Income tax expense		(26 376)
Profit for the year		46 024
Other comprehensive income for the year		-
Total comprehensive income for the year		46 024

QUESTION 5.3 (29 marks) (35 minutes)

A Dolittle and B Dalley are the only members of Efficiency Consultants CC. They have an equal interest in the corporation and distribute profits accordingly. On 28 February 2011, the financial year-end of the close corporation, the bookkeeper presented the following information, to the accounting officer, who is also required to prepare the financial statements of Efficiency Consultants CC.

LIST OF BALANCES AS AT 28 FEBRUARY 2011:

	R
Member's contribution: A Dolittle.....	120 000
Member's contribution: B Dalley.....	95 000
Land and buildings at cost	747 000
Equipment at cost	120 000
Loan from member: A Dolittle.....	93 800
Loan to member: B Dalley.....	70 500
Inventory.....	99 312
Debtors control	35 600
Creditors control	25 100
Bank (Dr)	48 100
Petty cash.....	2 800
Mortgage	232 000
Investments at cost.....	295 000
Allowance for settlement discount granted	1 500
Retained earnings (1 March 2010).....	472 000
Interim profit distribution paid to members	42 000
Accumulated depreciation on equipment	24 000
Income received in advance	14 660
Prepaid expenses.....	5 048
Allowance for credit losses.....	5 000
SARS (income tax) (Dr)	116 600
Profit before tax (before taking any applicable additional information into account).....	498 900

Additional information:

1. A debtor owing the business R3 000 immigrated to Australia without making any arrangements to settle his debt. Efforts to trace him have been unsuccessful and it was decided to write off his debt as irrecoverable. The allowance for credit losses must be adjusted to R4 700.
2. The income tax for the financial year ended 28 February 2011 amounted to R126 500 and must still be recorded.
3. The loan from A Dolittle was obtained on 28 February 2010. Interest is calculated at 8% per annum and must still be taken into account for the current financial period. The loan is unsecured and fully repayable on 1 June 2011.
4. On 20 February 2011, the members decided that an amount of R44 800 must be equally distributed to them on 28 February 2011 as a further profit distribution. It was further agreed that 50% of this profit distribution will not be paid out in cash, but will remain in the close corporation as loans from members. All loans from members will be repaid in full on 28 February 2013.

QUESTION 5.3 (continued)

5. In order to consolidate his minor debts, B Dalley requested a loan from the close corporation. The loan was advanced to him on 31 December 2010 at an agreed interest rate of 10% per annum. The interest on this loan is capitalised and the interest for the current financial year must still be accounted for. The loan is unsecured and immediately callable.

6. Investments consist of:

50 000 ordinary shares in Sushi Ltd, purchased on 1 March 2009 for R4 each. On 28 February 2011 Sushi Ltd declared a dividend of 20 cents per share, payable on 15 March 2011. On 28 February 2011, the fair value of shares held in Sushi Ltd was determined at R5 per share.

100 000 ordinary shares in Kwasa-Kwasa (Pty) Ltd purchased at a cost of R95 000 on 28 February 2011.

Required:

With regards to Efficiency Consultants CC:

5.3.1 Calculate the retained earnings as at 28 February 2011. (8)

5.3.2 Prepare the statement of financial position as at 28 February 2011. (21)

Your answer must comply with the provisions of the Close Corporation Act, No 69 of 1984, as well as the requirements of International Financial Reporting Standards (IFRS). Notes and comparative figures are NOT required.

[29]

NB:Show all calculations.

SOLUTION 5.3 (29 marks)**5.3.1 Retained earnings as at 28 February 2011:**

	R
Profit before adjustments	498 900
Other income:	61 175
Dividend income R0,20 x 50 000 shares	10 000
Gain on financial assets at fair value through profit or loss: Held for trading:	50 000
Interest income: Loans and receivables: Loans to member R(70 500 x 10% x 2/12)	1 175
Expenses:	(10 204)
Credit losses	2 700
Interest on loan from member	7 504
Profit before tax	549 871
Income tax expense	(126 500)
Total comprehensive income for the year	423 371
Distribution to members R(42 000 + 44 800)	(86 800)
Retained earnings for the year	336 571
Retained earnings – 1 March 2010	472 000
Retained earnings – 28 February 2011	808 571

5.3.2**EFFICIENCY CONSULTANTS CC****STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 2011**

	R
ASSETS	
Non-current assets	938 000
Property, plant and equipment R(749 000 + 120 000 – 24 000)	843 000
Financial assets	95 000
Current assets	513 335
Inventories	99 312
Trade receivables and other receivables R[(35 600 – 3 000 – 4 700 – 1 500) + 10 000]	36 400
Other financial assets R(250 000 + 70 500 + 1 175)	321 675
Prepayments	5 048
Cash and cash equivalents R(48 100 + 2 800)	50 900
Total assets	1 451 335
EQUITY AND LIABILITIES	
Total equity	1 023 571
Members' contributions R(120 000 + 95 000)	215 000
Retained earnings	808 571
Total liabilities	427 764
Non-current liabilities	254 400
Long-term borrowings R[232 000 + R(44 800 x 50%)]	254 400
Current liabilities	173 364
Trade and other payables R(25 100 + 14 660 + 7 504)	47 264
Distribution to members payable R(44 800 x 50%)	22 400
Current portion of loans from members	93 800
Current tax payable R(126 500 – 116 600)	9 900
Total equity and liabilities	1 451 335

QUESTION 5.4 (26 marks) (31 minutes)

Tabane and Malebye are the only members of MCD Traders CC. On 29 February 2012, the financial year-end of the close corporation, the bookkeeper presented the following information together with additional information to you as the accounting officer of the corporation:

MCD TRADERS CC**LIST OF BALANCES AS AT 29 FEBRUARY 2012:**

	R
Member's contribution: Tabane	220 000
Member's contribution: Malebye	325 000
Retained earnings (1 March 2011)	250 000
Asset replacement reserve	123 000
Loan from member: Tabane	105 000
Loan to member: Malebye	75 000
Land and buildings at cost	750 000
Equipment at cost	247 500
Accumulated depreciation: Equipment	93 480
Investments at cost	137 000
Inventory (29 February 2012)	55 000
Debtors control	102 765
Creditors control	47 240
Bank (Dr)	37 000
Petty cash	1 050
Mortgage	232 000
Allowance for settlement discount granted	1 500
Interim profit distribution paid to members	42 000
Income received in advance	5 280
Prepaid expenses	10 200
Allowance for credit losses	5 000
SARS (income tax) (Dr)	55 600
Profit for the year	105 615

Additional information:

1. A debtor owing the business R2 000 is under debt review and it is unclear whether he will be able to settle his account with MCD Traders CC. The members decided to write off his debt as irrecoverable and the transaction must still be recorded.
2. On 29 February 2012 a trade debtor who owes MCD Traders CC R4 000, is entitled to a 10% settlement discount provided the debtor settles his account on 10 March 2012.
3. The income tax for the financial year ended 29 February 2012 amounted to R53 800 and must still be recorded.
4. The loan to Malebye was granted on 31 October 2011. Interest is calculated at 10% per annum and is capitalised at the end of the financial period. The loan is unsecured and immediately callable.

QUESTION 5.4 (continued)

5. Investments consist of:

- 40 000 ordinary shares in Mento Ltd, purchased on 1 March 2009 for R60 000. On 29 February 2012 the fair value of shares held in Mento Ltd was determined at R80 000.
- 15 000 ordinary shares in Rooid (Pty) Ltd purchased at a cost of R29 000. On 29 February 2012, the members of MCD Traders CC valued these shares at R33 750.
- Fixed deposit of R48 000 at Stanb Bank made on 31 December 2007 for 60 months at 12% interest per annum.

REQUIRED:

Prepare the statement of financial position of MCD Traders CC as at 29 February 2012.

Your answer must comply with the provisions of the Close Corporation Act, No 69 of 1984, as well as the requirements of International Financial Reporting Standards (IFRS). Comparative figures and notes are NOT required.

NB:Show all calculations.

SOLUTION 5.4 (26 marks)**MCD TRADERS CC****STATEMENT OF FINANCIAL POSITION AS AT 29 FEBRUARY 2012**

ASSETS	R
Non-current assets	937 770
Property, plant and equipment R(750 000 + 247 500 – 93 480)	904 020
Financial assets	33 750
Current assets	406 415
Inventories	55 000
Trade receivables R(102 765 – 2 000 - 1 900 - 3 000)	95 865
Prepayments	10 200
Other financial assets R(60 000 + 20 000 +48 000 + 75 000 + 2 500)	205 500
Current tax receivable R(55 600 – 53 800)	1 800
Cash and cash equivalents R(37 000 + 1 050)	38 050
Total assets	1 344 185
EQUITY AND LIABILITIES	
Total equity	954 665
Members' contributions	545 000
Retained earnings	① 286 665
Other components of equity	123 000
Total liabilities	389 520
Non-current liabilities	337 000
Long-term borrowings R(232 000 + 105 000)	337 000
Current liabilities	52 520
Trade and other payables	47 240
Income received in advance	5 280
Total equity and liabilities	1 344 185

Calculations:**① Retained earnings**

$$R(355\,615 - 400(1) - 53\,800(2) + 2\,500(3) + 20\,000(4) + 4\,750(5) - 42\,000(6)) = R286\,665$$

- (1) Settlement discount
- (2) Tax
- (3) Loan to Malebye
- (4) Future value: Movement on Shares
- (5) Gain on Shares
- (6) Interim profit distribution

QUESTION 5.5 (27 Marks) (32 Minutes)

Dumi and Sani are the only members of Dumisani CC. They have an equal interest in the corporation and distribute profits accordingly. On 29 February 2012, the financial year-end of the close corporation, the bookkeeper presented the following information, to the accounting officer, who is also required to prepare the financial statements of Dumisani CC.

LIST OF BALANCES AS AT 29 FEBRUARY 2012:

	R
Member's contribution: Dumi	215 000
Member's contribution: Sani.....	125 000
Equipment at cost	330 000
Loan to member: Dumi.....	70 000
Loan to member: Sani.....	35 000
Loan from member: Dumi	105 000
Debtors control	35 600
Asset replacement reserve	80 000
Bank (Dr)	48 100
Gross profit	922 000
Mortgage	232 000
Investment in Voda Ltd at fair value	400 000
Allowance for settlement discount granted	1 500
Retained earnings (1 March 2011).....	577 000
Interim profit distribution paid to members	40 000
Accumulated depreciation on equipment	24 000
Prepaid expenses	5 048
Allowance for credit losses.....	5 000
SARS (Income tax) (Dr)	116 600
General expenses (before taking any applicable additional information into account)	629 000

Additional information:

- On 31 January 2012 Dumi made an additional cash capital contribution of R80 000 to the corporation.
- An additional amount of R2 000 owed by a debtor of the business must be written off as irrecoverable. The allowance for credit losses must be adjusted to R4 050.
- On 1 August 2011 Dumisani CC concluded a contract for an insurance policy. The policy was inceptioned on 1 September 2011 at a premium of R800 per month. During the year a total of R5 600 was paid by the corporation as insurance premiums. To date no entries have been made in the books of the business regarding the payment of premiums.
- The members decided that for the 2012 financial year, interest must be recorded on the loan accounts to members at a rate of 10% per annum. This interest must be calculated on the balances of any existing loans. On 31 August 2011, an additional loan of R20 000 was advanced to Dumi and recorded in the books. Interest on the loans to members is capitalised.
- Interest on loan from Dumi bears an interest at a rate of 15% per annum and payable on 31 July every year. The loan is unsecured and 20% thereof must be repaid on 1 August 2012.
- In view of favourable business conditions, the members decided to adjust the allowance for settlement discount granted to R2 000 and to transfer R20 000 of the retained earnings to the asset replacement reserve.

QUESTION 5.5 (continued)

7. The investment in Voda Ltd consists of 80 000 shares purchased on 1 March 2010 at R4,50 per share. On 28 February 2012, Voda Ltd declared a dividend of 30 cents per share was paid on 20 March 2012.
8. On 20 February 2012, the members decided that an amount of R80 000 must be equally distributed to them as a profit distribution.
9. The income tax assessment for 2011/2012 was received on 5 March 2012 indicating a balance of R20 600 due to Dumisani CC.

REQUIRED:

With regard to Dumisani CC:

5.5.1 Calculate the total comprehensive income for the year ended (13)
29 February 2012.

5.5.2 Prepare the statement of changes in net investment of members for the year
ended 29 February 2012. (14)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation. Notes and comparative figures are NOT required.

NB:Show all calculations. [27]

SOLUTION 5.5 (27 Marks)**5.5.1 Calculation of the total comprehensive income:**

	R
Gross profit	922 000
Other income	73 500
Interest income: Loans and receivables: Loans to members	① 9 500
Gain on financial assets at fair value through profit or loss:	
Held for trading: Listed investment	② 40 000
Dividend income: Financial assets at fair value through profit or loss:	
Held for trading: Listed investment R0.30 x 80 000	24 000
	995 500
Distribution, administrative and other expenses	(629 000)
Adjustments:	(22 100)
Credit losses R4 050 - R(5 000 – 2 000)	1 050
Insurance expense R800 x 6months	4 800
Interest on loan from member R(105 000 x 15%)	15 750
Settlement discount granted R(2 000 -1 500)	500
	344 400
Profit before tax	344 400
Income tax expense R(116 600 – 20 600)	(96 000)
Total comprehensive income for the year	248 400

Calculations:**① Interest on loans to members:**

$$R[(50\,000 + 35\,000) \times 10\%] + R(20\,000 \times 10\% \times 6/12) = R9\,500$$

② Gain on financial assets:

$$R[(400\,000 \div 80\,000) - R4,50] \times 80\,000 = R40\,000$$

SOLUTION 5.5 (continued)**5.5.2****DUMISANI CC****STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 29 FEBRUARY 2012**

	Members' contributions	Retained earnings	Asset Replace-mentt reserve	Loans from members	Loans to members	Total
	R	R	R	R	R	R
Balances at 1 March 2012	260 000①	577 000	60 000②	105 000	(85 000)	917 000
Total comprehensive income for the year		248 400				248 400
Members' contributions	80 000					80 000
Loans to members					(20 000)	(20 000)
Interest on loans to members					(9 500)	(15 750)
Transfer to asset replacement reserve		(20 000)	20 000			
Distribution to members		(80 000) /	(120 000)			(80 000)
Balances at 29 February 2012	340 000	725 400	80 000	105 000	(120 750)	1 129 650
Non-current liability R(105 000 x 80%)				84 000		
Current liability R(105 000 x 20%)				21 000		

Calculations**① Member contributions**

$$R(215\,000 + 125\,000 - 80\,000) = R260\,000$$

② Asset replacement reserve

$$R(80\,000 - 20\,000) = R60\,000$$

③ Loans to members

$$R(70\,000 + 35\,000 - 20\,000) = R85\,000$$

QUESTION 5.6 (26 marks) (31 minutes)

Ofentse and Nasa are the members of Contacts Factory CC. The following information pertains to the business activities of the close corporation for the year ended 30 June 2012:

1. Extract from Pre-adjustment balances as at 30 June 2012:

	R
Member's contribution: Ofentse.....	122 000
Member's contribution: Nasa.....	122 000
Land and buildings at cost.....	100 000
Equipment at cost	89 000
Vehicles at cost.....	108 000
Accumulated depreciation: Equipment	24 119
Accumulated depreciation: Vehicles.....	7 200
Long-term loan	50 000
Inventory	38 520
Debtors control.....	35 800
Creditors control.....	20 054
Bank (Dr).....	12 700
Retained loss (1 July 2011).....	28 760
Profit before tax.....	92 807
SARS (income tax) (Dr).....	10 400
Interim profit distribution	15 000

2. **Additional information:**

- 2.1 The long-term loan was acquired from SA Bank on 2 July 2011. Interest is payable bi-annually on 31 December and 30 June at a rate of 18% per annum and has already been provided for. The capital portion of the loan is repayable in annual installments of R8 000, last installment being R10 000. The first installment is payable on 31 December 2012.
- 2.2 During the year the CC made a loan advance of R38 000 to Nasa. This amount was debited to the administrative expense account. According to the loan agreement, the loan is interest free and is fully repayable on 31 December 2012.
- 2.3 A second-hand delivery vehicle with a cost price of R108 000 was purchased on 2 March 2012. No other non-current assets were purchased or sold during the financial year.
- 2.4 Depreciation has been provided for as follows:
 - 2.4.1 Equipment – R7 209.
 - 2.4.2 Vehicles – R7 200
- 2.5 On 2 January 2012 the CC concluded an insurance contract with Multi Insurers. According to the contract, the premium is payable annually in advance. The amount equal to R6 000, being an annual premium was paid. This transaction is still to be recorded in the books of the CC.
- 2.6 On 30 June 2012 the Close corporation purchased 37 000 shares in Magriza Ltd at R5 per share, being the market value on that date. These shares were purchased for speculative purposes.
- 2.7 The SA normal tax for the year amounted to R25 460 and must still be recorded.

QUESTION 5.6 (continued)**REQUIRED:**

Prepare the following in respect of Contacts Factory CC to comply with the provisions of the Close Corporations Act, No 69 of 1984, and the requirements of IFRS. Comparative figures are not required:

5.6.1 Statement of financial position as at 30 June 2012. (15)

5.6.2 The following notes for the year ended 30 June 2012:

5.6.2.1 Property, plant and equipment and (7)

5.6.2.2 Financial assets (4)

NB:Show all calculations. [26]

SOLUTION 5.6 (26 marks)

5.6.1

CONTACTS FACTORY CC**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012**

ASSETS	R
Non-current assets	265 681
Property, plant and equipment	265 681
Current assets	300 320
Inventories	38 520
Trade receivables	35 800
Prepayments R(6 000 x 6/12)	3 000
Other financial assets R(185 000 + 38 000)	223 000
Total assets	566 001
EQUITY AND LIABILITIES	
Total equity	302 587
Members' contributions	244 000
Retained earnings	① 58 587
Total liabilities	389 520
Non-current liabilities	42 000
Long-term borrowings R(50 000 - 8 000)	42 000
Current liabilities	221 414
Trade and other payables	20 054
Short term portion – Long term loan	8 000
SARS (income tax) R(25 460 – 10 400)	15 060
Bank overdraft R(12 700 – 6 000 – 185 000)	178 300
Total equity and liabilities	566 001

Calculations:**① Retained earnings**

$$R(-28\,760 + 92\,807 + 38\,000 - 3\,000 - 25\,460 - 15\,000) = R58\,587$$

SOLUTION 5.6 (continued)**CONTACTS FACTORY CC****NOTES FOR THE YEAR ENDED 30 JUNE 2012****5.6.2 Property, plant and equipment**

	Land and buildings	Equipment	Vehicles	Total
	R	R	R	R
Carrying amount: Beginning of period/year	100 000	72 090	–	172 090
Cost	100 000	89 000	–	189 000
Accumulated depreciation	–	(16 910)	–	(16 910)
Additions	–	–	108 000	108 000
Depreciation for the period/year	–	(7 209)	(7 200)	(14 409)
Carrying amount: End of period/year	100 000	64 881	100 800	265 681
Cost	100 000	89 000	108 000	297 000
Accumulated depreciation	–	(24 119)	(7 200)	(31 319)

The land and buildings consists of a shop and offices on stand 57A of the Medical Consortium, Port Elizabeth. The land and buildings serves as security for the long-term loan from SA Bank.

5.6.2.2 FINANCIAL ASSETS**CURRENT FINANCIAL ASSETS**

Trade and other receivables	35 800
Other financial assets	
Loans and receivables: Loan to Nasa	38 000
Financial assets at fair value through profit or loss:	
37 000 ordinary shares in Magriza Ltd (cost – R185 000)	185 000

QUESTION 5.7 (20 marks) (24 minutes)

Sbusiso and Aneziswa are the only members of Eyethu CC. You have been appointed as the accounting officer of Eyethu CC for the year ended 28 February 2014. The following list of balances was presented to you:

1. Balances as at 28 February 2014

	R
Member's contribution: Sbusiso	175 000
Member's contribution: Aneziswa	215 000
Loan from member: Sbusiso	165 000
SARS (Income tax) (Dr)	5 800
Creditors control	60 600
Allowance for credit losses	2 200
Inventory	66 000
Land and buildings at cost	520 000
Furniture and equipment at cost	64 000
Accumulated depreciation: Furniture and equipment (1 March 2013)	10 200
Debtors control	49 500
Sales	575 000
Purchases	189 000
Delivery expenses (in respect of sales)	7 300
Rental income	8 100
Sales returns	28 500
Purchases returns	6 225
Salaries and wages	257 600
Telephone expenses	9 600
Interest on loan from members	21 600
Stationery consumed	4 950
Water and electricity	10 725
Insurance expenses	6 300
Advertising expenses	6 450

2. Additional information

- 2.1 Inventory on hand on 1 March 2013 amounted to R29 000.
- 2.2 On 31 August 2013 new furniture was purchased at a cost of R14 000. This transaction was recorded correctly in the accounting records of the business.
- 2.3 Mrs Ngwenya, a debtor with an outstanding account of R2 900 was declared insolvent and her debt must be written off as irrecoverable.
- 2.4 The allowance for credit losses must be adjusted to R3 800.
- 2.5 Insurance premiums amounting to R450 per month are payable one month in advance and premiums for the period up to 30 April 2014 have been paid.
- 2.6 Each member is entitled to a monthly salary of R5 300. The salaries to members were paid during the year and were debited to the salaries and wages account.
- 2.7 Provision must still be made for depreciation on furniture and equipment at 20% per annum according to the diminishing balance method.

QUESTION 5.7 (continued)

2.8 The income tax for the year amounts to R33 465 and must still be provided for.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income of Eyethu CC for the year ended 28 February 2014.

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation. Notes and comparative figures are **NOT** required.

NB:Show all calculations.

SOLUTION 5.7**EYETHU CC****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2014**

	R
Revenue (575 000 – 28 500)	546 500
Cost of sales	(145 775)
Inventory – 1 March 2013	29 000
Purchases (189 000 – 6 225)	182 775
	211 775
Inventory	(66 000)
Gross profit	400 725
Other income	8 100
Rental income	8 100
Distribution, administrative and other expenses	(315 885)
Delivery expenses on sales	7 300
Credit losses [2 900 + (3 800 – 2 200)]	4 500
Salaries and wages 257 600 – [(5 300 x 12) x 2]	130 400
Salaries to members (5 300 x 12) x 2	127 200
Depreciation ①	9 360
Telephone expenses	9 600
Stationery consumed	4 950
Water and electricity	10 725
Insurance expenses (6 300 x 12/14)	5 400
Advertising expenses	6 450
Finance costs	(21 600)
Interest on loans	(21 600)
Profit before tax	71 340
Income tax expense	(33 465)
Profit for the year	37 875
Other comprehensive income for the year	-
Total comprehensive income for the year	37 875

Calculations:

① Depreciation

$$[(64\,000 - 14\,000) - 10\,200] \times 20\% = R7\,960$$

$$14\,000 \times 20\% \times 6/12 = \underline{R1\,400}$$

$$\text{Total} = \underline{\underline{R9\,360}}$$

Question 5.8: (25 marks)(30 minutes)

Onthatile is the only member of Hlong's Confectionery CC. On 30 September 2014, the financial year-end of the close corporation, the bookkeeper presented the following information, to the accounting officer, who is also required to prepare the financial statements of Hlong's Confectionery CC.

LIST OF BALANCES AS AT 30 SEPTEMBER 2014

	R
Member's contribution.....	215 000
Land and buildings at cost	710 312
Equipment at cost	120 000
Loan from member.....	164 300
Inventory	72 400
Debtors control	42 000
Creditors control	22 300
Bank overdraft	58 200
Petty cash.....	3 800
Mortgage	332 000
Investments at cost.....	200 000
Credit losses	4 300
Allowance for settlement discount received.....	1 600
Retained loss (1 October 2013)	216 000
Interim profit distribution paid to members	42 000
Accumulated depreciation on equipment	24 000
Income received in advance	14 660
Prepaid expenses	5 048
Allowance for credit losses.....	5 000
SARS (income tax) (Dr)	221 200
Profit before tax (before taking any applicable additional information into account).....	794 600

Additional information

- On 1 July 2014, Mr Daily, who owed the businesses R4 300 died in an accident. It was unclear as to how his debt will be settled and therefore his debt was immediately written off as irrecoverable. Hlong's Confectionery CC lodged a claim against his estate and the matter was concluded in court on 30 September 2014 for a final settlement of R1 935. This amount is due to be paid on 3 October 2014. After this incident, Hlong's Confectionery CC decided to increase the allowance for credit losses by R1 300.
- The income tax for the financial year ended 30 September 2014 amounted to R230 100 and must still be recorded.
- The loan from Onthatile was obtained on 2 July 2012. Interest is calculated and capitalised at 8% per annum. The outstanding balance on the loan amounted to R110 000 on 30 September 2013. The additional loan was advanced on 1 May 2014. Interest for the current financial year is still to be recorded. The loan is unsecured and fully repayable on 1 July 2016.
- The mortgage was obtained from Middle Bank on 1 January 2011. Interest is charged at 15% per annum and has already been recorded for the current year. The mortgage is repayable in 10 equal annual instalments, with the first instalment payable on 30 December 2014.
- A further profit distribution of R33 220 will be paid to Onthatile. Fifty per cent (50%) of this profit distribution will not be paid out in cash, but will remain in the close corporation as loan from member.

REQUIRED:

With regards to Hlong's Cofectionery CC:

- (a) Calculate the retained earnings as at 30 September 2014. (8)
- (b) Prepare the statement of financial position (**equity and liabilities section only**) as at 30 September 2014. (10)
- (c) Note pertaining to loans from members. (7)

Your answer must comply with the provisions of the Close Corporation Act, No 69 of 1984 as amended, as well as the requirements of International Financial Reporting Standards. Accounting policy notes and comparative figures are NOT required.

NB:Show all calculations.

[25]

Solution 5.8:**QUESTION 3 (28 marks)****a) Retained earnings as at 30 September 2014**

	R
Profit before adjustments	798 900
Other income:	1 935
Credit losses recovered	1 935
Expenses:	(16 218)
Credit losses (4 300 + 1 300)	5 600
Interest on loan from member	(3)10 618
Profit before tax	748 617
Income tax expense	(230 100)
Total comprehensive income for the year	554 517
Distribution to members R(42 000 + 33 220)	(75 220)
Retained earnings for the year	479 297
Retained loss – 1 October 2013	(216 000)
Retained earnings – 30 September 2014	263 297

Interest on loan from member
 $(110\,160 \times 8\%) + [(164\,300 - 110\,160) \times 8\% \times 5/12]$
 $= 8\,813 + 1\,805$
 $= 10\,618$

b)**HLONG'S CONFECTIONERY CC****STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2014**

	R
ASSETS	
Non-current assets	1 006 312
Property, plant and equipment R(710 312 + 120 000 – 24 000)	806 312
Financial assets	200 000
Current assets	114 583
Inventories	72 400
Trade receivables and other receivables R[(42 000 – 5 000 – 1 300 – 4 300)	31 400
Prepayments	5 048
Cash and cash equivalents (3 800 + 1 935)	5 735
Total assets	1 120 895
EQUITY AND LIABILITIES	
Total equity	478 297
Members' contributions	215 000
Retained earnings	263 297
Total liabilities	642 598
Non-current liabilities	490 328
Long-term borrowings (332 000-33 200+164 300+10 618+16 610^)	490 328
Current liabilities	152 270
Trade and other payables R(22 300 - 1 600)	20 700
Income received in advance	14 660
Distribution to members payable (33 220 x 50%)	16 610
Current portion of long term loans (332 000 ÷ 10)	33 200
Current tax payable R(230 100 – 221 200)	8 900
Bank overdraft	58 200
Total equity and liabilities	1 120 895

C) Loan from member

Balance 1 October 2013	110 160
Advance during the year (164 300 – 110 160)	54 140
Interest capitalised $(110\,160 \times 8\%) + (164\,300 - 110\,160) \times 8\% \times 5/12$	10 618
Distribution to member $(33\,220 \times 50\%)$	<u>16 610</u>
Balance 30 September 2014	<u><u>191 528</u></u>

SU 6: Introduction to companies

QUESTION 6.1 (17 marks)(20 minutes)

Ezweni Limited was registered on 1 March 2008 with the following authorised share capital:

300 000 no par value ordinary shares
100 000 9% preference shares

On 5 March 2008 the company offered 100 000 ordinary shares at a consideration of R200 000 to the incorporators of the company. The whole offering was taken up and paid for by the incorporators on 15 March 2008.

On 3 April 2008, the company offered 45 000 ordinary shares at a consideration of R135 000 and 10 000 9% preference shares at a consideration of R35 000 for subscription to the public. Applications for 50 000 ordinary shares and 10 000 9% preferences shares were received by 7 June 2008. On the same date the shares were allotted and the unsuccessful applicants repaid. The company paid R2 500 in respect of share issue expenses on 9 June 2008.

Since its registration Ezweni Ltd has been making reasonable profits. At an annual general meeting held on 31 January 2010, it was decided that a dividend of 12 cents per share on the ordinary shares will be declared on 28 February 2010.

REQUIRED:

- 6.1 Record the transactions pertaining to the application for, and the issue of shares in the general journal of Ezweni Ltd for the period 3 April 2008 to 9 June 2008. (13)
- 6.2 Record the transactions regarding all the dividends payable in the general journal of Ezweni Ltd on 28 February 2010. (4)

Narrations can be omitted.

[17]

NB: Show all calculations.

SOLUTION 6.1 (17 marks)

6.1

**EZWENI LIMITED
GENERAL JOURNAL**

		R	R
2008 Apr 3	Bank Application and allotment: Ordinary shares ① Application and allotment: 9% Preference shares <i>Receipt of application money from the public</i>	185 000	150 000 35 000
June 7	Application and allotment: Ordinary shares Share capital: Ordinary shares Bank ② <i>Allotment of 45 000 ordinary shares</i>	150 000	135 000 15 000
	Application and allotment: 9% Preference shares Share capital: 9% Preference shares <i>Allotment of 10 000 9% preference shares at a premium of R1,00 each</i>	35 000	35 000
June 7	Share issue expenses Bank <i>Share issue expenses paid</i>	2 500	2 500

6.2

2010 Feb 28	Preference dividends ③ Ordinary dividends ④ Dividends payable <i>Dividends declared</i>	3 150 17 400	20 550
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The contra accounts must be 100% correct for marks to be awarded.
Narrations not asked.

Calculations:

① **Application ordinary shares**
 $135\,000 / 45\,000 \times 50\,000 = R150\,000$

② **Repayment**
 $R(150\,000 - 135\,000) = R15\,000$

③ **Preference dividends**
 $R35\,000 \times 9\% = R3\,150$

④ **Ordinary dividends**
 Issued to incorporators = 100 000
 Issued to public = 45 000
145 000
 $145\,000 \times R0,12 = R17\,400$

QUESTION 6.2 (9 marks) (11 minutes)

On 1 May 2007, Emtien Ltd was incorporated with an authorised share capital of 500 000 ordinary shares and 300 000 9% preference shares.

The following information was extracted from the financial records of Emtien Ltd for the financial year ended 30 June 2010:

	R
Share capital: Ordinary shares.....	305 000
Share capital: 9% Preference shares.....	135 000
Retained earnings.....	500 000
Long term loan.....	800 000
Bank	1 000 000

Since its incorporation, Emtien Ltd has recorded the following transactions with regard to the issuing of shares:

- On 15 May 2007, 10 000 ordinary shares were issued to the incorporators at a consideration of R30 000
- On 30 May 2007, 50 000 ordinary shares and 20 000 9% preference shares were issued to the public at a consideration of R175 000 and R120 000 respectively.
- On 30 April 2008, 10 000 9% preference shares were issued at a consideration of R55 000
- On 30 April 2009, 40 000 ordinary shares was issued at a consideration of R100 000.

On 31 December 2010, the directors approved a capitalisation issue of 2 shares for every 5 ordinary shares held. The board of the company deemed that a fair consideration for the ordinary shares would be R140 000.

REQUIRED:

6.2.1 Calculate the number of ordinary shares to be issued. (3)

6.2.2 Record the issue of the capitalisation shares in the general journal of Emtien Ltd. (6)

[9]

NB:Show all calculations.

SOLUTION 6.2 (9 marks)(11 minutes)**6.2.1. CALCULATION OF THE NUMBER AND VALUE OF ORDINARY SHARES TO BE ISSUED:**

	Shares
Ordinary shares issued on 15 May 2007	10 000
Ordinary shares issued on 30 May 2007	50 000
Ordinary shares issued on 30 April 2009:	40 000
Number of shares in issue before capitalisation issue - 31 December 2010	<u>100 000</u>

Number of capitalisation shares to be issued: $100\,000 \div 2/5 = 40\,000$ shares

**6.2.2. EMTIEN LTD
GENERAL JOURNAL**

2010 Dec 31		R	R
	Retained earnings	140 000	
	Stated capital: Ordinary shares		140 000
	<i>Capitalisation issue of two shares for every five shares held</i>		

QUESTION 6.3 (14 marks) (17 minutes)

Alizwa Ltd was incorporated on 20 June 2005 with an authorised share capital consisting of the following:

- 400 000 ordinary shares
- 150 000 8% preference shares

Issued share capital – 31 July 2013:

- 250 000 ordinary shares – R500 000
- 80 000 8% preference shares – R200 000

On 31 July 2012 only 200 000 ordinary shares were on issue while remaining shares were issued on 2 January 2013 at a fair consideration of R100 000. These shares were underwritten by Monique Financial Services at 1.5% commission. All shares were allotted to the public and commission paid to the underwriter.

At incorporation Alizwa Ltd issued 40 000 8% preference shares at a fair consideration R40 000. The remainder of preference shares were issued and allotted to the public on 1 February 2013 for R120 000, considered to be fair consideration on that date.

On 31 July 2013, the board of Alizwa Ltd decided to issue capitalisation shares to ordinary shareholders in the ratio of one share for every four ordinary shares held at fair consideration of R156 250. On this date Alizwa Ltd had a credit balance of R350 000 in the retained earnings account. Preference shareholders will be paid dividends in cash.

REQUIRED:

- 6.3.1 Record in the general journal of Alizwa Ltd, the issue and underwriting of the ordinary shares on 2 January 2013. (6)
- 6.3.2 Record in the general journal, all transactions pertaining to capitalisation issue of ordinary shares and dividends paid to preference shareholders. (8)

NB: Show all calculations.

[14]

SOLUTION 6.3 (14 marks)

6.3.1

**ALIZWA LIMITED
GENERAL JOURNAL**

		R	R
2013			
Jan 1	Bank Application and allotment: Ordinary shares ① <i>Receipt of application money from the public</i>	100 000	100 000
Jan 1	Application and allotment: Ordinary shares Share capital: Ordinary shares <i>Allotment of 50 000 ordinary shares</i>	100 000	100 000
	Underwriter's commission② Bank <i>Payment of the underwriter's commission</i>	1 500	1 500

6.3.2

2010			
Feb 28	Retained earnings ④ Share capital : ordinary shares <i>Capitalisation of ordinary shares</i>	156 250	156 250
	Preference dividends ③ Bank <i>Dividends declared</i>	8 000	8 000

Calculations:① **Application ordinary shares**

$$50\,000 \times R2 = R100\,000$$

② **Underwriter's commission**

$$R100\,000 \times 1,5\% = R1\,500$$

③ **Preference dividend**

$$R40\,000 \times 8\% = R3\,200$$

$$R120\,000 \times 8\% \times 6/12 = R4\,800$$

$$\text{Total preference dividend} = R8\,000$$

④ **Ordinary dividends**

$$250\,000 \times \frac{1}{4} = 62\,500$$

$$62\,500 \times R2,5 = R156\,250$$

SU 7: Statement of cash flows

QUESTION 7.1 (21 marks)(25 minutes)

GOLDEN GLOBE CC

List of balances as at 28 February

	2010 R	2009 R
Land and buildings at cost	320 000	300 000
Equipment at cost	64 000	76 000
Accumulated depreciation: Equipment	22 300	12 800
Members' contributions	350 000	302 000
Retained earnings	363 253	346 800
Asset replacement reserve	10 000	–
Inventory	82 300	94 700
Debtors control (trade debtors)	320 000	298 000
Allowance for credit losses	1 000	–
Bank (dr)	123 189	–
Long-term loan	49 960	–
Creditors control (trade creditors)	103 200	86 000
Accrued expense (rent)	2 800	–
Prepaid expense (water and electricity)	3 700	1 300
Bank overdraft	–	16 400
Accrued interest expense	1 249	–
SARS (income tax) (cr)	5 027	4 600
Distribution to members payable	4 400	1 400

Additional information:

- Extract from the statement of profit or loss and other comprehensive income of Golden Globe CC for the year ended 28 February 2010:

	R
Revenue	451 000
Cost of sales (refer to paragraph 4 below)	122 400
Dividend income	11 100
Administrative expenses	40 000
Rent expenses	14 560
Water and electricity	9 400
Credit losses	3 000
Depreciation: Equipment	21 100
Salaries and wages	190 000
Interest on long-term loan	4 996
Profit before tax	68 244
Income tax expense	19 791

- Extract from the statement of changes in net investment of members for the year ended 28 February 2010:

	R
Distribution to members	22 000
Transfer to asset replacement reserve	10 000

- All purchases and sales are made on credit.
- The cash paid to the trade creditors in respect of purchases of trading inventory during the 2010-financial year amounted to R92 800.

QUESTION 7.1 (continued)

5. Equipment with a cost price of R12 000, purchased for cash on 28 February 2009, could not be put into operation because of a technical fault and was consequently returned to the supplier. The supplier was unable to provide a replacement or to repair the equipment. A full cash refund was made by the supplier to Golden Globe CC on 2 March 2009.

REQUIRED:

Prepare the CASH FLOWS FROM OPERATING ACTIVITIES-section of the statement of cash flows of Golden Globe CC for the year ended 28 February 2010 to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. The cash generated from or used in operations-section must be disclosed according to the DIRECT METHOD. Comparative figures and notes are not required.

SOLUTION 7.1 (21 marks)**GOLDEN GLOBE CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2010**

	R		R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers ①	427 000		
Cash paid to suppliers and employees ②	(346 360)		
Cash generated from operations	80 640		
Dividends received	11 100		
Interest paid R(4 996 – 1 249)	(3 747)		
Income tax paid R(19 791 + 4 600 – 5 027)	(19 364)		
Distributions to members R(22 000 + 1 400 – 4 400)	(19 000)		
<i>Net cash from operating activities</i>			49 629

① Cash receipts from customers

	R
Debtors control – 28 February 2009	298 000
Credit sales	451 000
Credit losses R(3 000 – 1 000)	(2 000)
Debtors control – 28 February 2010	(320 000)
Cash received from customers	<u>427 000</u>

[OR]

Dr	Debtors control		Cr
	R		R
Balance b/d	298 000	Bank	427 000
Sales	451 000	Credit losses R(3 000 – 1 000)	2 000
		Balance c/d	320 000
	<u>749 000</u>		<u>749 000</u>
Balance b/d	320 000		

② Cash paid to suppliers and employees

	R
Creditors	92 800
Administrative expenses	40 000
Rent expense R(14 560 – 2 800)	11 760
Water and electricity R(9 400 – 1 300 + 3 700)	11 800
Salaries and wages	190 000
	<u>346 360</u>

QUESTION 7.2 (17 marks)(20 minutes)

The following information pertains to Ntando CC:

1. Accounts pertaining to the statement of financial position:

	31 Dec 2009	31 Dec 2008
	R	R
Member's contribution: Eunice	172 000	158 200
Member's contribution: Pinky	120 000	100 000
Retained earnings.....	246 100	220 000
Long-term loan.....	40 000	80 000
Creditors control (trade creditors).....	38 800	26 000
Accrued interest.....	2 000	–
Bank (Cr)	–	300
Land and buildings at cost	340 000	340 000
Machinery at cost.....	105 000	124 000
Furniture and fittings at cost.....	87 900	67 300
Investments (at cost).....	–	25 200
Accumulated depreciation: Machinery.....	27 000	18 000
Accumulated depreciation: Furniture and fittings.....	27 200	10 000
Bank (Dr)	85 400	–
Debtors control (trade debtors)	37 400	50 000
Prepaid expenses (wages).....	500	2 600
Inventory	67 000	50 000
Distribution to members payable	26 800	–
SARS (income tax) (Cr)	23 300	46 600

2. Items disclosed on the statement of profit or loss and other comprehensive income for the year ended 31 December 2009:

	R
Revenue	800 000
Cost of sales.....	450 000
Profit on sale of non-current assets: Furniture and fittings.....	2 000
Dividend income: Financial assets at fair value through profit or loss: Held for trading:	
Listed investments.....	3 000
Distribution expenses.....	87 400
Administrative expenses	78 000
Depreciation.....	63 600
Loss on sale of non-current asset: Machine	8 000
Interest expense	7 300
Profit before tax	110 700
Income tax expense	31 000

Additional information:

On 20 December 2009 a distribution of R26 800 to each of the members were recorded. On 21 December 2009 a portion thereof was paid to them in cash. The outstanding balance is payable on 2 January 2010.

QUESTION 7.2 (continued)**REQUIRED:**

- 7.2.1 Prepare the cash flows from operating activities-section of the statement of cash flows of Ntando CC for the year ended 31 December 2009, **UP TO THE CASH GENERATED FROM/(USED IN) OPERATIONS**. Apply the **INDIRECT METHOD**. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the CC. Comparative figures and notes to the statement are not required. (13)
- 7.2.2 Calculate the income tax paid during the 2009 financial year. (3)
- 7.2.3 Calculate the distribution to members paid during the 2009 financial year. (1)
- [17]

NB: Show all calculations.

SOLUTION 7.2 (17 marks)

7.2.1

Ntando CC**Statement of cash flows for the year ended 31 December 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	R
Profit before tax	110 700	
Adjustments for:		
Interest expense	7 300	
Loss on sale of machinery	8 000	
Depreciation	63 600	
Dividend income	(3 000)	
Profit on sale of furniture	(2 000)	
	184 600	
Increase in creditors control R(38 800 – 26 000)	12 800	
Decrease in debtors control R(50 000 – 37 400)	12 600	
Decrease in prepaid expenses R(2 600 – 500)	2 100	
Increase in inventory R(67 000 – 50 000)	(17 000)	
Cash generated from operations	195 100	

7.2.2 Income tax paid $R(31\,000 + 46\,600 - 23\,300) = R54\,300$ 7.2.3 Distribution to members paid $[(R26\,800 \times 2) - R26\,800] = R26\,800$

QUESTION 7.3 (21 marks) (25 minutes)

1. On 28 February the following balances were taken from the books of Lloyd Close Corporation:

	2011	2010
	R	R
Member's contributions	1 400 000	900 000
Land and buildings at valuation (2011)/at cost (2010)	792 000	360 000
Equipment at cost	216 000	169 200
Vehicles at cost	360 000	352 800
Investment at fair value	212 400	189 000
Inventory	172 800	115 200
Trade debtors	20 160	23 400
Prepaid expenses (wages prepaid)	1 360	2 400
Dividends receivable	4 500	1 800
Bank (favourable balance)	21 960	219 600
Surplus on valuation of land and buildings	144 000	-
Long-term loan	256 900	533 400

2. The following transactions took place in respect of property, plant and equipment:
- 2.1 During the financial year ended 28 February 2011 the close corporation purchased additional land and buildings for cash. Following an upsurge in the property prices, the members of the corporation decided to reassess the value of land and buildings. An assessment by a sworn appraiser revealed that the fair value of land and buildings was R144 000 higher than the amount reflected in the books of the corporation. An adjustment to record the revaluation has already been made in the books of the corporation. No land and buildings was sold during the year.
- 2.2 On 30 November 2010 the close corporation purchased additional equipment for R43 200, cash. On the same date redundant equipment with a cost price of R10 800 and accumulated depreciation of R6 480 was sold for cash at carrying amount. The replacement equipment was purchased for cash.
- 2.3 On 15 August 2010 a new delivery van was purchased at a cost price of R108 000 and partially financed by a trade-in of the old delivery van for R7 200. The old delivery van had a cost price of R90 000, and on the date of the trade-in the carrying amount of the old van amounted to R10 000. On 16 August 2010 the outstanding amount on the new delivery van was paid for in cash. No other vehicles were purchased or sold during the financial year.
3. The investment consists of shares in Khulubuse (Pty) Ltd.
4. During the financial year ended 28 February 2011 Mr Mpisane was admitted as a new member of the close corporation. Mr Mpisane contributed specialised equipment, valued at R125 000 and this contribution was regarded as capital contribution by the corporation. All the other additions to equipment were paid for in cash.

QUESTION 7.3 (continued)

5. The CC acquired loans from its members. The transactions pertaining to these loans during the financial year are as follows:

	Elvis (Dr)/Cr R	Lu-lu (Dr)/Cr R	Mpisane (Dr)/Cr R
Balances at 1 March 2010.....	72 000	36 000	-
Advances during the year.....	9 000	-	21 600
Repayments during the year.....	-	(10 800)	-
Interest capitalised	12 960	6 480	-
Balances at 28 February 2011.....	93 960	31 680	21 600

The loans bear interest at 18% per annum on the opening balances of each financial year and are unsecured.

REQUIRED:

Prepare ONLY the CASH FLOWS FROM INVESTING ACTIVITIES AND THE CASH FLOWS FROM FINANCING ACTIVITIES-sections of the statement of cash flows of Lloyd CC for the year ended 28 February 2011. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. Comparative figures are not required.

NB:Show all calculations.

SOLUTION 7.3 (21 marks)(25 minutes)**LLOYD CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2011**

CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in property, plant and equipment to maintain operating capacity	(115 200)	
Replacement of equipment ①	(14 400)	
Replacement of vehicle (Delivery van) ②	(100 800)	
Investment in property, plant and equipment to expand operating capacity	(331 200)	
Additions to land and buildings ③	(288 000)	
Additions to equipment	(43 200)	
Acquisition of financial assets at fair value through profit or loss:		
Available for sale: Unlisted investment - Khulubuse (Pty) Ltd	(23 400)	
Proceeds from sale of property, plant and equipment	4 320	
Sale of equipment	4 320	
<i>Net cash used in investing activities</i>		(465 480)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from members' contributions ④	375 000	
Proceeds from loans from members ⑤	30 600	
Repayment of loans from members	(10 800)	
Repayment of long-term borrowings	(277 500)	
<i>Net cash from financing activities</i>		117 300

① $R216\ 000 - (R169\ 200 + 43\ 200 - 10\ 800) = R14\ 400$

② $R(108\ 000 - 7\ 200) = R100\ 800$

③ $R792\ 000 - R(360\ 000 + 144\ 000) = R288\ 000$

④ $R1\ 400\ 000 - R(900\ 000 + 125\ 000) = R375\ 000$

⑤ $R(9\ 000 + 21\ 600) = R30\ 600$

QUESTION 7.4 (20 marks) (24 minutes)

The following information relates to Fleetwood CC:

1. Balances of the statement of financial position as at 31 August 2011:

	2011	2010
	R	R
Land and buildings at cost	665 000	450 500
Machinery at cost	427 720	349 700
Investment at cost	118 000	-
Loans to members	35 000	49 500
Inventory	34 260	20 320
Debtors control	63 136	62 500
Prepaid water and electricity	-	10 400
Accrued rental income	6 800	-
Bank	115 174	170 000
	1 465 090	1 112 920
Members' contributions	833 000	730 400
Retained earnings	150 820	53 800
Long-term loan	185 000	134 000
Accumulated depreciation: Machinery	106 290	45 600
Allowance for credit losses	3 700	3 000
Accrued water and electricity	4 400	-
Distribution to members payable	51 000	73 400
Creditors control	90 080	45 520
Current tax payable	40 800	27 200
	1 465 090	1 112 920

2. Balances of the statement of profit or loss and other comprehensive income for the year ended 31 August 2011:

	R
Sales.....	599 760
Cost of sales	280 500
Rental income	13 600
Investment income: Dividend received	10 200
Interest expense.....	8 500
Income tax expense	136 816
Credit losses	5 700
Water and electricity.....	34 334
Depreciation.....	60 690

Additional information:

- All inventories are purchased and sold on credit.
- No machinery were scrapped or sold during the 2011 financial year. In response to the increasing demand for products of the CC, the members deemed it necessary to purchase an additional machine to improve productive capacity. One of the members of the CC decided to obtain a loan in his personal capacity from his bank. He used the proceeds of the loan to acquire the required machine at a cost of R45 000. The machine was brought into use by the CC on 2 January 2011. This was recorded as capital contribution in the books of the CC. All other machinery was purchased for cash.

QUESTION 7.4 (continued)

3. Investments consist of the following:

Fixed deposit at Casta Bank	R58 000
30 000 R2 Ordinary shares at Midrand Limited	R60 000

Required:

Prepare only the CASH FLOWS FROM OPERATING ACTIVITIES section of the statement of cash flows of Fleetwood CC for the year ended 31 August 2011 to comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the close corporation. The cash generated from or used in operations must be disclosed according to the DIRECT METHOD. Comparative figures are not required.

NB: Show all calculations.

SOLUTION 7.4 (20 marks)**FLEETWOOD CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2011**

	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipt from customers R594 124 ① + R(13 600 – 6 800)	600 924	
Cash paid to suppliers and employees	②(269 414)	
	331 510	
Dividends received	10 200	
Interest expense	(8 500)	
Income tax paid R(27 200 + 136 816 – 40 800)	(123 216)	
Distribution to members paid R(73 400 – 51 000)	(22 400)	
Acquisition of financial asset at fair value through profit or loss: Held for		
Trading	(60 000)	
Repayment of loans and receivables: Loan to member R(49 500 – 35 000)	14 500	
<i>Net cash from operating activities</i>		142 094

Calculations:

$$\textcircled{1} \quad R[(62\,500 + 599\,760 - 63\,126) - (3\,000 + 5\,700 - 3\,700)] = R594\,124$$

$$\textcircled{2} \quad R[(45\,520 + 294\,440 \textcircled{3} - 90\,080) + R(34\,334 - 10\,400 - 4\,400)] = R269\,414$$

$$\textcircled{3} \quad R(280\,500 - 20\,320 + 34\,260) = R294\,440$$

QUESTION 7.5 (19 marks) (23 minutes)

The following information relates to Softtec CC:

Statement of financial position information as at 29 February 2012:

	2012	2011
	R	R
Members' contributions	530 000	500 000
Retained earnings	715 063	447 900
Asset replacement reserve	120 000	90 000
Land and buildings at cost	750 000	500 000
Furniture and equipment at cost	190 000	250 000
Accumulated depreciation: Furniture and equipment	38 000	15 000
Loans to member: Y Soft	210 000	250 000
Mortgage	70 000	210 000
Debtors control	49 500	52 000
Creditors control	30 000	20 500
Allowance for credit losses	6 000	4 800
Allowance for settlement discount granted	1 200	-
Bank (Dr)	32 563	24 000
Listed investment at fair value	210 000	180 000
Interest payable	9 300	7 100
Current tax receivable	18 000	-
Inventory	51 500	42 300
Dividends receivable	15 500	10 000
Distribution payable to members	7 500	13 000

Extract of items disclosed in the statement of profit or loss and other comprehensive income for the year ended 29 February 2012:

	R
Rental income	18 500
Gain on financial assets at fair value through profit or loss	20 000
Loss on sale of furniture and equipment	10 000
Investment income: Dividend received	10 200
Interest expense	8 500
Depreciation	34 000
Income tax expense	148 700

Additional information

1. Distribution paid to members (in cash) during the year amounted to R55 500.

REQUIRED:

Prepare the cash flows from operating activities-section of the statement of cash flows of Softtec CC for the year ended 29 February 2012, **UP TO THE CASH GENERATED FROM/(USED IN) OPERATIONS**. Apply the **INDIRECT METHOD**. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the CC. Comparative figures and notes to the statement are not required.

NB: Show all calculations.

SOLUTION 7.5 (19 marks)**SOFTTEL CC****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 29 FEBRUARY 2012**

CASH FLOWS FROM OPERATING ACTIVITIES		R	R
Profit before tax	①	495 863	
Adjustments for:			
Gain on financial assets		(20 000)	
Loss on sale of furniture and equipment		10 000	
Depreciation		34 000	
Dividend income		(10 200)	
Interest expense		8 500	
		518 163	
Decrease in debtors control	②	4 900	
Increase in creditors control R(30 000 – 20 000)		9 500	
Increase in inventory R(51 500 – 42 300)		(9 200)	
Cash generated from operations		523 363	

① Profit before tax:

$$R(715\,063 - 447\,900 + 50\,000* + 30\,000 + 148\,700) = R495\,863$$

$$* R55\,500 - 13\,000 + 7\,500 = R50\,000$$

② Decrease in debtors control:

$$R[(49\,500 - 6\,000 - 1\,200) - (52\,000 - 48\,000)] = R4\,900$$

QUESTION 7.6 (24 marks) (29 minutes)

The accounting officer of Grootslang Builders Warehouse CC has managed to prepare correctly all the financial statements and notes thereof, with the exception of the statement of cash flows for the financial year ended 2012.

The following items are extracted from the financial statements and presented to you:

	2012	2011
	29 February	28 February
	R	R
Property, plant and equipment	2 800 000	235 000
Investment at fair value	200 000	-
Trade debtors.....	180 000	35 000
Inventories	45 000	?
Cash and cash equivalents (Dr)	3 000	13 000
Members' contributions	570 000	233 500
Retained earnings.....	446 000	78 000
Loans from members	229 000	150 000
Loans to members	128 000	189 000
Mortgage.....	1 950 000	-
SARS (Cr).....	116 000	22 500

The note pertaining to property, plant and equipment for the year ended 29 February 2012 is follows:

	Land and buildings	Equip-ment	Vehicle
	R	R	R
Carrying amount at 1 March 2011	-	191 000	44 000
Cost price	-	212 000	50 000
Accumulated depreciation	-	(21 000)	(6 000)
Additions during the year	2 500 000	9 000	180 000
Disposals during the year	-	-	(44 000)
Depreciation for the year	-	(44 000)	(36 000)
Carrying amount at 29 February 2012	2 500 000	156 000	144 000
Cost price	2 500 000	221 000	180 000
Accumulated depreciation	-	(65 000)	(36 000)

You have also obtained the following information in respect of the corporation. (All transactions were correctly recorded):

- The profit before tax for the year ended 29 February was R489 000.
- Interest:
 - The loans from the members bear an interest at a rate of 10% per annum. The interest for the 2012 financial year was paid in cash to the members.
 - The interest expense in respect of the mortgage loan for the 2012 financial year amounted to R99 600. According to the loan agreement, the interest was capitalised.

QUESTION 7.6 (continued)

3. Inventory records of the business revealed that during the year an amount of R250 000 was spent on purchases and the cost of sales amounted to R217 000.
4. The income tax expense was disclosed as R121 000 in the statement of profit or loss and other comprehensive income for the year ended 29 February 2012.
5. An additional amount of loan from members was received on 31 August 2011.
6. The vehicle of the business was stolen on 1 March 2011. During the financial year, the insurance company paid the carrying amount of the stolen vehicle out in cash to the CC. The close corporation purchased a new vehicle in cash to replace the stolen vehicle.
7. The CC purchased a new building during the year. It was paid for with a cash payment from the CC's own resources and a mortgage from Grootvlei Bank. The proceeds of the mortgage were paid directly to the estate agent.
8. The additions to the computer equipment were paid for in cash.
9. Investment consists of 100 000 shares in Ginger Ltd. On 29 February 2012 Ginger Ltd declared a dividend of 12 cents per share payable on 15 March 2012. The fair value of the investment is equal to the cost price thereof.

REQUIRED:

Prepare the **CASH FLOWS FROM OPERATING ACTIVITIES** and **CASH FLOWS FROM INVESTING ACTIVITIES** sections of the statement of cash flows of Grootslang Builders Warehouse CC for the year ended 29 February 2012. The cash generated from/(used in) operations must be disclosed according to the **INDIRECT METHOD**.

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation. Notes and comparative figures are NOT required.

NB:Show all calculations.

[24]

SOLUTION 7.6 (22 Marks)**7.1 CASH FLOWS FROM OPERATING ACTIVITIES**

	R	R
Profit before tax	489 000	
Add: Depreciation R(44 000 + 36 000)	80 000	
Interest expense	118 550	
Less: Dividend income (100 000 x R0,12)	(12 000)	
	675 550	
Increase in trade debtors R(180 000 – 35 000)	(145 000)	
Increase in inventories R(45 000 – 12 000)	(33 000)	
<i>Cash generated from operations</i>	497 550	
Interest paid R(118 550 – 99 600)	(18 950)	
Income tax paid R(22 500 + 121 000 – 116 000)	(27 500)	
Acquisition of investment at fair value through profit or loss	(200 000)	
Repayment of loans and receivables: Loans to members R(189 000 – 128 000)	61 000	
<i>Net cash from operating activities</i>		312 100

Interest expense:

$$R99\,600 + R(150\,000 \times 10\%) + [(229\,000 - 150\,000) \times 10\% \times 6/12] = R118\,550$$

Opening inventory:

$$R(217\,000 + 45\,000 - 250\,000) = R12\,000$$

7.2 CASH FLOWS FROM INVESTING ACTIVITIES

	R	
Investment in property, plant and equipment to maintain operating capacity		
Replacement of vehicle	(180 000)	
Investment in property, plant and equipment to expand operating capacity		
Purchase of land and buildings	(649 600)	
Purchase of computer equipment	(9 000)	
Proceeds from stolen vehicle	44 000	
<i>Net cash used in investing activities</i>		(794 600)

CALCULATIONS**Purchase of land and buildings:**

	R	R
Purchase price of land and buildings		2 500 000
Balance on mortgage account	1 950 000	
Less: Interest capitalised	99 600	1 850 400
Then purchase of land and buildings – outflow		649 600

QUESTION 7.7 (20 marks) (24 minutes)

The following information relates to MONACO TRADERS:

1. Balances of the statement of financial position as at 31 December 2011:

	2011	2010
	R	R
Land and buildings at cost.....	1 147 500	567 905
Machinery at carrying amount.....	482 145	600 030
Investments – fixed deposit.....	100 000	62 000
Loans to partners.....	52 500	74 250
Drawings accounts.....	77 000	38 000
Inventory.....	51 390	30 480
Debtors control.....	94 704	93 750
Prepaid water and electricity.....	0	15 600
Accrued rental income.....	10 200	0
Bank.....	182 761	405 000
Capital accounts.....	1 249 500	1 131 635
Current accounts.....	254 730	290 800
Revaluation surplus – Land and buildings.....	40 000	0
Long-term loan.....	249 750	201 000
Current portion of long term loan.....	27 750	0
Loan from partner.....	168 000	150 000
Allowance for credit losses.....	5 550	4 500
Accrued interest expense.....	6 600	0
Creditors control.....	196 320	109 080

2. Extract from the statement of profit or loss and other comprehensive income for the year ended 31 December 2011:

	R
Cost of sales	420 750
Gross profit	478 890
Rental income	20 400
Investment income: interest income	15 300
Interest expense.....	30 750
Distribution expenses	226 804
Credit losses	8 550
Administrative and other expenses (including water and electricity)	155 521
Depreciation	91 035

Additional information:

- All inventories are purchased and sold on credit.
- Cash paid to creditors (for purchases) was correctly calculated as R354 420.
- During the current financial year there were improvements effected to the buildings. All costs were paid for in cash and capitalised. Land and buildings were re-valued 30 December 2011 by Mr Mbujo, and independent sworn appraiser.
- Machinery was sold at carrying amount for cash on 31 May 2011.
- Loan from member was acquired on 31 December 2010. Interest is charged at 12% per annum and is capitalized. The loan is repayable on 31 December 2016.

QUESTION 7.7 (continued)**REQUIRED:**

Prepare statement of cash flows of MONACO TRADERS for the year ended 31 December 2011 to comply with the requirements of International Financial Reporting Standards (IFRS). The cash generated from or used in operations must be disclosed according to the **DIRECT METHOD**. Comparative figures are not required.

NB: Show all calculations.

SOLUTION 7.7 (20 marks)**MONACO TRADERS****STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011**

	R	R
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipt from customers	901 386	
Cash paid to suppliers and employees	②(721145)	
	386 645	
Interest received	15 300	
Interest paid R(30 750- 18 000 – 6 600)	(6 150)	
Drawings	(77 000)	
Proceeds of loans and receivables: Loan to partner R(74 250 – 52 500)	21 750	
<i>Net cash from operating activities</i>		134 141
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in property, plant and equipment to expand operating capacity		
Improvement of land and buildings R(1 147 500 – 567 905 - 40 000)	(539 595)	
Proceed on sale of machinery	③26 850	
Acquisition of financial assets: fixed deposit R(100 000 – 62 000)	(38 000)	
<i>Net cash used in investing activities</i>		(550 745)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from partners capital contributions R(1 249 500 – 1 131 635)	117 865	
Proceeds from long-term borrowing R(249 750 +27 750 - 201 000)	76500	
		194 365
Net decrease in cash and cash equivalents		(222 239)
Cash and cash equivalents at beginning of year		405 000
Cash and cash equivalent at end of year		182 761

Calculations:

- ① $R[899\ 640 + 93\ 750 - (8\ 550 + 4\ 500 - 5\ 550) - 94\ 704 + (20\ 400 - 10\ 200)] = R901\ 386$
 ② $R[(354\ 420 + R226\ 804 + R(155\ 521 - 15\ 600))] = R514\ 741$
 ③ $R(600\ 030 - 91\ 035 - 482\ 145) = R26\ 850$

Alternative calculations

- Cash received from customers

Opening balance (debtors)	93 750
Revenue	899 640
Credit losses (8 550-(5550-4500))	(7 500)
Closing balance (debtors)	<u>(94 704)</u>
	891 186
Other incomes	
Rental income (20 400-10 200)	<u>10 200</u>
	<u>901 386</u>
- Cash paid to suppliers and employees

Cash paid to creditors (given)	354 420
Distribution expenses	226 804
Administrative and other expenses (155521-15600)	<u>139 921</u>
	<u>721 145</u>

3.

	interest received	Interest paid
Opening balance	0	0
Amount for the year	15 300	30 750
Capitalised	0	(18 000)
Closing balance	0	(6 600)
Paid/received	15 300	6 150

Dr		Machinery: at carrying value			Cr		
2011 Jan 01	Balance	b/d	R 600 030	2011 May 31	Realization account*	26 850*	
				Dec 31	Depreciation	91 035	
					Balance	c/d	482 145
			600 030				600 030

*balancing figure

QUESTION 7.8 (20 marks) (24 minutes)

The following information pertains to Jukskei Computers CC:

3. Accounts pertaining to the statement of financial position

	31 December 2013	31 December 2012
	R	R
Member's contribution: Christa.....	230 000	180 000
Member's contribution: Lizaan.....	170 000	120 000
Retained earnings	310 025	250 000
Long-term loan	80 000	65 000
Creditors control (Trade creditors).....	42 500	35 000
Accrued interest expense	4 000	–
Bank (Cr).....	–	300
Land and buildings at cost.....	540 000	450 000
Vehicles at cost.....	190 000	95 000
Furniture at cost	50 000	48 000
Investments at cost	–	70 000
Accumulated depreciation: Vehicles.....	40 000	32 000
Accumulated depreciation: Furniture	10 000	8 800
Bank (Dr).....	45 000	–
Debtors control (Trade debtors)	42 500	52 500
Prepaid expenses (Wages)	5 000	3 600
Inventory	74 025	52 000
Distribution to members payable	30 000	10 000
Income tax payable	30 000	70 000

4. Items disclosed in the statement of profit or loss and other comprehensive income for the year ended 31 December 2013

	R
Revenue.....	950 000
Cost of sales.	500 000
Profit on sale of non-current assets: Furniture.....	5 000
Dividend income: Financial assets at fair value through profit or loss: Held for trading: Listed investments	525
Marketing expenses	100 000
Administrative expenses (including salaries and wages)	115 000
Depreciation	72 500
Loss on sale of non-current asset: Vehicle	500
Interest expense.....	8 000
Profit before tax.....	159 525
Income tax expense	45 900

QUESTION 7.8 (continued)**3. Additional information**

- 3.1 On 20 December 2013 a total profit distribution amounting to R26 800 to the members was recorded. On 21 December 2013 a certain portion thereof was paid in cash to each member. The remaining amounts will be paid to them on 2 January 2014.
- 3.2 On 31 October 2013, a vehicle with a cost price of R60 000 and accumulated depreciation of R50 000 (on 1 January 2014) was sold for cash.
- 3.3 It is the accounting policy of Jukskei Computers CC to provide for depreciation as follows:
- **Vehicles:** According to the diminishing balance method, at 10% per annum.
 - **Furniture:** According to the straight-line method, at 25% per annum.

REQUIRED:

- 4.1 Prepare the cash flows from operating activities-section of the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013. Apply the **INDIRECT METHOD**. (16)
- 4.2 Calculate the amount that must be disclosed as proceeds from the sale of vehicle, under the section cash from investing activities, in the statement of cash flows of Jukskei Computers CC for the year ended 31 December 2013. (4)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) appropriate to the business of the close corporation. [20]

Comparative figures and notes to the statement of cash flows are **NOT** required.

NB: Show all calculations.

SOLUTION 7.8

1.

JUKSKEI COMPUTERS CC**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013**

		R		R
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		159 525		
Adjustments for:				
Interest expense		8 000		
Profit on sale of furniture		(5 000)		
Loss on sale of vehicle		500		
Dividend income		(525)		
Depreciation		72 500		
		235 000		
Increase in inventories (52 000 -74 025)		(22 025)		
Decrease in debtors control (52 500 -42 500)		10 000		
Increase in creditors control (42 500 – 35 000)		7 500		
Increase in prepaid expenses (3 600 – 5 000)		(1 400)		
Cash generated from operations		229 075		
Interest paid (8 000 – 4 000)		(4 000)		
Dividends received		525		
Income tax paid (70 000 + 45 900 – 30 000)		(85 900)		
Distributions paid (10 000 + 26 800 – 30 000)		(6 800)		
<i>Net cash from operating activities</i>				132 900

2.

Calculation of proceeds on sale

$$60\,000 - 50\,000 - 500 = R9\,500$$

QUESTION 7.9 (22 marks)(26 minutes)

Ezomoya Aircraft CC is a close corporation that manufactures light sport aircraft. Given the complexity of the transactions relating to property, plant and equipment and loans receivable, the accountant could not complete the statement of cash flows for the current year and requested your assistance.

1. Extract from the financial statements at 28 February

	2015 R	2014 R
Machinery at cost	1 537 770	1 227 950
Accumulated depreciation: Machinery	700 240	420 675
Vehicles at cost	404 000	360 040
Accumulated depreciation: Vehicles	216 744	165 433
Land and buildings at valuation	644 700	436 000
Surplus on valuation of land and buildings	73 200	-
Profit on sale of machinery	10 000	-
Member's contributions	150 000	95 000
Inventory	1 717 200	881 570
Debtors	2 027 812	2 340 010
Bank (favourable balance)	2 196	21 960
Long-term loan	58 640	83 080
Loans from members	152 400	89 000
Retained earnings	824 445	662 300

2. Additional information

- 2.1 On 30 September 2014, machinery A71994 broke down and the members auctioned the machinery on the same day at a profit. This machinery had a cost of R134 000 and accumulated depreciation of R32 160 on 1 March 2014. Depreciation on machinery is calculated at 12% per annum on the straight-line method.
- 2.2 The close corporation purchased an additional building for cash. An assessment by a sworn appraiser has shown that the fair value of land and buildings was R73 200 higher than the amount reflected in the accounting records of the corporation. An adjustment to record the revaluation has already been made in the accounting records of the corporation. No land and buildings were sold during the year.
- 2.3. On 30 November 2014, one of the drivers crashed a vehicle belonging to the close corporation, with a cost price of R111 810 and accumulated depreciation of R91 028. The vehicle was damaged beyond repair and was sold as scrap at its carrying amount. The replacement vehicle was purchased for cash
- 2.4 Ms Gwengwe was admitted as a new member of the close corporation on 31 January 2015. As part of her capital contribution, she contributed specialised software valued at R32 300. The remainder was paid by Ms Gwengwe in cash.
- 2.5 The loans from members consist of R59 000 and R93 400 from Phuza and Shukela respectively. On 1 January 2015 the close corporation obtained an additional loan from Shukela.

REQUIRED:

Prepare **only the cash flows from investing and cash flows from financing activities** sections of the statement of cash flows of Ezomoya Aircraft CC for the year ended 28 February 2015.

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS), appropriate to the business of the partnership.

Comparative figures and notes to the statement are **not** required.

All calculations must be shown.

SOLUTION7.9**EZOMOYA AIRCRAFT CC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2015**

CASH FLOWS FROM INVESTING ACTIVITIES	
Investment in property, plant and equipment to maintain operating capacity	
Replacement of vehicle ①	(155 770)
Replacement of machinery ③	(411 520)
Investment in property, plant and equipment to expand operating capacity	
Additions to land and buildings ⑤	(135 500)
Acquisition of financial assets at fair value through profit or loss:	
listed investment - Mvelase Ltd ⑥	(14 000)
Proceeds from sale of property, plant and equipment	
Sale of machinery④	102 460
Sale of vehicles ②	20 782
<i>Net cash used in investing activities</i>	<i>()</i>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from members' contributions ⑦	22 700
Proceeds from loans from members ⑧	63 400
Repayment of long-term borrowings ⑨	(24 440)
<i>Net cash from financing activities</i>	

Calculations:

- ① $111\,810 + 404\,000 - 360\,040 = 155\,770$
- ② $111\,810 - 91\,028 = 20\,782$
- ③ $1\,537\,770 + 134\,000 - 1\,227\,950 - 32\,300 = 411\,520$
- ④ Carrying amount $(134\,000 - 32\,160 - (134\,000 \times 12\% \times 7/12)) = 92\,460$
 Proceeds $(92\,460 + 10\,000) = 102\,460$
- ⑤ $644\,700 - 436\,000 - 73\,200 = 135\,500$
- ⑥ $34\,000 - 18\,200 - 1\,800 = 14\,000$
- ⑦ $150\,000 - 95\,000 - 32\,300 = 22\,700$
- ⑧ $152\,400 [934\,000 + 590\,000] - 89\,000 = 63\,400$
- ⑨ $58\,640 - 83\,080 = 24\,440$

SU 8: Analysis and interpretation of financial statements

QUESTION 8.1 (12 marks)(15 minutes)

The following information was extracted from the financial statements of Thabo CC for the financial year ended 28 February 2010:

Statement of profit or loss and other comprehensive income information for the year ended 28 February 2010:

	R
Profit for the year	13 400
Income tax expense	1 420
Cost of sales	149 000
Gross profit	245 100
Profit on sale of non-current asset: Equipment.....	5 200
Purchases.....	162 300

Statement of financial position information as at 28 February:

	2010 R	2009 R
Inventories	38 000	24 700
Trade receivables	36 000	32 000
Cash and cash equivalents	24 000	31 200
Member's contribution.....	64 000	103 000
Retained earnings.....	13 000	9 000
Other components of equity	7 000	9 000
Trade and other payables (trade creditors)	40 000	42 000
Current portion of loan from member	2 000	2 000
Current tax payable.....	6 900	3 490

Additional information:

50% of all purchases for the year ended 28 February 2010 were on credit.

REQUIRED:

Calculate the following ratios on 28 February 2010 for Thabo CC. Assume 365 days in a year.

- | | | |
|-----|--|------|
| 8.1 | Profit margin | (4) |
| 8.2 | Acid test ratio | (4) |
| 8.3 | Trade payables payment (settlement) period | (4) |
| | | [12] |

NB: Show all calculations.

SOLUTION 8.1 (12 marks)**8.1 Profit margin**

$$\begin{aligned}
 & \frac{\text{Profit before tax}}{\text{Sales}} \times \frac{100}{1} \\
 &= \frac{\text{R}(13\,400 + 1\,420)}{\text{R}(245\,100 + 149\,000)} \times \frac{100}{1} \\
 &= \frac{\text{R}14\,820}{\text{R}394\,100} \times \frac{100}{1} \\
 &= 3,76\%
 \end{aligned}$$

8.2 Acid test ratio

$$\begin{aligned}
 & \frac{\text{Current assets less inventory}}{\text{Current liabilities}} \\
 &= \frac{\text{R}[(36\,000 + 24\,000 + 38\,000) - \text{R}38\,000]}{\text{R}(40\,000 + 2\,000 + 6\,900)} \text{ OR } \frac{\text{R}(36\,000 + 24\,000)}{\text{R}(40\,000 + 2\,000 + 6\,900)} \\
 &= \frac{\text{R}60\,000}{\text{R}48\,900} \\
 &= 1,23:1
 \end{aligned}$$

8.3 Trade payables payment (settlement) period

$$\begin{aligned}
 & \frac{\text{Average trade payables} \times 365}{\text{Credit purchases}} \\
 &= \frac{[\text{R}(40\,000 + 42\,000) \div 2] \times 365}{\text{R}162\,300 \times .5} \\
 &= \frac{\text{R}14\,965\,000}{\text{R}81\,150} \\
 &= 184,41 \text{ days} \\
 &\approx 184 \text{ days}
 \end{aligned}$$

QUESTION 8.2 (14 Marks) (17 Minutes)

NuLan CC an information technology business entity. Mr Chris Balls, the accounting officer of NuLan CC, has asked you to prepare a report on the profitability of the corporation. The report is to be incorporated in the annual financial report of the corporation.

The following information is extracted from the accounting records of NuLan CC as at 29 February 2012, the end of the financial year:

	R
Members' contributions: Num	100 000
Members' contributions: Lan	80 000
Land and buildings	568 500
Asset replacement reserve	25 000
Loan to member: Num	30 000
Retained earnings (1 March 2011)	98 000
Equipment at cost	195 000
Accumulated depreciation: Equipment	25 000
Long-term loan	150 000
Debtors control	50 000
Creditors control	20 000
Sales	350 000
Allowance for settlement discount granted	4 500
Profit for the year	90 000

Additional information

- The corporation is taxed at a rate of 28%.
- The long-term loan was obtained on 31 July 2011 and bears interest at a rate of 12% per annum.
- The loan to Num is interest free and repayable in full on 30 November 2012.
- The following are some of the ratios as at 28 February 2011:
 - Return on equity 25%
 - Return on total assets 18%
 - Profit margin 21%
 - Financial leverage 1.5

REQUIRED:

With regard to NuLan CC; calculate and interpret the following ratios as at 29 February 2012:

- Return on equity (4½)
- Return on total assets (7)
- Financial leverage and leverage effect (2½)

NB:Show all calculations **[14]**

SOLUTION 8.2 (14 Marks)**8.1 Return on equity:**

$$\frac{\text{Profit before tax}}{\text{Total Equity}} \times 100 = \frac{\text{R90 000} \div 72\%}{\text{R393 000} \text{ ❶}} \times 100 = 31.81\%$$

When compared with year 2011, the return on equity for NuLan **improved** in year 2012

❶ $\text{R}(180\,000 + 25\,000 + 98\,000 + 90\,000) = \text{R}393\,000$

8.2 Return on assets:

$$\frac{\text{Profit before interest and tax}}{\text{Total Assets}} \times 100 = \frac{\text{R135 500} \text{ ❷ (2½)}}{\text{R813 500} \text{ ❸ (3)}} \times 100 = 16.66\%$$

When compared with year 2011, the return on assets for NuLan **deteriorated** in year 2012

❷ $\text{R}[(90\,000 \div 72\%) + (150\,000 \times 12\% \times 7/12)] = \text{R}135\,500$

❸ $\text{R}(568\,000 + 30\,000 + 195\,000 - 25\,000 + 50\,000 - 4\,500) = \text{R}813\,500$

8.3 Financial leverage:

$$\frac{\text{Return on equity}}{\text{Return on assets}} = \frac{31.81\%}{16.66\%} = 1.91$$

When compared with year 2011, the financial leverage for NuLan **improved** in year 2012

QUESTION 8.3 (18 marks) (22 minutes)

The following information was extracted from the financial statements of Chakalaka & Sons for the financial year ended 28 February 2014:

1. Statement of profit or loss and other comprehensive income for the year ended 28 February 2014

	R
Revenue	310 000
Cost of sales	242 000
Profit for the year	45 200

2. Statement of financial position as at 28 February

	2014 R	2013 R
Inventories	122 000	46 000
Trade and other receivables (Trade debtors)	171 500	79 000
Cash and cash equivalents	-	150 000
Trade and other payables (Trade creditors)	119 000	58 000
Property, plant and equipment	250 000	125 000
Bank overdraft.....	40 000	-
Capital.....	400 000	150 000
Long term loan	?	-

3. Additional information

- 3.1 All sales and purchases for both years were on credit.
- 3.2 The debt equity ratio of Chakalaka & Sons was calculated as 50%.
- 3.3 The long term loan was acquired on 1 January 2014 and is repayable in full on 31 December 2016.

REQUIRED:

Calculate the following as at 28 February 2014 for Chakalaka & Sons. Assume 365 days in a year.

- 5.1 Current Ratio (3½)
- 5.2 Trade receivables collection period (3½)
- 5.3 Trade payables settlement period (4½)
- 5.4 Inventory holding period (3½)
- 5.5 Long term loan (3)

NB: Show all calculations **[18]**

SOLUTION 8.3**1. Current Ratio**

$$\frac{\text{Current Assets}}{\text{Current liabilities}} \times 100 = \frac{293\,500 \text{ ①}}{159\,000 \text{ ②}} \times 100 = 184.59\%$$

$$\text{① } (122\,000 + 171\,500) = 293\,500$$

$$\text{② } (119\,000 + 40\,000) = 159\,000$$

2. Trade receivables collection period:

$$\frac{\text{Average trade receivables}}{\text{Credit Sales}} \times 365 = \frac{125\,250 \text{ ②}}{310\,000} \times 365 = 147,47 \text{ days}$$

$$\text{② } [(171\,500 + 79\,000) / 2] = 125\,250$$

3. Trade payables settlement period:

$$\frac{\text{Average trade payables}}{\text{Credit Purchases}} \times 365 = \frac{88\,500 \text{ ②}}{318\,000 \text{ ②}} \times 365 = 101,58 \text{ days}$$

$$\text{② } [(119\,000 + 58\,000) / 2] = 88\,500$$

$$\text{② } [(242\,000 + 122\,000 - 46\,000) / 2] = 318\,000$$

4. Inventory holding period:

$$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 = \frac{84\,000 \text{ ②}}{242\,000} \times 365 = 126,69 \text{ days}$$

$$\text{② } [(122\,000 + 46\,000) / 2] = 84\,000$$

5.

Amount of long term loan:

Debt equity ratio =

$$\frac{\text{Total debt}}{\text{Total equity}}$$

= 50%

$$\text{Debt} = 400\,000 \times 50\% = 200\,000$$

$$\text{Long term loan} = 200\,000 - 119\,000 = 81\,000$$

SU 9: Branches

QUESTION 9.1 (21 marks)(25 minutes)

The following information pertains to the head office and the branch of Fostha CC:

1. Branch inventory on hand (selling price):

	R
1 January 2009.....	2 600
31 December 2009	2 500

2. Transactions during the year ended 31 December 2009:

	R
Inventory sent to branch (selling price)	78 100
Sales by the branch:	
Cash sales	35 800
Credit sales	28 800
Returns to head office (cost price)	3 700
Cash received from branch debtors	5 600
Settlement discount granted to branch debtors.....	500
Inventory stolen at the branch (selling price).....	3 750
Sundry expenses of the branch paid by head office.....	9 250

3. Additional information:

- 3.1 All inventory is purchased by the head office and supplied to the branch at selling price, which is cost price plus 25%.
- 3.2 Due to the current economic downturn, there has been a significant decline in sales at the branch. As a result, the head office has allowed the branch to sell certain products at selling price less 30%. The net proceeds of the products sold at discount amounted to R4 200. This amount is included in the above cash sales figure of R35 800.
- 3.3 During the year a burglary took place at the branch and R700 in cash (in respect of cash sales) was stolen. No entries regarding the burglary were made in the books.
- 3.4 Inventory invoiced to the branch at R2 800 included in the above amount of R78 100 pertaining to inventory sent to branch at selling price was in transit at 31 December 2009, and therefore not included in the branch's inventory on hand of R2 500 at 31 December 2009.

REQUIRED:

Prepare the branch inventory account (at selling price) in the general ledger of the head office of Fostha CC for the year ended 31 December 2009. Each entry must disclose the correct contra account. Balance the account properly.

NB: Show all calculations.

SOLUTION 9.1 (continued)

- ⑤ **Branch expense (Inventory stolen at cost)**

$$R3\,750 \times 100/125 \text{ (or) } 1,25 = R3\,000$$

- ⑥ **Branch adjustment (Mark-up on inventory stolen)**

$$R(3\,750 - 3\,000) = R750$$

- ⑧ **Branch expense (Mark-down on cost)**

In calculation ⑦ R1 200 of the mark-down of R1 800 was apportioned to the branch adjustment account.

The remaining R600 (R1 800 – R1 200) must be apportioned to the branch expense account. [OR: R(4 800 – 4 200 = 600)]

QUESTION 9.2 (16 marks) (19 minutes)

The following information pertains to the head office and the branch of Langa and Sons.

Branch inventory on hand at selling price:

	R
1 January 2011	29 700
31 December 2011	31 585

Transactions of the branch for the year ended 31 December 2011:

	R
Inventory transferred to the branch (selling price).....	220 000
Cash sales at the branch.....	196 350
Cash receipts from branch debtors.....	82 242
Settlement discount granted to branch debtors	1 898
Branch administrative expenses paid by head office	13 932
Damaged inventory written off (at cost)	2 000

Additional information

1. Inventory is purchased by the head office and supplied to the East London branch at selling price, which is cost price plus 25%.
2. During June 2011 inventory with a selling price of R1 875 was stolen at the branch. No entries have been made to record this theft.
3. The branch held a clearance sale during April 2011. Inventory was sold at selling price less 30%. The proceeds of the sale amounted to R42 000 and were included in the cash sales amount, R196 350 above.

REQUIRED:

Prepare the branch inventory account in the general ledger of the head office of Langa and Sons for the year ended 31 December 2011. Each entry must indicate the correct contra ledger account. Balance the account properly.

NB: Show all calculations.

SOLUTION 9.2 (16 Marks)

Dr		Branch inventory account				Cr
2011		R	2011		R	
Jan 1	Balance b/d	29 700	Dec 31	Bank: Cash sales	196 350	
	Inventory to branch (Deliveries at cost)	176 000		Branch expense: (Damaged inventory at cost)	2 000	
	Branch adjustment (Mark-up on deliveries)	44 000		Branch adjustment: (Mark- up on damaged inventory)	500	
	Branch adjustment: (Inventory surplus)	610		Branch expense: (Stolen inventory at cost)	1 500	
				Branch adjustment: Mark- up on stolen inventory)	375	
				Branch adjustment: (Mark- down on sales)	12 000	
				Branch expense: (Mark- down on cost)	6 000	
				Balance c/d	31 585	
		250 310			250 310	
2012						
Jan 1	Balance b/d	31 585				

Deliveries at cost:

$$R220\,000 \times 100/125 = R176\,000$$

Mark-up on deliveries:

$$R220\,000 \times 25/125 = R44\,000$$

Mark-up on damaged inventory:

$$R2\,000 \times 25/100 = R500$$

Stolen inventory at cost:

$$R1\,875 \times 100/125 = R1\,500$$

Mark-up on stolen inventory:

$$R1\,875 \times 25/125 = R375$$

Mark-down on sales:

$$R(42\,000 \div 70\%) \times 25/125 = R12\,000$$

Mark-down on cost:

$$R[(42\,000 \div 70\%) \times 100/125] - R42\,000 = R6\,000$$

SU 10: The time value of money

QUESTION 10.1 (9 marks) (11 minutes)

Mr Siphwe Tshabalala wants to register his daughter Jabu, currently 15 years of age, for a BCompt degree at UNISA in 4 years time. The duration of the course is 3 years. The estimated cost of the first year of study including textbooks is R35 700 and must be paid by Mr Tshabalala. The rest of the years of study will be funded by a bursary from SAFA.

Mr Tshabalala is concerned whether he will have enough funds available to enrol his daughter for the first year of study and has approached his lifelong friend, Mr Bakkies Botha for advice. The following are the investment options suggested by Mr Botha:

- Invest in an ordinary annuity by way of a monthly contribution;
- Invest money, currently available in a savings account, in an investment account.

After careful consideration Mr Tshabalala has made the following investments decisions:

- Mr Tshabalala will contribute R3 500 on a monthly basis towards an ordinary annuity;
- Mr Tshabalala will invest R10 000 he earned as a bonus on scoring a goal against Mexico in the opening match of the 2010 World Cup. The R10 000 is currently available in his savings account.

Required

10.1 Calculate the amount that will be received by Mr Tshabalala in 4 years time if he invests the funds currently available in his savings account at an interest rate of 8% per annum compounded quarterly. (4)

10.2 Taking into account the result obtained in 5.1 above; calculate an amount that must be invested monthly for 4 years, to yield the remaining balance towards the study fees of Mr Tshabalala's daughter. The investment will be made at Soccer Bank at an interest rate of 12% compounded half yearly. (5)

[9]

NB: Show all calculations.

SOLUTION 10.1 (9 marks)

10.1 Future value of investment:

Factor as per table: $8\% \div 4 = 2\%$
2% over 16 periods
1.373

Amount at the end (FV): $R10\,000 \times 1.373 = R13\,730$

10.2 Present value of an annuity:

$R(35\,700 - 13\,730) = R21\,970$

Factor as per table: $12\% \div 2 = 6\%$
6% over 8 periods
9.897

Present value of the annuity: $R21\,970 \div 9.897 = R2\,219.86$
 $R2\,219.86 \div 6 = R369.98$

QUESTION 10.2 (6 marks) (7 minutes)

Shela has just registered a construction company and has recently concluded a two year contract to maintain roads infrastructure in all areas under the Moretele Municipality. He employed three members from the community at a monthly salary of R12 500 each. Shela is concerned that his employees may not have income to survive at the end of his tender contract. According to the financial service advisor, the employees may save part of their monthly income for future retirement. He also wants to save some cash for future purchase of property.

Shela's employees agreed to contribute to a fund that will yield total cash of R60 000 per employee after two years at 12% interest per annum, compounded monthly. This contribution will be paid directly to the fund by Shela. It was further agreed that the employer will contribute 40% while employees contribute only 60%.

REQUIRED:

- 1 Calculate the amount of cash that Shela must deduct from each employee's salary per month. (4)
2. Calculate the amount of cash that Shela must invest at 12% p.a. interest in order to be able to purchase property for R700 000 after ten years, if interest is compounded annually. (2)

NB: Show all calculations.

[20]

SOLUTION 10.2 (6 marks)

1. Annuity payments:
 $I = 12\% \div 12 = 1\%$
 $N = 2 \times 12 = 24$
 $FVA = R60\ 000$

Factor as per table 2: 26.97 ($I = 1\%$, $n = 24$)

$$\begin{aligned}\text{Annuity payment} &= \frac{FVA}{FVAIF} \\ &= \frac{R6\ 0000}{26.97} \\ &= R2\ 224.69\end{aligned}$$

Therefore R1 334.82 ($R2\ 224.69 \times 60\%$) will be deducted from employees monthly salary.

2. Present value of investment

$$\begin{aligned}I &= 12\% \\ N &= 10 \\ FV &= R700\ 000 \\ PV &=?\end{aligned}$$

Present value interest Factor as per table 3: 0.322 ($I = 12\%$, $n = 12$)

$$\begin{aligned}\text{Amount invested} &= FV \times PVIF \\ &= R700\ 000 \times 0.322 \\ &= R225\ 400\end{aligned}$$

OR

$$\begin{aligned}I &= 12\% \\ N &= 10 \\ FV &= R700\ 000 \\ PV &=?\end{aligned}$$

Future value interest Factor as per table 1: 3,106 ($I = 12\%$, $n = 10$)

$$\begin{aligned}\text{Amount to be invested} &= \frac{FV}{FVIF} \\ &= \frac{R700\ 000}{3.106} \\ &= R225\ 370\end{aligned}$$