"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

COURSE TITLE: MAC 202 Intermediate Accounting 1

SEMESTER 1: Final Examination April/May 2018

LECTURER: Dr S N Chuchu

TIME: 3 HOURS

INSTRUCTIONS

Answer **all five (5)** questions.

Start **each** question on a new page in your answer booklet.

The marks allocated to **each** question are shown at the end of the question.

Show all your workings.

Credit will be given for logical, systematic and neat presentations.

Question 1

(a) Outline the legal framework for financial reporting. **[6 marks]**

(b) Gemini Limited has developed a healthy soft drink. Unfortunately, the product has not been selling well and is failing to compete with the top selling unhealthy brands. Gemini Limited has identified the reason for the poor sales as the failure to market the product correctly. The marketing problem has, in turn, been attributed to the fact that the product did not have a trademark. The company has, therefore, set about developing a trademark for the soft drink. The company has spent $50 000 in designing and legally registering the logo. From the budgets prepared and experience so far, it seems Gemini Limited will enjoy benefits from the trademark for the next ten years. The company is already experiencing an upswing in demand for the product.

Required:

With reference to the recognition criteria of the Conceptual Framework for Financial Reporting, determine whether the expenditure of $50 000 should be capitalized or expensed. **[16 marks]**

Question 2

Scorpio Limited is a retailer and sells several products. The following balances were extracted from its books as at 31 December 2016:

	$
Credits	
Sales	520 000
Interest received	20 000
Dividends received	8 000
Profit on disposal of equipment	16 000
Rent received	24 000
Property revaluation gain arising during the year	5 000
Fair value gain on financial assets at fair value through other comprehensive income arising during the year	2 000
Debits	
Cost of sales	400 000
Other expenses	40 000
Donations	4 000
Depreciation on office building	2 000
Depreciation on delivery van	12 000
Interest paid	3 000

Additional information:

For tax purposes, the following information is available:

1. The deferred tax liability at 31 December 2015 was $15 000.
2. The taxable temporary differences at 31 December 2016 amounted to $90 000.

3. The total income subject to tax in terms of the Income Tax Act was $568 000. The allowable deductions amounted to $458 000.
4. Assume a tax rate of 25% for all forms of income.

Required:

Prepare the statement of profit or loss and other comprehensive income for the year ended 31 December 2016, to comply with the requirements of IFRS as far as the information presented permits. Expenses should be classified by function. Distribution costs and administration expenses should be classified under other expenses. The only note required is that relating to 'Profit before tax'. **[20 marks]**

Question 3

The summarized financial statements of Capricorn Limited are as follows:

Statement of financial position as at 31 December 2016

	2016	**2015**
	$	**$**
ASSETS		
Non-current assets	121 000	61 000
Property, plant and equipment	68 000	41 000
Intangible asset	30 000	20 000
Financial assets at cost	23 000	--------
Current assets	39 500	30 500
Inventories	20 000	11 000
Trade receivables	19 500	7 500
Bank	-------	12 000
Total assets	160 500	91 500
EQUITY AND LIABILITIES		
Equity	78 500	54 500
Ordinary shares of $1 each	35 000	25 000
Revaluation surplus	6 000	------
Retained earnings	37 500	29 500
Non-current liabilities	42 000	10 000
10% debentures	40 000	10 000
Deferred tax	2 000	-------
Current liabilities	40 000	27 000
Trade payables	21 000	16 000
Current tax payable	8 000	11 000
Bank	11 000	------
Total equity and liabilities	160 500	91 500

Statement of profit or loss and other comprehensive income for the year ended 31 December 2016

	2016	2015
	$	$
Revenue	270 000	182 000
Cost of sales	(189 000)	(109 200)
Gross profit	81 000	72 800
Distribution costs	(23 000)	(13 000)
Administrative expenses	(34 500)	(20 000)
Finance costs	(4 000)	(500)
Profit before tax	19 500	39 300
Income tax expense	(6 000)	(11 300)
Profit for the year	13 500	28 000
Other comprehensive income	6 000	-------
Property revaluation gain arising during the year	8 000	-------
Tax expense	(2 000)	-------
Total comprehensive income for the year	19 500	28 000

Additional information:

1. Depreciation/amortization charges for the year ended 31 December 2016 were:

	$
Property, plant and equipment	11 500
Intangible asset	2 500

2. There were no sales of non-current assets during 2016. However, property was revalued.
3. Dividends paid during the year amounted to $5 500.

Required:
Prepare the statement of cash flows for the year ended 31 December 2016. Use the indirect method in accordance with IAS 7. Notes and comparatives are not required.
[20 marks]

Question4
(a) Outline what an entity should do in its opening IFRS statement of financial position as required by IFRS 1. **[4 marks]**

(b) Virgo Limited entered into the following inventory transactions during June 2017:

June	
1	Inventory on hand: 20 units – 14 @$1.80 each - 6 @ $2.00 each
5	Purchased 60 units @ $3.00 each
10	Purchased 35 units @$4.00 each
11	Sold 30 units
15	Purchased 40 units@ $5.00 each
19	Sold 50 units
22	Purchased 100 units @ $4.00 each
30	Sold 60 units

The selling price during June 2017 amounted to \$6.00 per unit.

Virgo Limited uses a perpetual inventory system. On 30 June 2017, it was determined that the normal selling price of the units had dropped to \$5.00 per unit because a competitor had entered the market. Normal selling expenses amount to \$1.00 per unit.

Required:

(i) Calculate the cost of sales and the value of inventory on hand at 30 June 2017 using FIFO (first-in, first-out) **[13 marks]**

(ii) Present the above information in the statement of profit or loss and other comprehensive income for June 2017 in compliance with the requirements of IFRS. **[3 marks]**

Question 5

Vehicle Sales Limited, a registered VAT vendor, runs a business that sells light delivery vehicles and trailers. The company uses the periodic inventory system. On 15 July 2017, the company received an order for the following from Transporters Limited:

	Price per item
	$
2 x 2017 TATA bakkies	17 020
2 x Venter canopies	1 633

The above listed prices are inclusive of VAT. Assume VAT @ 15%. The goods were delivered on 22 July 2017 with the total invoice amount payable on or before 29 July 2017. All of Vehicle Sales Limited's customers are entitled to a discount 2% I payment is made within 7 days. Transporters Limited has a excellent payment record.

Required:

Determine, using the 5 step model, whether revenue may be recognized. **[20 marks]**

END OF PAPER