QUESTION 1 **(75 MARKS)**
[90 MINUTES]

TuneMach Ltd (hereafter TuneMach) is a recording company that specialises in music streaming services. In a recent effort to expand its market share, TuneMach has made a number of acquisitions of smaller technology-rich streaming services that are aligned with the parent company's objectives.

The following trial balance extracts for TuneMach and its subsidiaries are provided for the period ended 31 December 2017:

	TUNEMACH LTD	**SINGSONG LTD**	**JAMZ LTD**
ASSETS			
Trade Receivables	55 900	39 000	218 750
Property Plant and Equipment	293 800	637 000	1 406 250
Inventory (01 January 2017)	8 307	44 819	50 000
Right of use asset (PPE) (01 July 2017)	-	340 000	-
Bank	39 520	11 050	13 500
Investment in SingSong (56 000 shares)	283 400	-	-
Investment in Jamz (240 000 shares)	980 000	-	-
LIABILITIES			
Long term lease liability	-	346 684	-
Trade Payables	37 232	51 085	75 000
Other Loans	58 500	41 600	375 000
EQUITY			
Share Capital (100 000/80 000/300 000)	130 000	104 000	275 000
Retained Earnings (01 January 2017)	455 195	188 500	725 000
Mark-to-Market Reserve (Jamz Ltd) 31 December 2017	65 218	-	-

REVENUE AND EXPENSES	**TUNEMACH LTD**	**SINGSONG LTD**	**JAMZ LTD**
Revenue	1 072 500	507 000	800 000
Cost of Sales	766 000	362 143	372 500
Dividends Received	14 625	-	-
Depreciation	39 000	54 340	29 000
Admin Expenses	93 600	6 500	70 000
Other Operating Expenses	105 300	32 500	78 500
Finance costs on long term lease (Server – right of use asset)	-	17 875	-
Income tax	70 252	9 420	52 400
Dividends Paid	-	5 000	-
Gain on sale of PPE (P/L)	-	-	375 000

QUESTION 1 (CONTINUED)
ADDITIONAL INFORMATION (SINGSONG)

1. Since TuneMach's acquisition of SingSong Ltd (hereafter SingSong) on 1 May 2017 (at a consideration of R283 400), the parent company was able to use its marketing experience to grow SingSong's average monthly sales by 15%.
2. SingSong adds a 40% markup on the cost of sales as a profit margin.
3. Administration expenses is a new class of expenses that only came about after the acquisition of SingSong by TuneMach. These expenses were incurred evenly throughout the year.
4. Other operating expenses were incurred evenly throughout the year.
5. As part of a capacity expansion project, SingSong leased an advanced, high-speed server with a cost of R340 000 and a useful life of 7 years. The lease commenced on 1 July 2017 and would expire on 30 June 2022 where after ownership would pass to SingSong.
6. It is group accounting policy to provide for depreciation on the straight line basis over the useful life of the assets.
7. TuneMach classified its investment in SingSong in terms of IFRS9 *Financial Instruments* in its separate financial statements and recognises any fair value adjustments in a Mark-to-Market Reserve (other comprehensive income). There has been no movement in the fair value of SingSong since acquisition.
8. TuneMach elected to measure the non-controlling interest in SingSong at their fair value of R95 000 at 1 May 2017 in terms of IFRS3 *Business Combinations.*
9. Assume a Capital Gains Tax (CGT) of 66%.

ADDITIONAL INFORMATION (JAMZ LTD)

10. TuneMach paid R900 000 for a shareholding in Jamz Ltd on 1 Jan 2015. At the time, Jamz owners' equity was made up of the following:

Share Capital (300 000 issued shares)	R275 000
Retained Earnings	R437 500

11. Jamz earned a profit of R250 000 for the period ended 31 December 2017.
12. On the date of acquisition, and independent valuer was used to determine the value of land and buildings included on the asset register of Jamz. The valuer determined that a certain plot of land with a carrying amount of R625 000 had a market value of R875 000. The revaluation had not been recorded in the books of Jamz. Group accounting policy states that land and building should be revalued on an annual basis.
13. The plot of land was sold on 30 June 2017 for a consideration of R1 000 000.
14. TuneMach classified its investment in Jamz in terms of IFRS9 *Financial Instruments* in its separate financial statements and recognises any fair value adjustments in a Mark-to-Market Reserve (other comprehensive income).
15. In the previous financial year, a fair value adjustment relating to Jamz of R75 000 was made. There was no adjustment made prior to the 2017 period as there had been no significant movement in the fair value of Jamz.
16. TuneMach elected to measure the non-controlling interest in Jamz at the fair value of R192 500 at acquisition in terms of IFRS3 *Business Combinations*.
17. Assume a Capital Gains Tax (CGT) of 66%.

QUESTION 1 (CONTINUED)
REQUIRED

a) Prepare the pro-forma journal entries required to eliminate the investment in SingSong Ltd at acquisition date in the consolidated financial statements of TuneMach Ltd for the reporting period ended 31 December 2017.

Note: Clearly show any calculations required to prepare the journal. VAT and Deferred Tax may be ignored. **(25)**

b) Prepare the pro-forma journal entries required to eliminate any fair value adjustments for Jamz Ltd including any deferred tax implications in the consolidated financial statements of TuneMach Ltd for the reporting period ended 31 December 2017. **(11)**

c) Prepare all pro-forma journal entries related to the revaluation and subsequent disposal of the plot land belonging to Jamz Ltd including any deferred tax implications in the consolidated financial statements of TuneMach Ltd for the reporting period ended 31 December 2017. **(9)**

d) Prepare the consolidated statement of profit or loss and other comprehensive income for TuneMach Ltd for the reporting period ended 31 December 2017. **(30)**

Note

- VAT may be ignored.
- All calculations to be rounded to the nearest rand.
- Journal narrations are required.