

QUESTION 3

(45 MARKS)
[54 MINUTES]

PART A

(30 MARKS)
[36 MINUTES]

Hou-so-aan Ltd (a wholesaler) acquired a controlling interest in Sal-weer Ltd (a manufacturer) on 30 June 2015, when the latter's equity consisted of the following:

	R
Ordinary share capital (R1-shares)	1 000 000
8% Preference share capital (R1-shares)	1 000 000
Replacement reserves	100 000
Accumulated loss	(300 000)

Hou-so-aan Ltd's shareholding percentage in Sal-weer Ltd remained unchanged since 30 June 2015. Management assessed that there were sufficient future taxable profits available for the accumulated loss at acquisition date to be deemed recoverable in terms of IAS 12 *Income Taxes*. Retained earnings at 1 July 2016 amounted to R20 000. Profit for the year ended 30 June 2017 amounted to R120 000. The fair value of the investments in Sal-weer Ltd is equal to the cost thereof. On 30 June 2017 Sal-weer Ltd declared a preference dividend. The dividend was paid to the shareholders that were registered on 15 July 2016. No ordinary dividend was declared or paid during the current reporting period.

The abridged financial statements of the two companies at 30 June 2017 are as follows:

STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2017	HOU-SO-AAN LTD	SAL-WEER LTD
ASSETS		
Non-current assets – Property, plant and equipment	1 250 000	2 780 000
Investment in Sal-weer Ltd at fair value		
800 000 Ordinary shares of R1 each	575 000	-
400 000 8% Preference shares of R1 each	375 000	-
Current assets	1 200 000	700 000
Inventories	500 000	250 000
Trade receivables	450 000	450 000
Bank	250 000	-
Total assets	3 400 000	3 480 000
EQUITY AND LIABILITIES		
Share capital		
Ordinary shares of R1 each	1 000 000	1 000 000
8% Preference shares of R1 each	500 000	1 000 000
Distributable reserves		
Replacement reserves	300 000	100 000
Retained earnings	1 200 000	140 000
Total equity	3 000 000	2 240 000
Long term loan	-	240 000
Current liabilities	400 000	1 000 000
Trade payables	400 000	680 000
Bank overdraft	-	320 000
Total equity and liabilities	3 400 000	3 480 000

QUESTION 3 (CONTINUED)

(45 MARKS)
[54 MINUTES]

REQUIRED:

Present only the consolidated statement of financial position of Hou-so-aan Ltd and its subsidiary at 30 June 2017 to comply with International Financial Reporting Standards (IFRS).

Please note:

- Show all calculations clearly
- Comparative figures and notes are **not** required. **(30)**

PART B

(15 MARKS)
[18 MINUTES]

On 1 January 2016 D-Bent-R Ltd issued 100 000 12% debentures of R10 each for total proceeds of R1 000 000. The interest is payable annually in arrears. Each debenture is compulsory convertible into 4 ordinary shares on 1 January 2028. The market related interest rate for similar debentures without conversion rights is 10% per annum.

D-Bent-R Ltd's accounting policy states that all financial liabilities are subsequently measured at amortised cost, using the effective interest rate method.

One of D-Bent-R Ltd's accounting clerks performed a present value calculation of the debentures. The calculation was performed correctly as follows:

$$\begin{aligned} \text{PMT} &= \text{R}120\,000 \\ \text{N} &= 12 \\ \text{I} &= 10 \\ \text{FV} &= 0 \end{aligned}$$

Therefore PV = R817 643

REQUIRED:

- a) Provide the journal entries (including cash transactions) required to account for the issue of the debentures in the records of D-Bent-R Ltd for the year ended 31 December 2016. **(9)**

Notes:

- Show all calculations clearly, as marks will be awarded for them.
- Round all **final** calculated amounts off to the closest Rand.

- b) Identify the following for accounting purposes as either being a financial asset **or** a financial liability, and provide the category under which it would fall:

- i) Trade receivables
- ii) Long term loan from ACB Bank
- iii) Investment in municipal bonds with a fixed maturity date. **(6)**