UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

Financial Accounting 3B

SUBJECT CODE: FAC33B3/FAC3BB3

Final Assessment Opportunity 2017

Date: November 2017

Time: 180 minutes **Marks: 100**

Assessors: S Adam
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Internal Moderator: T Mkhumbeni
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INSTRUCTIONS:
This paper consists of 10 pages (including the cover page).
Answer all questions. **Show all calculations and workings clearly.**
Start each question on a new page in your answer book.
Silent, non-programmable calculators may be used.
Where applicable, round all calculations to the nearest Rand.

Question	Topic	Marks	Time
1	Theory	10	18 minutes
2	Cash Flow	20	36 minutes
3	EPS and Financial Instruments	10	18 minutes
4	Consolidations and Financial Statement Analysis	35	63 minutes
5	Consolidation – Statement of Changes in equity	25	45 minutes
		100	**180 minutes**

Question 1 **(10 marks)**

PART A

1. A potential ordinary share is:
   A. An ordinary share that has not been paid
   B. A preferential share
   C. An authorized, but not issued ordinary share
   D. A financial instrument which may entitle the holder to ordinary shares

2. Diluted EPS can be equal to Basic EPS, but not higher.
   A. True
   B. False

3. Which of the following is included in the adjustment of net income to obtain cash flow from operating activities
   A. Accounts payable
   B. Prepaid expenses
   C. Inventory
   D. All of the above

4. The change in retained income (SOCIE) is affected by which of the following?
   A. Payments of dividend and dividends received
   B. Net income and payments from share issue
   C. Net income and payment of dividends
   D. None of the above

5. In the consolidated Statement of financial position, what balance should appear in relation to dividends payable?
   A. All dividends payable
   B. All dividends payable to entities outside the consolidated entity
   C. The dividends payable related to post-acquisition profits only of all entities within the group
   D. The dividends payable related to pre-acquisition profits only of all entities within the group
   E. Dividends relating to non-controlling interest

6. It is assumed that control exists if the parent company has more than 50% of the ordinary (equity) shares of the subsidiary therefore giving them more than 50% of the voting rights. Which of the following circumstances can still lead to control existing even though the shareholding of the parent is below 50%?

   A. The power to govern the financial and operating policies of the entity under statute or an agreement.
   B. The power to appoint or remove the majority of the members of the board of directors.
   C. The power to cast the majority of the votes at meetings of the board of directors.
   D. All of the above
   E. A and B

7. Cash investments are included as part of Cash and cash equivalents when?

   A. When held for short-term cash commitments and not for investments or other purposes
   B. Have a maturity of less than12 months
   C. Have maturity of 3 months or less
   D. A and B
   E. A and C

8. The method adopted in combining the separate financial statements of entities in a group form to form a set of consolidated financial statements is:

   A. Set-off all assets and liabilities and recognise a single net investment
   B. Line-by-line addition of the elements of the financial statements
   C. Combine all assets and liabilities of the parent and subsidiary/ies into one net assets item and combine all profits and losses into one profit or loss item
   D. Line-by- line recognition if the elements of the financial statements that existed at acquisition date

9. Which of the following events requires no adjustment to the prior period's EPS calculations
   A. Share split
   B. New share issue
   C. Share capitalization/bonus share issue
   D. Share consolidation

10. **In two points, explain the difference between liquidity and solvency.**

<u>Question 2</u> **(20 marks)**

PART A **(8 marks)**

The following information relates to the cash flow statement and notes of Lala Ltd for the financial year ended 31 December 2016. **Each scenario must be considered independently.**

1. Lala sold an item of property, plant and equipment for R200 000, resulting in a profit on disposal of R20 000. The company received R150 000 of the selling price on the date that the asset was sold; the remaining R50 000 is to be paid in January 2017 and has been included in accounts receivable balance as at 31 December 2016.

2. Lala Ltd bought 200 000 R10 10% debentures on 1 July 2016. Interest is payable annually in arrears on 30 June until the redemption of the debentures on 30 June 2021. An effective interest rate of 12.05% applies.

REQUIRED:

Your answer for both 2.1 and 2.2 should indicate whether the transaction will be shown as a cash inflow or cash outflow, and within which category of the cash flow statement the transaction will appear.

2.1 Discuss how scenario 1 would be treated in the preparation of the cash flow statement for the financial year ended 31 December 2016. (5)

2.2 With respect to the acquisition of the debentures and the related interest, discuss and calculate the amounts that will be included in the cash flow statement of Lala for the year ended 31 December 2016. (Scenario 2). (3)

PART B **(12 marks)**

Please note that PART A and PART B are not related.

Extract of Statement of Financial Position as at 31 December 2015

	2015	**2014**
	R	R
Buildings: cost: Note 3	4 000 000	2 800 000
Inventory : Note 2	4 700 000	3 100 000
Accounts payable	4 100 000	4 800 000
Accrued operating expenses	230 000	150 000
Prepaid operating expenses	75 000	50 000

Extract of Statement of Comprehensive Income for the year ended 31 December 2015

	2015
	R
Sales	17 000 000
Cost of sales	8 000 000
Net operating costs : Note 1	750 000

Note 1:
Net operating costs include:
1. Interest received of R150 000
2. Depreciation expense of R310 000
3. Bad debt expense of R10 000

Note 2:
During the year the company capitalized R640 000 operating costs to inventory. These costs are not included in the Statement of Comprehensive income.

Note 3:
Charlie Limited revalues it's building every two years. The first revaluation cycle was in the current year and resulted in a revaluation deficit of R300 000.
Charlie Limited acquired all buildings for cash.

REQUIRED:

2.3 Calculate the cash paid to suppliers' amount that would appear on the cash flow statement of Charlie Limited for the year ended 31 December 2015 (8)

2.4 Prepare the investing activities section that would appear on the cash flow statement of Charlie Limited for the year ended 31 December 2015 (4)

Question 3 **(10 Marks)**

Diggers (Pty) Limited ("Diggers") is in the mining industry. They have 50 000 class A ordinary shares in issue on **31 December 2016**. The following information has been provided about the entity:

Extract from the statement of profit or loss for the reporting period ended 31 December 2016

	2016
Profit before finance costs	800 000
Income tax expense	(224 000)

Due to the downturn in the economy, the directors of the entity have decided to amend the capital structure. They achieved this by doing the following:

- On 1 March 2016 Diggers bought back 60 000 class A shares for R5.00 each.
- On 31 December 2016, there was a share consolidation of one class A share for every four held.
- On 1 January 2016, 10 000 class B (Preference shares) were issued for R95 000. They are redeemable at the option of the shareholders. These shares pay a coupon of 12% per annum. A similar instrument would incur an effective interest rate of 15% per annum.

A recently graduated accounting intern calculated the basic earnings per share as R11,52. As his senior, you've been requested to review his work to ensure that he's calculated the figure correctly.

REQUIRED:

3.1 Re-calculate the earnings per share figure of Diggers (Pty) Limited for the reporting period ended 31 December 2016.

SHOW ALL WORKINGS

[10]

Question 4 **(35 marks)**

Louis (Pty) Ltd acquired 78 000 Class A shares in Button (Pty) Ltd on 31 March 2016 for R220 000. On this date Louis had 400 000 Class A shares in issue and Button had 120 000 Class A shares in issue.

Their respective financial statements for the reporting period ended 31 March 2017 were as follows:

Statement of Financial Position for the reporting period ended 31 March 2017:

	Louis(Pty) Ltd	**Button (Pty) Ltd**
Property, plant and equipment	750 000	220 000
Investment in Button	240 000	-
Loan to Button	100 000	-
Inventories	337 500	245 000
Bank	25 200	2 500
	1 452 700	467 500
Share capital	550 000	150 000
Retained earnings	840 000	174 000
Loan from Louis		100 000
Trade and other payables	62 700	43 500
	1 452 700	467 500

Extract from Statement of Profit or Loss and Other Comprehensive Income for the reporting period ended 31 March 2017:

	Louis (Pty) Ltd	**Button (Pty) Ltd**
Gross Profit	344 000	362 400
Other Income	42 000	20 600
Other Expenses	(92 000)	(219 000)
Finance Costs	(60 000)	(10 000)
Interest Income	10 000	-
Profit before tax	244 000	154 000
Tax	(34 000)	(45 000)

Additional Information:

1. The Investment in Button (Pty) Ltd is measured at fair value through profit and loss. All fair value adjustments are included in Other Income in the Statement of Profit or Loss. At the date of acquisition, Button (Pty) Ltd had a Share capital of R150 000 and Retained Earnings of R 65 000.

2. Interest is payable on the Loan to Button (Pty) Ltd at a rate of 10% per annum. The interest for the year was paid and correctly recorded. The loan is repayable after 10 years.

3. No dividends were declared by Button (Pty) Ltd for the reporting period ended 31 March 2017.

REQUIRED:

4.1 Prepare the pro-forma journal entries for the Louis Group as at 31 March 2017. (9)

4.2 Prepare the consolidated Statement of Profit and Loss for the Louis Group for the reporting period ended 31 March 2017. (11)

4.3 Comment on the liquidity of Louis (Pty) Ltd in comparison with Button (Pty) Ltd for the reporting period ended 31 March 2017 by means of applicable ratios. (9)

4.4 Comment on the profitability of Louis (Pty) Ltd in comparison with Button (Pty) Ltd for the reporting period ended 31 March 2017 by means of applicable ratios. (6)

Question 5 **(25 marks)**

Potty Designs (Pty) Ltd ("**Potty**") is a manufacturer of bathroom accessories. They manufacture and fit custom-designed bathrooms for clients.

On 1 July 2014, **Potty** paid R1 450 000 to acquire 60% of the shares in Scents (Pty) Ltd ("**Scents**"). Scents is a company that specialises in creating customised air fresheners. The assets and liabilities of Scents were fairly valued on this date.

On the date of acquisition, the financial statements of **Scents** showed the following credit balances:

Share capital	R 300 000
Retained earnings	R2 200 000
	R2 500 000

The following is an extract from the accounting records of Scents on 30 June 2017:

	Scents	**Potty**
Debits		
Property, plant and equipment	2 522 000	?
Debentures in Airoma (Pty) Ltd	268 000	-
Investments in shares at fair value	220 000	1 600 000
Trade receivables	210 000	?
Bank	60 000	?
Inventories	240 000	?
Dividends declared and paid	50 000	80 000
	3 570 000	?
Credits		
Share capital	300 000	700 000
Retained earnings (1 July 2016)	2 660 000	800 000
Trade payables	130 000	?
Profit after tax	480 000	900 000
	3 570 000	?

Additional information:

- On 1 July 2015, Scents sold a truck to Potty for R360 000. The truck had a carrying amount of 240 000. Potty depreciates all of its motor vehicles on a straight line basis over a four (4) year period to a zero residual value.
- Scents recognised a revaluation surplus of R30 000 on its buildings for the year ended 30 June 2017.
- The investment in Scents is the only investment that Potty has. No fair value adjustments were recognised in prior years.

- Scents does not own more than 10% of the shares in any of the companies in which it has invested.

REQUIRED:

5.1 Prepare the consolidated Statement of Changes in Equity of the Potty Group for the reporting period ended 30 June 2017 as far as the information permits.

Ignore all tax effects.
Show **ALL** workings, including the Analysis of Owner's equity.

[25]