



UNIVERSITY  
OF  
JOHANNESBURG

## **DEPARTMENT OF ACCOUNTANCY**

**(Auckland Park Campus)**

### **ACCOUNTING 3AB**

**REK3AB0/REK3B01/ACC03B/ACC3AB0**

## **FINAL ASSESSMENT OPPORTUNITY**

**NOVEMBER 2016**

**ASSESSORS:** MR G BARNES  
MS Z PATEL  
MS B MADIKIZELA

**INTERNAL MODERATOR:** MR M VAN WYK

**EXTERNAL MODERATOR:** MS I VAN ZIJL

**TIME:** 150 MINUTES

**MARKS:** 125

- 
- THE ASSESSMENT OPPORTUNITY CONSISTS OF 3 QUESTIONS AND 7 PAGES (front page included).
  - SILENT NON-PROGRAMMABLE CALCULATORS ARE ALLOWED.
  - SHOW ALL CALCULATIONS.
  - START EVERY QUESTION AT THE TOP OF A PAGE.
  -

**QUESTION 1**

**(20 MARKS)**  
**(24 MINUTES)**

Tool-rite Limited is a company incorporated in the Republic of South Africa that manufactures rugged industrial tools for resale both locally and abroad.

Tool-rite Ltd has enjoyed rapid growth in recent years. In an effort to finance the further expansion of its production facility in Durban, management resolved to issue debentures to the public.

At 30 June 2016, the reporting date the following balances appeared in the books of Tool-rite Limited:

Property, plant and equipment	1 500 0000
Investment in compulsory redeemable preference shares	3 000 000
Trade receivables	6 900 000
Bank	1 932 000
Finance lease creditors	5 310 000
Tax payable (SARS)	1 800 000

Super-Grow (Pty) Limited is an investor company that has decided to purchase debentures in Tool-rite Limited.

On 1 July 2016 Super-Grow (Pty) Limited purchased 2 500 10% R375 debentures in Tool-rite (Pty) Limited at a price of R330 per debenture. The debentures are redeemable on 30 June 2018 at par value.

Transaction costs amounted to R4 500. Interest is payable annually on 30 June. The effective interest rate has been correctly calculated to be 11,94%.

Super-Grow (Pty) Ltd intends to keep their investment to maturity date and has the ability to do so. Super-Grow (Pty) Ltd has a reporting date of 30 June.

**REQUIRED:**

- a) Classify all of the items in the above trial balance of Tool-rite Ltd as financial assets/liabilities or non-financial assets/liabilities. **(6)**
- b) Journalise all the transactions (including cash transactions) relating to the purchase of the debentures for the two reporting periods ended 30 June 2017 and 30 June 2018 as they would appear in the general journal of Super-Grow (Pty) Ltd. **(14)**

**QUESTION 2**

**(33 MARKS)**  
**[40 MINUTES]**

You are the senior accountant at WeFightCrime Ltd, a company providing security services to most of the suburbs in Johannesburg. As you have recently attended a few IFRS update workshops, you have gained a substantial amount of understanding regarding IFRS 15 *Revenue from Contracts with Customers*. The managing director, Mr Diyani, has therefore asked you to assist with the revenue recognition requirements for WeFightCrime Ltd for the 2016 financial year.

The company sells specialised alarm systems to the client. The system operates such that a signal is sent to a control room as soon as the alarm is triggered at the clients' premises. The control room immediately contacts the armed response vehicle team and provides the details of the premises that may require security assistance. The response vehicle team is dispatched and takes no longer than 5 minutes to respond to the premises. The armed response vehicles also patrol the suburbs looking out for any suspicious activity and respond immediately should there be a need.

Clients enter into a contract with WeFightCrime Ltd and are charged the following for the system sold and the services provided:

<b>Service Provided</b>	<b>R</b>	<b>Additional Information</b>
Alarm System	6 500	1
Installation and Linkage of alarm system to control room	1 500	1
Vehicle Armed response service <b>per month</b> irrespective of the number of visits	350	2

**Additional Information:**

1. The alarm system, installation and armed response are sold separately on a regular basis. The client has to make a once off payment for the alarm system and the installation and linkage once the system is successfully installed. The installation and linkage is an integral part of the alarm system as the system will not operate without the specialised linkage technology used to signal the control room once the alarm is triggered.
2. The client is expected to pay for the armed response service annually in advance to WeFightCrime Ltd. Should the client cancel the services/contract, they will receive a refund for the proportional months for which the services are not performed.
3. A client may choose to only take the alarm system with the installation and linkage in which case the alarm will be triggered "scaring off" the intruders but the vehicle armed response service will not be performed. The control room will still contact the client informing them that the alarm is triggered.

**QUESTION 2 (CONTINUED...)**

**(33 MARKS)**  
**(40 MINUTES)**

**REQUIRED**

Write a **report** to the managing director, Mr Diyani, explaining the following:

a) The performance obligations you have identified for WeFightCrime Ltd to the client **and** support your identification by referring to *Step 2: Identifying the performance obligations* of the revenue model in IFRS 15: *Revenue from contracts with customers*. (15)

b) The revenue recognition for each performance obligation identified in a) above. (15)

Presentation marks (3)

**Please note:**

- You **do not** have to use the 5 step **theory approach model** in answering the question.
- You may include journal entries to support your answer.

**QUESTION 3**

**(72 MARKS)**  
**[88 MINUTES]**

Waterworx (Pty) Ltd (hereafter Waterworx) is a leading manufacturer, distributor, wholesaler and retailer of products utilised in the conveyance of water, gases and fluids with a 31 January year-end. In 2009, the directors of Waterworx with the aim to strategically acquire product agencies, local skills in the area of control valves and valve actuation as well as to earn the reputation of a reputable manufacturer, wholesaler and distributor of building supplies, approved the following transactions:

- On 1 June 2010, an 80% interest in ValveTec (Pty) Ltd (hereafter VTec) was acquired for R15 000 000. At this date the retained earnings balance of VTec was R12 555 350. On the acquisition date, Waterworx made the accounting policy choice to measure the non-controlling interest at its fair value of R2 615 990.
- On 1 February 2012, a 100% share in Waterhouse Technologies (Pty) Ltd (hereafter WTEC), was acquired for R1 000 000. At this date there was no retained earnings as this was a start-up company.
- On 1 April 2016, a 40% equity interest in MyTec (Pty) Ltd (hereafter MTEC) was acquired for R210 000 and the retained earnings amounted to R200 571. Since the acquisition date, Waterworx has exercised significant influence over the financial and operating decisions of MTEC. Income and expense accrue evenly throughout the year.

The following condensed financial statements are provided:

<b>STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2017</b>				
	<b>WATERWORX</b>	<b>VTEC</b>	<b>WTEC</b>	<b>MTEC</b>
<b>ASSETS</b>				
Property, plant and equipment	27 566 008	14 243 201	292 327	581 078
Investment in VTec at cost	15 000 000	-		
Investment in WTEC at cost	1 000 000		-	
Investment in MTEC at fair value	210 000			-
Inventories	21 721 961	15 675 750	117 739	130 987
VTec Loan	4 058 574	-	-	-
Trade Receivables	144 153	2 143 154	128 908	87 172
Bank	126 072	475 390	117 703	68 769
<b>Total assets</b>	<b>69 826 769</b>	<b>32 537 495</b>	<b>656 676</b>	<b>868 006</b>
<b>EQUITY AND LIABILITIES</b>				
Share Capital	5 000	1 000	1 000	253,270
Retained Earnings	69 602 090	26 301 800	444 902	406 787
Trade Payables	219 679	2 176 120	210 774	207 949
Waterworx Loan	-	4 058 574	-	-
<b>Total equity and liabilities</b>	<b>69 826 769</b>	<b>32 537 495</b>	<b>656 676</b>	<b>868 006</b>

QUESTION 3 (CONTINUED...)

(72 MARKS)  
(86 MINUTES)

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR 31 JANUARY 2017				
	RETAINED EARNINGS			
	WATERWORX	VTEC	WTEC	MTEC
Balance at 1 February 2016	69 167 682	26 001 829	150 288	200 571
<b>Changes in equity for 2017</b>				
Total comprehensive income for the year:				
Profit for the year	434 408	299 971	294 614	242 908
Dividend paid (31/01/2017)				(36 692)
<b>Balance at 31 January 2017</b>	<b>69 602 090</b>	<b>26 301 800</b>	<b>444 902</b>	<b>406 787</b>

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JANUARY 2017				
	WATERWORX	VTEC	WTEC	MTEC
Sales	4 890 196	3 871 775	4 404 958	3 466 928
Cost of Sales	(3 966 735)	(3 133 999)	(3 595 677)	(2 825 662)
Gross profit	923 460	737 776	809 281	641 266
Other income	103 330	-	-	-
Other expenses	(423 446)	(321 150)	(400 094)	(303 894)
<b>Profit before tax</b>	<b>603 344</b>	<b>416 627</b>	<b>409 187</b>	<b>337 372</b>
Income tax expense	(168 936)	(116 655)	(114 572)	(94 464)
<b>Total comprehensive income for the year</b>	<b>434 408</b>	<b>299 971</b>	<b>294 614</b>	<b>242 908</b>

**Additional information:**

- Due to the recent downturn of the economy and credit crunch resulting in a significant increase in market interest rates and a more improved, more durable, and less costly piping materials for the conveyance of water being developed in the market. Waterworx requires a recent model of machinery to manufacture this improved piping materials as compared to the machinery currently held by the company.

Waterworx purchased the machinery for R345 000 from VTec on 1 January 2017. VTec applies a 25% mark up on the cost of all inventories sold. Depreciation on equipment is provided according to the straight-line method at 15% per year. Waterworx classifies the equipment as property, plant and equipment whilst VTec classifies the equipment as inventories.

- Waterworx classifies the investment in VTec and WTec at cost in accordance with IAS 27: *Separate Financial Statements*.
- Waterworx classifies the investment in MTec Ltd under IFRS 9 in its separate financial statements and fair value adjustments are recognised in a mark-to-market reserve through other comprehensive income. The fair value of the investment in MTec is considered to be equal to the carrying amount of the investment.

**QUESTION 3 (CONTINUED...)**

**(72 MARKS)  
(86 MINUTES)**

4. The share capital of all companies in the Waterworx group consists of ordinary shares with a par value of R1.00 per share.
5. The company tax rate is 28% and the CGT inclusion rate is calculated at 66.6% thereof.

**REQUIRED:**

- a) Provide the pro-forma consolidation journal entries (**excluding the intragroup transactions**) as at 31 January 2017 to correctly account for the consolidation of **VTec** into the Waterworx Group.  
**(20)**

**Please Note: Narrations and correct statement references must be provided.**

- b) Provide the pro-forma consolidation journal entries as at 31 January 2017 to correctly account for the consolidation of **WTec** into the Waterworx Group. **(5)**

**Please Note: Narrations and correct statement references must be provided.**

- c) Disclose the investment in **MTec**, in the consolidated financial statements of the Waterworx Group for the reporting period ended 31 January 2017 in accordance to IFRS 12: *Disclosure of Interests in Other Entities*. **(18)**

**Please Note: All calculations must be provided as marks will be awarded for these.**

- d) Present the statement of comprehensive income of the Waterworx Group for the reporting period ended 31 January 2017 to comply with the minimum requirements of IFRS. **(29)**