



UNIVERSITY
OF
JOHANNESBURG

Department of Finance and Investment Management
Financial Operations
ADFM003

LAST ASSESSMENT OPPORTUNITY

9 June 2014

Time: 3 Hours, 20 minutes

Marks: 100

Assessor: Mr Benjamin Mogapi
Internal Moderator: Mrs Melissa McGill
External Moderator : Mr Werner Boshoff

INSTRUCTIONS:

- This paper consists of **11** pages.
- Answer **ALL** questions.
- Start each question on a new page.
- Silent, non-programmeable calculators may be used, unless otherwise instructed.
- Round all calculations to **TWO** decimal places.
- Answers with Tippex or in pencil will not be marked.
- Scratch out open spaces and empty pages. **NO REMARK** will be considered if there are any open spaces.

Question	Topic	Marks	Time
	Reading		
1	Various topics – Multiple Choice	20	20 minutes
2	Short questions – Various Topics	20	36 minutes
3	Long question – Various Topics	30	36 minutes
4	Long Question – Consolidated AFS	30	54 minutes
		100	200 Minutes

Taxation Assumptions:

Unless otherwise specified, only the following rules for taxation of corporate profits will be relevant, other taxes can be ignored:

Accounting rules on recognition and measurement are followed for tax purposes.

- All expenses other than depreciation, amortisation, entertainment, taxes paid to other public bodies and donations to political parties are tax deductible.

Tax depreciation is deductible as follows:

- 50% of additions to Property, Plant and Equipment in the accounting period in which they are recorded;
- 25% per year of the written-down value (i.e. cost minus previous allowances) in subsequent accounting periods except that in which the asset is disposed of;
- No tax depreciation is allowed on land.

The corporate tax on profits is at a rate of 25%.

No indexation is allowable on the sale of land.

Tax losses can be carried forward to offset against future taxable profits from the same business.

Value Added Tax

Country X has a VAT system which allows entities to reclaim input tax paid. In country X the VAT rates are:

Zero rated	0%
Standard rated	15%
Exempt goods	0%

SECTION A

(20 marks)

Question 1

1. Where is employee tax recorded in a set of financial accounts?

- A. Charged to employee costs in the income statement.
- B. Charged to cost of sales in the income statement.
- C. Included as a payable in the statement of financial position.
- D. Included as a receivable in the statement of financial position.

(2)

2. A withholding tax is:

- A. Tax withheld from payment to the tax authorities.
- B. Tax paid less an amount withheld from payment.
- C. Tax deducted at source before payment of interest or dividends.
- D. Tax paid on increases in value of investment holdings.

(2)

3. Which of the following powers is *NOT available* to tax authorities?

- A. Power to review and query filed returns.
- B. Power to detain company officials.
- C. Power to request special returns.
- D. Power to enter and search premises.

(2)

4. Double tax relief is used to:

- A. Ensure that you do not pay tax twice on any of your income.
- B. Mitigate taxing overseas income twice.
- C. Avoid taxing dividends received from subsidiaries in the same country twice.
- D. Provide relief where a company pays tax at double the normal rate.

(2)

5. Which ONE of the following would be regarded as an indirect tax?

- A. Taxes on income.
- B. Taxes on capital gains.
- C. Taxes on inherited wealth.
- D. Sales tax (Value added tax).

(2)

6. Company G makes an accounting profit of R350, 000 during the year. This includes non-taxable income of R25,000 and depreciation of R30,000. In addition, R15,000 of the expenses are disallowable for tax purposes. If the tax allowable depreciation totals R32,000, what is the taxable profit?

A. R323,000
B. R338,000
C. R352,000
D. R362,000

(2)

7. Company M is resident in Country X and makes an accounting profit of R250,000 during the year. This includes depreciation of R45,000 and disallowable expenses of R20,000. If the tax allowable depreciation totals R30,000, what is the tax payable?

A. R66,250
B. R53,750
C. R60,000
D. R71,250

(2)

8. A company had a credit balance brought forward on current tax of R25,000. During the year it paid tax of R27,800. It has a provision for the current year of R28,000. It has increased the deferred tax provision by R5,000. What is the total charge to tax for the year in the statement of comprehensive income?

A. R31,200
B. R33,000
C. R33,800
D. R35,800

(2)

9. Which one of the following statements about IAS 36 *Impairment of assets* are correct?

- (i) Non-current assets must be checked annually for evidence of impairment.
- (ii) An impairment loss must be recognised immediately in the income statement, except that all or part of a loss on a revalued asset should be charged against any revaluation surplus related to the group of asset or the specific individual asset.
- (iii) If individual assets cannot be tested for impairment, it may be necessary to test a group of assets as a unit.

- A. (i) and (ii)
- B. (i) and (iii)
- C. (ii) and (iii)
- D. (i) (ii) and (iii)

(2)

10. Which of the following statements define a finance lease?

- A. A short term hire agreement
- B. A long term hire agreement where the legal title in the asset passes on the final payment
- C. A long term hire agreement where substantially all the risks and rewards of ownership are transferred
- D. A long term hire agreement where the hirer is responsible for maintenance of the assets

(2)

End of Section A

SECTION B

(20 marks)

Question 2.1

AB acquired non-current assets on the 1 April 2013 costing R250,000. AB depreciates all non-current assets at 20% a year on the straight line basis. AB is a resident of country X.

Required:

- A. **Calculate** the deferred tax balance at 31 March 2014, 31 March 2015 as well as the charge to the income statement for the year ended 31 March 2015. (5)
- B. **Prepare** the note in respect of deferred tax as it would appear in the financial statements of H for the year ended 30 April 2015 (5)

Question 2.2

The International Accounting Standards Board (IASB) *Framework for the Preparation and Presentation of Financial Statements (Framework)* defines the elements of financial statements. **Explain** each of the elements, illustrating each with an example.

(10)

End of Section B

SECTION C

Question 3

(30 marks)

The following section consist of **THREE** independent parts.

PART A

PTY LTD purchased a delivery vehicle on 1 April 2010 for R20,000, the expected useful life at the date of purchase was four years. It now appears that the original estimate of the useful life was too short, and the vehicle is now expected to have a useful life of six years, from the date of purchase. All delivery vehicles are depreciated using the straight-line method and are assumed to have a zero residual value.

REQUIRED:

As a trainee management accountant, draft a memo to the transport manager **explaining** whether it is possible to change the useful life of the new delivery vehicle. Using appropriate Financial Reporting Standards, **explain** how the accounting transactions relating to the delivery vehicle should be recorded in the statement of comprehensive income for the year ended 31 March 2013.

(5)

PART B

Intangible Asset

RTY carries out research and development on a continuous basis to ensure that its product range continues to meet customer demands.

The financial director of RTY has kindly requested your assistance as she is unsure if the development costs incurred can be recognised in RTY's financial statements.

REQUIRED:

Write a brief note to the financial director wherein you list the conditions which must be met for recognition of development costs according to **IAS 38 Intangible Assets**.

(6)

PART C

Construction Contract

Geneva Co is a company involved in the building industry and often has a number of major construction contracts which fall into two or more accounting periods.

During the year ended 31 December 2013, Geneva Co enters into three construction contracts as follows:

Description	Lausanne	Contract Bern	Zurich
	R'000	R'000	R'000
Fixed Contract Price	2, 000	2, 000	2, 000
Payments Received	1, 080	950	800
Costs incurred to date	1,000	1,100	640
Estimated costs to complete the contract	600	1,100	1,160
Estimate percentage of work completed	60%	50%	35%

Required:

Show how each contract would be accounted for in the Statement of Financial Position and Statement of Profit and Loss and other comprehensive income of Geneva Co for the year ended 31 December 2013.

(19 marks)

Question 4

(30 marks)

The draft statements of financial position at 31 January 2013 and statements of profit and loss and other comprehensive income for the year ended 31 January 2013 for three entities, Vine, Branch and Fruit are given below:

Statements of Financial Position at 31 January 2013

	Notes	Vine R000	Branch R000	Fruit R000
Non-current Assets				
Property, plant and equipment		2,135	1,155	1,025
Investments:				
790,000 Ordinary shares in Branch at cost	(ii); (iii)	1,500		
332,000 Ordinary shares in Fruit at cost	(iv)	550		
		4,185	1,155	1,025
Current Assets				
Inventory	(v)	1,360	411	123
Trade receivables		1,540	734	142
Cash and cash equivalents		170	75	55
		3,070	1,220	320
Total Assets		7,255	2,375	1,345
Equity and Liabilities				
Equity shares of R1 each		3,900	790	830
Retained earnings		665	495	220
		4,565	1,285	1,050
Non-current liabilities				
Long term borrowings		0	600	0
Current liabilities				
Trade payables		2,690	490	295
		2,690	490	295
Total Equity and Liabilities		7,255	2,375	1,345

Statements of Profit and Loss and Comprehensive Income for the year ended 31 January 2013

	Vine R'000	Branch R'000	Fruit R'000
Revenue	2,200	777	411
Cost of Sales	1,112	456	146
Gross Profit	1,088	321	265
Expenses	221	115	62
Finance cost	102	59	34
Profit before tax	765	147	169
Taxation	145	32	19
Profit for the year	620	115	150

Additional information:

- (i) Vine holds shares in two other entities, Branch and Fruit.
- (ii) Vine acquired 90% of Branch's equity shares on 1 February 2011 for R1,500,000 when Branch's retained earnings were R200,000.
- (iii) The fair value of Branch's property, plant and equipment on 1 February 2011 exceeded its book value by R240,000. The excess of fair value over book value was attributed to buildings owned by Branch. At the date of acquisition these buildings had a remaining useful life of 10 years. Vine's accounting policy is to depreciate buildings using the straight line basis.
- (iv) Vine purchased its shareholding in Fruit on 1 February 2012 for R550,000. The fair value of Fruit's net assets was the same as its net book value at that date. Vine exercises significant influence over all aspects of Fruit's strategic and operational decisions. Fruit declared a dividend of R100,000 during October 2012.
- (v) Vine occasionally trades with Branch. During September 2012 Branch sold Vine goods for R180,000. Branch uses a mark-up of fifty percent on cost. By 31 January 2013 Vine had sold one third of the goods, R120, 000 being included in Vine's closing inventory.
- (vi) No dividends are proposed by Vine and Branch.

Required:

- 4.1. Prepare the Pro-Forma journal entries which must be processed as part of the preparation of the consolidated financial statements for the Vine group of entities for the year ended 31 January 2013, in accordance with the requirements of International Financial Reporting Standards.

(24)

- 4.2. Prepare the journal entries which must be processed to account for the investment in Fruit in the financial statements of Vine for year ended 31 January 2013.

(6)

End of exam.