FINANCIAL ACCOUNTING 2A (ACCT211): MAIN EXAMINATION

Duration: 120 minutes  Total Marks: 80 marks
Total Pages: 4 (including this page)  Date: 02 June 2016
Internal Examiners: A Algu CA (SA)  Internal Moderator: S Vanker CA (SA)
K L Gurr CA (SA)
S Essa CA (SA)

INSTRUCTIONS TO CANDIDATES:
1. Your attention is drawn to the necessity to provide suitable substantiating reasons and/ or workings in support of your answers.

2. Where workings are presented separately from your answer, these must be clearly referenced thereto.

3. Each of the TWO questions must be answered in a separate answer booklet. Therefore, a minimum of TWO answer booklets must be handed in. Answers written in the incorrect booklet may not be marked. Ensure that answer booklets are labeled with the correct question number.

4. Fill in all necessary information on the front cover of each answer booklet.

5. Answers must be written in ink only. Pencil workings will not be marked.

6. All questions must be answered.

7. The use of a non-programmable calculator is permitted.

8. No abbreviations are to be used. Abbreviations will not be marked.

9. A recommended time allocation has been provided for each question. Manage your time effectively.

10. Please note that this question paper does not contain the ‘required’ section. You have 10 minutes to familiarize yourself with the information contained in this question paper and thereafter you will be provided with a separate sheet with the ‘required’ section. You may only start writing after you have received the ‘required’ section.
Question 1 (30 marks: 45 minutes)

Special Shellfish Licence

You are the auditor-in-charge (AiC) of Ocean Harvest Limited (Ocean Harvest), which is a growing company in the seafood industry.

Ocean Harvest Limited operates several fishing vessels and is responsible for ensuring that all seafood available for sale to consumers is certified sustainable seafood. The directors of Ocean Harvest were pleased to discover on 2 January 2015, that the company had been successful in obtaining a special license from the Department of Agriculture, Forestry and Fisheries that allowed them to capture shellfish. The shellfish license would allow Ocean Harvest to supply consumers with a variety of shellfish which is in great demand. The cost of this special shellfish license is R500 000. No other company will be able to obtain a similar shellfish license, as the Department of Agriculture, Forestry and Fisheries will only issue one, in an attempt to control and sustain the shellfish population and deter excessive shellfish being caught.

This shellfish license is valid for a period of five years, following which it will be up to the Department of Agriculture, Forestry and Fisheries to decide who will be able to purchase the next such shellfish license. Although Ocean Harvest is sure that it will apply to have this shellfish license renewed for the next five years after the expiry of this current five year shellfish license, it is not yet certain or probable that it would be successful in such a bid, as many seafood competitors tender for this shellfish license. There are no indicators of impairment.

The financial director is away on maternity leave, and the managing director is attempting to finalize the financial records for audit purposes. The managing director, would like to expense the cost of the special shellfish fishing license as this is a once off payment in the current year and should not have any effect on future years.

Investment Property

Ocean Harvest owns several freezer warehouses that it uses for various purposes, such as resale, leasing, and its own use.

On 1 January 2015, Ocean Harvest purchased an old freezer warehouse for R600 000. Legal fees amounted to R40 000. This warehouse is situated in an isolated part of Cape Town, and there is no development anywhere nearby. At the time of the purchase, there had been no property transactions in this area for many years and the possibility of leasing the warehouse to tenants was remote.
Question 1 continued

I&G Limited (I&G), also in the seafood industry, expanded operations into Cape Town and required a freezer warehouse to store their seafood. I&G rented out the old freezer warehouse mentioned above from Ocean Harvest. Ocean Harvest spent R60 000 on 1 November 2016 renovating the old warehouse before renting it out to I&G Limited on 1 December 2015, when the renovated warehouse was available for use. The fair value of the renovated warehouse on this date was R850 000, and the residual value was R810 000.

The freezing airconditioning unit in the old warehouse stopped working and Ocean Harvest replaced it on 1 December 2015. The following costs of the new unit relate:

- Cost of airconditioning freezing unit R 400 000
- Installation costs R 100 000

The freezing airconditioning unit has the same useful life and residual value as the rest of the warehouse. The warehouse has a 10 year useful life and an estimated residual value of R10 000.

The fair value of other investment property owned by Ocean Harvest is as follows:

- 1 January 2015 R 2 000 000
- 31 December 2015 R 2 500 000

The fair values were obtained from a valuation performed by Mr. Fishy Fish, a reliable independent valuator.

The accounting policy of Ocean Harvest is to measure investment property under the fair value model.
Question 2 (50 marks: 75 minutes)

Ignore income tax and deferred taxation. All amounts related to the vehicle include VAT unless otherwise stated.

B4U Ltd (‘B4U’) is a courier company that operates on a cutting edge tracking and trace technology. Due to its excellent reputation, the company has been approached by Zee Limited (‘Zee’) to provide a cash delivery service from Zee’s clients to their 35 cash facilities, where the money is counted, verified, authenticated, sorted and settled using world-class equipment and cash management and reconciliation software.

You have been appointed as a financial accountant at B4U Limited and you currently oversee the TOPP trainee program. The financial year end is 31 December. B4U Ltd is a registered VAT vendor. VAT of 14% is levied by entities classified as VAT vendors (the total invoiced price includes VAT unless otherwise stated).

As a trial run, B4U decided to purchase one vehicle to operate as a cash in transit vehicle to provide a service to Zee. All amounts related to the vehicle include VAT unless otherwise stated. The details of which are as follows:

- A motor vehicle was purchased at a cost of R867 540 on 30 September 2014. This vehicle did not meet the definition of a ‘motor car’ as defined in VAT legislation and therefore the VAT paid may be claimed back from the tax authorities.
- The following significant parts were identified:
  - The engine was allocated a cost of R410 400 and expected to travel 450 000 kms after which, it would have no residual value.
  - The chassis was allocated a cost of R273 600 and had a residual value of nil and a useful life of 5 years.
  - A synthetic laminated armour system had to be purchased for the vehicle at a cost of R171 000. This system will ensure that the vehicle is bullet proof. An installation cost of R11 400 and a testing cost of R1 140 was incurred for this armour system. All these costs were incurred on 30 September 2014. The armour system had a residual value of nil and a useful life of 5 years.
- Due to the high incidence of road fatalities and cash in transit heists, this cash in transit vehicle requires a safety and road worthiness inspection every 3 years in terms of the contract with Zee. This is to ensure that the vehicle meets the safety standards and is in a good working condition.
- The first major inspection was performed on 31 December 2014 at a cost of R171 000 (inclusive of VAT). This was paid for in cash.
- The vehicle travelled 45 000 kms in 2014 and 90 000 kms during 2015.
- Zee was not satisfied with the first inspection and required another inspection to be conducted to ensure that their safety standards were met. This second inspection was conducted on 30 June 2015 at a cost of R23 940 (inclusive of VAT). This was paid for in cash.

B4U Ltd paid salaries of R800 000 in cash during December 2015. Employees tax owing to the tax authority amounts to R250 000. VAT is not levied on salaries.

Dividends of R18 000 were declared during December 2015. Dividends tax is levied at 15% of the dividend declaration.
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Question 1 (30 marks: 45 minutes)

REQUIRED:
Show and reference all workings
Round off to the nearest rand
Ignore taxation

| (a) | The managing director of Ocean Harvest Limited has contacted you to discuss whether or not his treatment of the special shellfish license is correct. Prepare a memorandum to the managing director in which you discuss the recognition, measurement and disclosure of the special shellfish license in the financial statements of Ocean Harvest Limited for the year ended 31 December 2015 in terms of International Financial Reporting Standards. | 22.0 |
| (b) | Prepare the investment property note for the year ended 31 December 2015. Ignore comparatives. Ignore the old freezing unit when preparing the note. | 8.0 |
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Question 2 (50 marks: 75 minutes)

REQUIRED:
Show and reference all workings
Round off to the nearest rand
All amounts related to the vehicle include VAT unless otherwise stated.

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<th>Marks</th>
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<tbody>
<tr>
<td>(a)</td>
<td>Prepare the Property, plant and equipment note for the year ended 31 December 2014 in accordance with IAS 16 Property, plant and equipment. Comparatives and accounting policies are not required.</td>
<td>14.5</td>
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<tr>
<td>(b)</td>
<td>Prepare all journal entries for the year ended 31 December 2015. Remember to show and reference all workings. Ignore current taxation and deferred taxation.</td>
<td>27.0</td>
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<td>(c)</td>
<td>Draft a memorandum to your trainee accountant team discussing with reference to the Conceptual Framework for Financial Reporting, the initial recognition of the first inspection costs incurred by B4U Limited.</td>
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