A Leader in Accounting Education

Accountancy@UJ

RETHINK EDUCATION. REINVENT YOURSELF. UNIVERSITY OF JOHANNESBURG

ACCOUNTING 4 – 2014

FINAL ASSESSMENT OPPORTUNITY
OCTOBER 2014

FIRST EXAMINER:	MS. KR HEATHCOTE	**TIME:**	120 MINUTES
SECOND EXAMINER:	PROF. D. COETSEE	**MARKS:**	100 MARKS
THIRD EXAMINER:	MS. E DU TOIT		

INSTRUCTIONS:

1. This paper consists of **five pages** (including this front page). If your paper does not contain all the pages, please put up your hand so that a replacement paper can be handed to you. There is only ONE (1) question.
2. Answer all the parts of the question.
3. You will have twenty (20) minutes of reading time. Thereafter you will have a hundred and twenty (120) minutes to answer the required section.
4. **No** calculators may be used during the reading time.
5. Calculate the time that you should spend on each question by multiplying the number of marks for each question by 1.2 to determine the time, in minutes, available for each question. Adhere to these time constraints in order to finish the paper in the given time.
6. Delete **all** (even single open lines) open spaces on your answer sheets with pen. Pages on your answer sheets that contain open spaces will be marked as such and those pages will not be eligible for a remark.
7. No tippex or pencil may be used on your answer sheets. Pages on your answer sheets that contain pencil or tippex will be marked as such and will not be eligible for a remark.
8. All the examination regulations of the UJ and the policy document for students of the Department of Accountancy will apply during this assessment.
9. The neatness, disclosure and presentation of your answers will be taken into account when marking your paper.

QUESTION 1 **(100 MARKS)**

You have recently been appointed as a senior accountant at Barnyarders Ltd (hereafter Barnyarders). Barnyarders owns and runs a chain of theatres across South Africa, and is involved in the production and presentation of theatrical plays and events. You found this job opportunity interesting, as you have always been interested in the arts, although your parents wanted you to become an accountant.

You are currently involved with the preparation and finalisation of the financial statements of Barnyarders for the financial period ended 31 December 2013. The Chief Financial Officer of Barnyarders (who qualified as an accountant in 1964), has asked for your assistance seeing as you have recently obtained your Accounting Honours Degree, Cum Laude. He drafted a document (details of which are provided below), which contains information about the transactions.

Acquisition of "Teatro Montecadino"

On 1 January 2013 Barnyarders decided to diversify their business by investing in Teatro Montecadino Ltd (hereafter Teatro) by acquiring 100% of the identifiable assets and liabilities of Teatro in a business combination transaction. The transaction meets the definition of a "business" per IFRS 3 *Business Combinations*. The following information relates to the assets and liabilities that were acquired by Barnyarders on 1 January 2013:

Statement of Financial Position of Teatro Montecadino Ltd as at the reporting date ended 31 December 2012

Assets	**NOTE**	**Carrying Amount**	**Fair Value**
Non-Current Assets			
Property, plant and equipment	1	30 000 000	35 000 000
Investment property		5 000 000	8 000 000
Intangible assets	2	14 000 000	18 000 000
Goodwill	3	10 000 000	???
Current Assets			
Receivables		2 000 000	3 000 000
Inventory		1 000 000	1 800 000
Total Assets		**62 000 000**	
Equity			
Share capital		15 000 000	
Share premium		11 000 000	
Retained earnings		13 000 000	
Liabilities			
Long term loan		19 000 000	20 000 000
Deferred tax		4 000 000	
Total Equity and Liabilities		**62 000 000**	

Additional Information applicable on acquisition date:

1. Included in property, plant and equipment are specialised theatre buildings, purchased on 1 January 2007 for R 20 000 000. Theatre buildings are depreciated over 10 years under the historical cost model, by applying the straight-line method.

2. Excluded from the intangible assets listed above is an amount of R 2 000 000 that had initially been expensed by Teatro as it was internally generated. This intangible asset should however be recognized in the business combination per the recognition criteria of IFRS 3, *Business combinations*.

3. The goodwill arose in 2011 when Teatro acquired AngusAlex (Pty) Ltd.

4. Teatro had a pending court case judgement, regarding the unfair dismissal of a famous actor at acquisition date. Teatro accounted for this as a contingent liability. Investigations with the legal team of Teatro however indicated that a present obligation existed to the value of R 6 500 000, and should form part of the business combination.

5. Legal fees of R 100 000 were incurred by Barnyarders for the Teatro acquisition negotiations.

6. The purchase agreement stipulated that consideration for the acquisition will be settled by an upfront payment of R 15 000 000 on 1 January 2013 in cash. Barnyarders will also issue 1 000 000 (R15 par value) ordinary shares to Teatro on 1 January 2013. In terms of the agreement, Barnyarders will pay a final cash amount of R 6 000 000 on 1 January 2014.

7. Share issue costs of R 300 000 were incurred for the acquisition of Teatro.

8. The fair value of a Barnyarders ordinary share on 1 January 2013 was R 20 per share.

Production of "The Lion King Returns"

Barnyarders has been working on their next big production, "The Lion King Returns", starring the famous Marybeth Rousso as "Mufasa", Krysta Heather, a lessor known actress as "Scar", and Zakeer Alliwal as "Timon".

The directors of Barnyarders legally registered a copyright over this production in its name for an amount of R 2 500 000 (excluding VAT) on 1 March 2013. The **copyright** documentation states that Barnyarders has the exclusive right to perform the production for the next 30 years. Other production companies may obtain the right to showcase this production from Barnyarders for an undisclosed royalty fee amount.

Theatre tickets are sold for R 259 each (VAT inclusive). "The Lion King Returns" will be performed twice a month (the first showing on the first weekend and the second showing on the last weekend of each month) for a period of two years. The first showing was on the first weekend of July 2013, and the first two shows were sold out. The theatre can accommodate 300 seats. The manager of the theatre has indicated to you that actual attendance of the showings dropped by 4% every month for the current financial year. This trend is expected to continue until the end of the two years. After the two years, Barnyarders's intends to sell the rights to host the production to other companies, from which Barnyarders will earn royalties.

Barnyarders has a published policy of **refunding** the full ticket price to any unsatisfied patrons within 30 days after the showing. The artistic director (who has 50 years' experience in the industry) expects on average a maximum of 2% unsatisfied patrons who will request a refund per showing. The refund period for the two December showings was still open at year-end, but no actual refunds for these shows had been requested by 31 December 2013.

Lease of sound equipment

On 1 January 2011, Barnyarders purchased sound equipment for R 285 000 (including VAT and paid for in full, in cash) for the Biddy-Holly production. The equipment was purchased with the intention to be used during the performances in New York (qualifying purpose for VAT), however, it was discovered the very next day, that the equipment would be damaged if used in the USA, due to differences in voltage of the power grids. The CFO was very annoyed that the buyers had "wasted precious money", and instructed them to make sure that the item gets sold without a loss immediately, or to "make another plan". Luckily, one of the Biddy-Holly actors, Aviccii, was also a part-time disc-jockey (DJ) and offered to lease the sound equipment from Barnyarders immediately, for the same amount of R 285 000. He did not however have any cash to buy the equipment on that date, so entered into an agreement whereby he would pay the amount owing, off over a three year period. The agreement further makes no mention of any residual value at the end of the lease term.

As agreed on 2 January 2011, Barnyarders leased the sound equipment, with an economic life of three years, to Aviccii for a period of three years. Three instalments of R 128 984 each are payable annually, in arrears, on 31 December. Barnyarders is **not** considered a dealer, and has also financed the VAT portion of the purchase price for Aviccii. The lease is an Instalment Credit Agreement for VAT purposes. Wear and tear on the sound equipment has been listed in Practice Note 19 by SARS, and written off at 33.33% per year.

"Biddy-Holly" reward scheme

During 2010, Barnyarders premier production, "Biddy-Holly", was showcased. This production ran for a record duration, and even for one sold-out month on Broadway in New York. Much positive publicity was gained by Barnyarders through this show, and the company decided to reward the cast of the show (consisting of 20 employees) with share appreciation rights (SAR's) in lieu of bonuses, for their hard work and commitment. Each of the 20 cast members was granted 200 share appreciation rights on 1 July 2011, on condition that they remain in the employ of Barnyarders for the next two years.

By the end of 2011, one member of the cast had left, and it was expected that six more would leave by the end of June 2013. Two members of the cast left during 2012, and it was expected that three more would leave by the end of June 2013. It turned out that only one member of the cast left in the first half of 2013, and half of the remaining cast members exercised their share appreciation rights on the day they vested. By 31 December 2013, the remaining share appreciation rights had not yet been exercised. Barnyarders calculates the value of the liability using the SAR fair value at relevant dates. Cash amounts paid out to employees who exercise their SAR's are equal to the intrinsic values on payout dates.

Table of values of the share appreciation rights at relevant dates:

Date	Fair value of SAR R	Intrinsic value of SAR R
1 July 2011	50	45
31 December 2011	55	51
1 July 2012	60	58
31 December 2012	70	67
1 July 2013	77	75
31 December 2013	80	79

General employee bonus scheme

Mads Wesley is Barnyarders' Human Resources director. She maintains that in order to improve employee retention in the performing arts industry, an employee participation interest in the growth of the business is necessary. Barnyarders introduced a scheme in January 2013 whereby each of the 700 employees were granted the choice to receive cash equal to the value of 300 shares, or 350 preference shares. This was conditional on the employees remaining in the employ of Barnyarders for a minimum of four years. Furthermore, if the preference share option is chosen, the shares must be held for at least five years after the vesting date. On 1 January 2013 (when the grant was made), the fair value of a Barnyarder preference share was R 80. By year end it had increased to R 82. It was estimated that the grant date fair value of the equity instrument alternative was R 68 per preference share.

Additional general information applicable to Barnyarders

- The company applies International Financial Reporting Standards
- VAT is levied at 14% and Barnyarders is a registered VAT vendor
- Income tax is levied at 28%
- Assume a nominal before-tax discount rate of 12% where relevant
- Round all and any calculations off to the closest Rand