QUESTION 1 **(25 MARKS)**
[30 MINUTES]

Carmen Ltd made an offer to Zola Ltd on 30 June 2015 to buy only the following assets of Zola Ltd at their respective prices:

	Additional information	**R**
Land	2	4 000 000
Plant and machinery	2	2 300 000
Vehicles (excluding the Land Rover)	1	1 125 000
Trade debtors	3	1 500 000
Inventories (excluding packaging material)	1	750 000
Trade marks		2 250 000
		11 925 000

The purchase price will be settled by issuing 75 000 ordinary Carmen Ltd shares at R180 per share and R2 925 000 in cash.

ZOLA LTD
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	Additional information	**R**
ASSETS		
Non-current assets		
Property, plant and equipment		
Land		3 200 000
Plant and machinery	2	2 000 000
Vehicles	2	950 000
Current assets		
Trade and other receivables	3	300 000
Inventories		1 125 000
Bank		750 000
		8 325 000
EQUITY AND LIABILITIES		
Share capital		
1 500 000 ordinary shares R2 each		3 000 000
Distributable reserve		
Retained earnings		975 000
Non-distributable reserve		
Revaluation	2	1 275 000
Non-current liabilities		5 250 000
Long-term loan (19% p.a. - repayable on 31 December 2016)	4	2 250 000
Current liabilities		
Trade and other payables	5	825 000
		8 325 000

QUESTION 1 CONTINUED

Additional information:

1. The carrying value of the Land Rover and the packing material was R225 000 and R300 000 respectively.

   The Board of directors of Zola Ltd. decided to realise the assets not taken over and to dissolve the company. The following amounts were realised:

Land Rover	R180 000
Packing Material	R150 000
	R330 000

2. Property, plant and equipment comprises of land, plant and machinery, and vehicles.
   - Land is measured using the revaluation model and is not depreciated.
   - Plant and Machinery and Vehicles are measured on the cost model. The following balances were recorded on the 30 June 2015 in respect of the carrying values for these assets

Plant and Machinery	
Cost	R2 250 000
Accumulated depreciation	(R 250 000)
Carrying value	R2 000 000
Vehicles	
Cost	R1 150 000
Accumulated depreciation	(R 200 000)
Carrying value	R 950 000

3. Included in trade and other receivables is R150 000 that relates to loans made to staff members. These loans were collected at a 20% discount when the company was dissolved.

4. The long term loan together with any outstanding interest was repaid. Interest on the loan was not yet provided for on the 30 June 2015. Interest is payable six monthly on 30 June and 31 December.

5. A full and final settlement of R750 000 was made to trade and other payables upon the dissolution of the company.

6. Liquidation costs of R30 000 was incurred and paid in cash

REQUIRED:

a) Prepare the following accounts in the ledger of Zola Ltd **(21)**
   - Liquidation Account
   - Bank Account

b) Calculate how many ordinary Carmen Ltd shares each ordinary shareholders of Zola Ltd will receive on liquidation **(2)**

c) Determine if the Board of Directors decision to voluntarily liquidate Zola Ltd was correct. Motivate your answer. **(2)**

QUESTION 2 **(25 MARKS)**
[30 MINUTES]

You are the senior clerk on the audit of Big Fish Ltd, a company that manufactures pet food. Big Fish Ltd prides itself on the quality of its Financial Statements and the fact that they rigorously comply with International Financial Reporting Standards.

Over the past two years the company has experienced dramatic growth in demand for its products and there is a need to move operations to a larger facility. Management has had plans drawn up for a new factory and is now in the process of raising capital to finance its construction.

In an attempt to raise part of the finance required for the new factory Big Fish Ltd issued 100 000 8% debentures for R150 each on 1 January 2015. Interest on these debentures is payable semi-annually in arrears on 30 June and 31 December each year.

R200 000 of these debentures are redeemable on 31 December 2019 in cash and the balance are converted into 30 000 R1 ordinary shares in Big Fish Ltd.

The market related interest rate of similar debentures is 15%.

You have been provided with the following present value calculations at 1 January 2015 until redemption date:

- Present value of interest payments @ 8% = 4 866 537
- Present value of interest payments @ 15% = 4 118 448.
- Present value of the interest and R200 000 cash redemption value @ 8% = 5 001 650
- Present value of the interest and R200 000 cash redemption value @ 15% = 4 215 487

The fair value of the ordinary shares of Big Fish Ltd is R5 each on 1 January 2015.

The financial manager is uncertain of how he should account for the issued debentures. He has suggested to you that the simplest treatment would be to account for the entire amount as a liability as this would be most favourable from a tax perspective. He also admits that this may not be strictly in line with IFRS but as long as the rest of the financials comply, this really isn't a problem.

REQUIRED:

a) Explain how the financial manager should account for the debentures by discussing the classification, recognition and measurement of the debentures in the financial statements of Big Fish Ltd. **(5)**

b) Provide a detailed discussion on whether or not the comment made by the financial manager regarding the accounting treatment of the debentures is correct and ethical. In providing reasons for your answer, address the fundamental qualitative characteristics of financial statements as well as the objective of general purpose financial reporting, as outlined in the *Framework for Financial Reporting 2010.* **(10)**

c) Prepare all the journal entries relating to the debentures issued for the reporting period ended 31 December 2015 in the accounting records of Big Fish Ltd (interest as well as issue). **(10)**

QUESTION 3 **(75 MARKS)**
[90 MINUTES]

Revenge Ltd, a company operating mainly in the construction, engineering and mining industries has been experiencing a dropping share price owing to the depressed construction industry in South Africa for almost 10 years. The company continued to face challenges in the 2014 financial year. The Board of Directors given the performance of the company has deliberated and concluded that a restructuring is necessary to improve the outlook of the group. You have been appointed as a contractor to assist the group financial accountant with the consolidation process for the 30 September 2015 reporting period. The information relating to the various investments is discussed separately below.

Revenge Manufacturing and Processing (Pty) Ltd (RMP)

On 1 October 2014, Revenge Ltd acquired 100% of the equity of Revenge Manufacturing and Processing (Pty) Ltd (RMP), a leading South African manufacturer of high pressure knife-gate valves that are extensively used in mineral processing. On the acquisition date, the retained earnings balance of RMP amounted to R13 000 000.

At acquisition, the fair value of an item of processing equipment, with a cost price of R11 400 000 and carrying amount of R9 120 000 was estimated to be R9 360 000. The estimated useful life of this equipment was also re-assessed at this date and the originally estimated total useful life of 5 years was considered to still be appropriate. This revaluation was not accounted for in the books of RMP.

On 30 September 2014, Revenge Ltd had as part of its property, plant and equipment properties which the Board of Directors made a decision that it be disposed of as it was part of non-core properties. These properties had a carrying amount of R18 000 000 and a fair value of R19 000 000. It was decided that these properties would form part of the purchase consideration together with an issue of ordinary shares with a fair value of R6 000 000. The total purchase consideration amounted to R25 000 000.

The fair value of all other assets and liabilities were deemed to be equal to their carrying values.

Revenge Mining (RM)

Revenge Ltd paid R6 900 000 to acquire 80% of the issued ordinary shares of Revenge Mining (Pty) Ltd (RM). In terms of the suspensive conditions of the purchase agreement, Revenge Ltd would gain control of RM, effective on 1 October 2009. The assets and liabilities were considered to be fairly valued on this date and the shareholders equity of RM consisted of the following:

Share capital	R150 000
Retained earnings	R7 500 000

As from acquisition date, Revenge Ltd has been providing mining trucks and infrastructure construction services to RM. Revenge Ltd applies a 25% profit margin on the sales price of the mining trucks. Infrastructure construction services rendered to RM in the current year amounted to R750 000. The inventories purchased from Revenge Ltd and recorded in the books of RM were as follows:

QUESTION 3 CONTINUED

2014: R5 000 000 (50% was still unsold at 30 September 2014).
2015: R10 000 000 (50% was still unsold at 30 September 2015. The 2014 inventories were sold during 2015).

Revenge Construction and Engineering (RCE)

Revenge Ltd acquired 80 000 shares in Revenge Construction and Engineering (Pty) Ltd (RCE) at incorporation on 1 January 2011. On 1 January 2015, Revenge Ltd acquired a further 50 000 shares in RCE for R150 000 and since this date Revenge Ltd obtained control over the voting rights of RCE. The assets and liabilities were considered to be fairly valued on this date. The acquisition date fair value of Revenge Ltd's previously held equity interest was R580 000.

RCE'S profit for the year accrued as follows:

	TOTAL	**3 MONTHS**	**9 MONTHS**
Sales	1 320 000	330 000	990 000
Cost of sales	(273 460)	(68 365)	(205 095)
Gross profit	1 046 540	261 635	784 905
Other income (incl. Div Rcvd)	-		
Other expenses	(179 410)	(44 853)	(134 558)
Profit before tax	**867 130**	**216 783**	**650 348**
Income tax expense	(247 130)	(61 783)	(185 348)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**620 000**	**155 000**	**465 000**

Additional information:

1. Revenge Ltd classifies all its equity investments using the cost price method in its separate financial statements.
2. Revenge Ltd accounts for all investments in associates in accordance with the equity method in its consolidated financial statements. Revenge Ltd measured the investment in RCE at cost in terms of IAS27 in its separate financial statements.
3. It is the policy of Revenge Ltd to measure all items of property, plant and equipment annually at their respective fair values in accordance with the revaluation model prescribed in IAS 16 *Property, plant and equipment*.
4. Management elected to measure the non-controlling interest at their proportionate share of the acquiree's identifiable net assets at acquisition date.
5. The company tax rate is 28% and the CGT inclusion rate is calculated at 66.6% thereof.
6. Round off all amounts to the nearest thousand rand.

QUESTION 3 CONTINUED

The condensed financial statements relating to all group companies as at 30 September 2015 are as follows:

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2015				
	REVENGE	**RMP**	**RM**	**RCE**
Sales	4 732 600	2 374 700	6 426 300	1 320 000
Cost of Sales	(3 838 900)	(1 303 300)	(2 347 980)	(273 460)
Gross profit	893 700	1 071 400	4 078 320	1 046 540
Other income (incl. Div Rcvd)	1 900 000	-	-	-
Other expenses	(409 800)	(311 080)	(2 138 720)	(179 410)
Profit before tax	**2 383 900**	**760 320**	**1 939 600**	**867 130**
Income tax expense	(386 349)	(211 290)	(561 088)	(247 130)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1 997 551**	**549 030**	**1 378 512**	**620 000**

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2015				
	RETAINED EARNINGS			
	REVENGE	**RMP**	**RM**	**RCE**
Balance at 1 October 2014	**60 256 449**	**13 000 000**	**16 450 288**	**150 043**
Total comprehensive income for the year:				
Profit for the year	1 997 551	549 030	1 378 512	620 000
Dividend paid (30/09/2015)				(62 000)
Balance at 30 September 2015	**62 254 000**	**13 549 030**	**17 828 800**	**708 043**

STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2015				
	REVENGE	**RMP**	**RM**	**RCE**
ASSETS				
Property, plant and equipment	320 300	6 840 000	15 219 300	210 861
Investment in RMP Ltd at cost	25 000 000	-		
Investment in RM Ltd at cost	6 900 000		-	
Investment in RCE Ltd at cost				
80 000 shares purchased on 1/1/2011	800 000			-
50 000 shares purchased on 1/1/2015	525 000			-
Inventories	12 918 000	666 685	10 000 000	98 265
Trade receivables	10 814 200	1 551 695	2 683 201	239 018
Bank	9 457 800	4 753 900	2 888 299	515 900
Total assets	**66 735 300**	**13 812 280**	**30 790 800**	**1 064 044**
EQUITY AND LIABILITIES				
Share capital (R1 par value shares)	3 000 000	100 000	150 000	200 000
Retained earnings	62 254 000	13 549 030	17 828 800	708 043
Trade payables	1 481 300	163 250	12 812 000	156 001
Total equity and liabilities	**66 735 300**	**13 812 280**	**30 790 800**	**1 064 044**

QUESTION 3 CONTINUED

REQUIRED:

a) Prepare the necessary consolidation pro-forma journal entries to account for the consolidation of **REVENGE MANUFACTURING AND PROCESSING (RMP)** in the consolidated financial statements of the Revenge Ltd group at 30 September 2015. **(15)**

b) Prepare the necessary consolidation pro-forma journal entries to account for the consolidation of **REVENGE MINING (RM)** in the consolidated financial statements of the Revenge Ltd group at 30 September 2015. **(20)**

c) Prepare the necessary consolidation pro-forma journal entries to account for the consolidation of **REVENGE CONSTRUCTION AND ENGINEERING (RCE)** in the consolidated financial statements of the Revenge Ltd group at 30 September 2015. **(25)**

d) Prepare the consolidated statement of profit or loss and other comprehensive income of the **REVENGE LTD GROUP** for the reporting period ended 30 September 2015. **(15)**

Comparatives are not required.

Show all calculations clearly as marks are awarded for these.

HINT: In answering this question perform the workings separately per company.