



<b>FACULTY/COLLEGE</b>	College of Business and Economics
<b>SCHOOL</b>	School of Accounting
<b>CAMPUSES</b>	APK and SWC
<b>MODULE NAME</b>	Accounting 3AB
<b>MODULE CODE</b>	ADIA001, S3PACQ1, ACC3AB0, REK3AB0, REK3A01, ACC03A3
<b>SEMESTER</b>	First Semester
<b>ASSESSMENT OPPORTUNITY, MONTH AND YEAR</b>	Assessment Opportunity 3 June 2019

<b>ASSESSMENT DATE</b>	25 June 2019		
<b>ASSESSORS</b>	Mr. G Barnes Mrs. B Madikizela Mrs. Z Patel Ms. TP Shavhani		
<b>MODERATOR</b>	Mr. M van Wyk		
<b>DURATION</b>	37 Minutes reading time 150 Minutes writing time	<b>TOTAL MARKS</b>	125

<b>NUMBER OF PAGES OF QUESTION PAPER (Including cover page)</b>	9
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## INSTRUCTIONS

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- This is a closed-book assessment.
  - The assessment consists of **4 questions**. Answer each question in a separate book.
  - Read the questions carefully and answer only what is required.
  - Number your answers clearly and correctly as per the question paper.
  - Write neatly and legibly on both sides of the paper in the answer book, starting on the first page.
  - Silent non-programmable calculators are allowed
  - Show all your calculations clearly.
  - If pencil or tippex is used in the answer sheet, it will not qualify for a re-mark
  - Scratch out all open spaces and empty pages. Should this not be done your paper will not qualify for a re-mark
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**QUESTION 1**

**(35 MARKS)**

**READING TIME: [10.5 MINUTES]**

**WRITING TIME: [42 MINUTES]**

Exquisite Limited (Exquisite) manufactures and sells curtains since its inception on 1 January 2014. After extensive market research management Exquisite decided to add a new product and service offering that would include the manufacture and sale of blinds as well as maintenance and alterations to existing curtains as from 1 April 2018. The following transactions took place during the reporting periods ended 31 December 2017 and 31 December 2018.

**Transaction 1**

Exquisite's assets consists of land, buildings and production machinery. All assets are initially measured at cost. Subsequently, land is measured on the revaluation model while all other assets are measured on the historical cost model.

***Land***

Land was purchased on 1 January 2014 at a cost of R1 581 250 (including VAT). In line with policy, on 1 January 2017, a sworn appraiser revalued land for the first time and it was noted to be worth R1 350 000 (excluding VAT). During the reporting period ended 31 December 2018, land was revalued and noted to be valued at R1 435 000 (excluding VAT).

***Production Machinery***

During October 2018, a severe storm had hit Gauteng and one of the industrial sewing machines were damaged. The following information relates to the sewing machine

Cost	R1 121 250 (including VAT)
Accumulated depreciation (1 January 2018)	R 292 500

On 1 November 2018 the sewing machine was repaired and the fair value less cost to sell and value in use on the sewing machine were reliably estimated at R550 000 (excluding VAT) and R585 000 (excluding VAT) respectively. The remaining useful life of the machine was estimated as 4 years on that date. The residual value is also estimated to be zero on 1 November 2018.

**Transaction 2**

Big Shows (a theatre events company) had previously purchased its stage curtains from Exquisite. Having heard about the new service offerings, Big Shows entered into a maintenance contract with Exquisite for a period of 18 months on 1 June 2018. Big Shows paid the full contract price of R569 250 (including VAT) on 1 June 2018 and in terms of the contract Exquisite would provide a routine maintenance on Big Shows stage curtains for an 18-month period. The terms of the contract stipulate that no other company would need to re-perform the maintenance after Exquisite has completed the monthly maintenance.

**QUESTION 1 (CONTINUED)**

**(35 MARKS)**

**READING TIME: [10.5 MINUTES]**

**WRITING TIME: [42 MINUTES]**

**Transaction 3**

One of Exquisite's first customers, Mr. Sithole, approached Exquisite on 1 June 2018 to manufacture blinds for one of his new offices. As Mr. Sithole did not have available funds he and management of Exquisite met and the following were the contract conditions proposed:

- Blinds would be manufactured and delivered to Mr. Sithole on 1 July 2018.
- Blinds for 30 standard size windows would be delivered and installed in the new building.
- The blinds would be sold on credit to Mr. Sithole at R6 325 (excluding VAT) **per blind**.
- Total payment for the blinds would be due on 1 July 2021 **due to financial difficulties Mr Sithole is experiencing**.

Management of Exquisite had considered the following prior to meeting with Mr. Sithole:

- The manufacturing of the blinds could be completed within the one month time-frame as they were standard sized windows and no customisation was required.
- The present value of these blinds were correctly calculated at R3 808.27 (excluding VAT) **per blind**.

**Additional Information**

- Land is not depreciated.
- Production machinery is depreciated on the straight line method over a useful life of 10 years.
- Exquisite has not had a significant reversal of revenue based on any estimates made in previous years.
- All transactions that exceed 12 months are expected to include a financing component that is deemed significant.
- Market related interest rates may be assumed to be equivalent to the prime lending rate of 10.25% per annum.
- Customers that have conducted previous business with Exquisite are deemed less risky and where applicable hold a credit risk of 9.5% per annum.
- Assume a VAT rate of 15% where applicable and is levied at earlier of invoice or payment.
- You may ignore any deferred tax implications.

**QUESTION 1 (CONTINUED)**

**(35 MARKS)**

**READING TIME: [10.5 MINUTES]**

**WRITING TIME: [42 MINUTES]**

**REQUIRED**

- a) Journalise the transactions that relate to land and production machinery in **transaction 1** in the general journal of Exquisite Ltd for the reporting periods ended **31 December 2017 and 31 December 2018**. **(10)**

**Please note:**

- Journal dates and statement references **are** required
- Journal narrations are **NOT** required
- Show all calculations as marks may be awarded thereto

- b) With reference to IFRS 15 *Revenue from Contracts with Customers*, discuss **when** revenue should be recognised in Exquisite Ltd's accounting records for **transaction 2 and transaction 3**. **(12)**

- c) With reference to IFRS 15 *Revenue from Contracts with Customers*, journalise the transactions that relate to **transaction 2 and transaction 3** in the general journal of Exquisite Ltd for the reporting periods ended **31 December 2018**. **(13)**

**Please note:**

- Journal dates and statement references **are** required
- Journal narrations are **NOT** required
- Show all calculations as marks may be awarded thereto

**QUESTION 2**

**(30 MARKS)**

**READING TIME: [9 MINUTES]**

**WRITING TIME: [36 MINUTES]**

You are the financial manager of Ingwe Properties Ltd (Ingwe), a property development company that specialises in low cost residential offerings. In the prior financial year, you employed a new accountant whose responsibilities included the passing of selected journal entries relating to leases.

During the interim audit in the 2019 financial year, the auditors brought the following journal entry (processed by the new accountant) relating to the prior financial year to your attention:

30 Dec 2018	Dr Lease Expense	521 740	
	Dr Vat	79 260	
	Cr Bank		600 000
<b><i>Accounting for annual lease payment on earth moving equipment</i></b>			

This was the only journal passed in order to account for a contract with Mzansi-Movers (Pty) Ltd for the exclusive right to use a bulldozer for a period of 5 years (useful life 6 years).

The cost price of the bulldozer is R 2 300 000 (Including VAT) and the contract was signed on 1 January 2018 the same date that the bulldozer made available for use by Ingwe. In terms of the agreement, ownership of the bulldozer will pass to Ingwe at the end of the lease term and 5 lease payments of R600 000 are to be made annually in arrears with the first payment due on 30 December 2018.

Although the contract does not explicitly state the interest rate, the Incremental borrowing rate of Ingwe was correctly calculated at 9.56%. According to the VAT Act, VAT on the contract can be claimed upfront at the start of the lease term. The bulldozer is used for taxable supplies in terms of the VAT Act.

The auditors are of the opinion that the above journal processed by the new accountant was incorrect in terms of the requirements of IFRS 16 *Leases*. As the 2018 financial statements had already been authorised and issued, they have requested that you address the matter with the financial director.

**REQUIRED**

Write an email to the financial director in which you present the following 2 items:

- Provide the journals (initial recognition and subsequent measurement) that should have been passed by the new accountant in order to account for the lease transaction **(Including VAT and Deferred Tax Implications)** for the year ended 31 December 2018. Show all calculations clearly. **(18)**
- Prepare the 'Prior period error' note to the Statement of financial position for the period ended 31 December 2019 in order to disclose the above matter in terms of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. **(12)**

**Please Note**

- Show all calculations clearly.
- You may ignore any earnings/diluted earnings per share disclosures

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**QUESTION 3**

**(40 MARKS)**

**READING TIME: [12 MINUTES]**

**WRITING TIME: [48 MINUTES]**

The question consists of three independent parts:

**PART A Provisions and Contingencies**

**PART B Employee Benefits**

**PART C Presentation of financial statements**

**PART A**

**(18 MARKS)**

**READING TIME: [5.4 MINUTES]**

**WRITING TIME: [21.6 MINUTES]**

**Listeriosis: Class action suit against Tiger Brands, Enterprise launched in Johannesburg court**

**Mar 29 2018 11:21 Lizeka Tandwa**

*Attorney Richard Spoor said "We are confident that we can persuade the court to follow this great jurist's decision. Tiger Brands and Enterprise Foods have done terrible harm to the victims of the contaminated food they distributed from their Polokwane factory, to their reputation and to the Enterprise brand."*

*The bacteria infected at least a thousand cases around the country last year. At the beginning of March 183 deaths had already been reported.*

*(<https://www.fin24.com/Companies/Retail/listeriosis-class-action-suit-against-tiger-brands-enterprise-launched-in-johannesburg-court-20180329>; accessed 18 April 2018)*

**REQUIRED**

- a) Assuming that the lawyers of Tiger Brands are of the opinion that the class action is highly probable<sup>1</sup> due to the 183 deaths and at a potential amount of R50 000 per reported death. **Discuss** the identification, recognition and disclosure of the class action for the reporting period ended 30 September 2018. Discussion should be in terms of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and where applicable use the definitions per the 2018 Conceptual Framework. **(16)**

**Please note:** Use the 5 step approach to answering theory questions. **(2)**

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<sup>1</sup> That is, the court will rule in favour of the applicants, i.e. against Tiger Brands.

**QUESTION 3 (CONTINUED)**

**PART B Employee Benefits**

**(16 MARKS)**

**READING TIME: [4.8 MINUTES]**

**WRITING TIME: [19.2 MINUTES]**

Five Cousins (Pty) Ltd is a wine producer in the Western Cape Province with a 31 December year end and who employs 50 farm labourers who pick and clean the grapes. The labourers get paid their wages in cash on a weekly basis at the end of the week. All of the labourers earn R143 per day and are entitled to a certain amount of compensated leave days per year. The labourers have chosen not to belong to a pension fund and have elected to receive one litre of wine per week instead (in addition to the weekly cash pay-out). Details of the wine provided to employees are as follows:

Cost price per litre	R25 (excluding VAT)
Selling price per litre	R30 (excluding VAT)

The company has limited the number of leave days that may accumulate and be carried forward from one financial year to the next, to 14 days. Leave days in excess will be lost by the employee and will not be refunded in any way.

The following details of the provision for leave pay are provided:

Provision for leave pay (B/S) at 31 December 2017	R100 000
Leave paid out to employees during the 2018 year	R60 000

The wages register indicates that the employees are entitled to the following days of leave at 31 December 2018:

<u>Number of employees</u>	<u>Leave days accumulated</u>
35 (pickers below age 30)	10
5 (cleaners)	12
<u>10 (pickers above age 30)</u>	<u>15</u>
<u>50</u>	<u>37</u>

**REQUIRED:**

- a) Recognise (journalise) (also cash transactions) the wages for the last week of December 2018 in the general journal of Five Cousins (Pty) Ltd, if you assume that every labourer worked for five days of the week, and each received their litre of wine at the end of the week as well. Journal descriptions and dates are **not** required. **(5)**
- b) Provide the following T-accounts in the general ledger of Five Cousins (Pty) Ltd for the year ended 31 December 2018 recognising the year's transactions in order to comply with the minimum requirements of the Companies Act and IAS 19 *Employee Benefits*.
- Provision for leave pay (Statement of Financial Position)
  - Bank (Statement of Financial Position)
  - Leave pay expense (Statement of Financial Performance)

Show your calculations clearly.

**(11)**

**QUESTION 3 (CONTINUED)**

**PART C Presentation of financial statements**

**(6 MARKS)**

**READING TIME: [1.8 MINUTES]**

**WRITING TIME: [7.2 MINUTES]**

<b>Statement of Comprehensive Income</b>				
Shoprite Holdings Ltd and its Subsidiaries for the year ended June 2014				
<b>10</b>				
<b>COMPANY</b>			<b>GROUP</b>	
June 2013 Rm	June 2014 Rm		June 2014 Rm	Restated June 2013 Rm
		Notes		
—	—		102 204	92 457
—	—		(80 936)	(73 156)
—	—		21 268	19 301
2 495	2 258	20	2 840	2 607
—	—	21	(1 525)	(1 336)
—	—	22	(2 596)	(2 213)
—	—	23	(7 723)	(7 145)
(20)	(18)	25	(6 550)	(5 822)
2 475	2 240		5 714	5 392
—	—		(9)	(4)
(20)	—	26	3	(31)
2 455	2 240	27	5 708	5 357
161	112		225	259
—	—	28	(461)	(430)
—	—	6	(5)	5
2 616	2 352		5 467	5 191
(53)	(47)	29	(1 727)	(1 576)
2 563	2 305		3 740	3 615

This is an extract from the Annual Financial Statements of Shoprite Holdings Ltd for the reporting period ended 30 June 2014.

**REQUIRED:**

List at maximum six characteristics per the 2018 Conceptual Framework for Financial Reporting that would contribute to the usefulness of financial information as contained in the financial statements.



**QUESTION 4**

**(10 MARKS)**

**READING TIME: [3 MINUTES]**

**WRITING TIME: [12 MINUTES]**

**Inside the Steinhoff saga, one of the biggest cases of corporate fraud in South African business history**

*Several University of Stellenbosch Business School academics look at the inner workings of Steinhoff and what led to its fall*  
June 28, 2018

**BUSINESS PERSPECTIVES ON  
THE STEINHOFF SAGA**

The Steinhoff empire came tumbling down on the evening of 5 December 2017 when the Steinhoff CEO, Markus Jooste, announced that he would step down from his position “with immediate effect” and the Steinhoff board announced that the company had become aware of “accounting irregularities requiring further investigation”. The company appointed PricewaterhouseCoopers to conduct an independent investigation into the alleged irregularities which had originally been identified by Deloitte. These irregularities related to off-balance sheet items and possible misrepresentations of earnings, although the extent and details of exactly what was meant by “irregularities” have yet to be determined.

Over the last few years, suspicions have been aroused by the dizzying pace of Steinhoff’s acquisition drive. What have concerned many observers are the high levels of complexity associated with these acquisitions and the ability of the company to acquire ailing businesses and (nearly instantaneously) show improved results once these businesses have been incorporated into the group.

Soon after Jooste’s resignation, when the implications of the reported “accounting irregularities” at Steinhoff started to sink in, Sygnia Group CEO, Magda Wierzycka, said: “When I looked at the financials ... it took me exactly half an hour to figure out that the structure was obfuscated, that financial items made no sense, that the acquisition spree was not underpinned by any logic and was too frenzied to be well thought out, and that debt levels were out of control.”

**REQUIRED**

Based on the article above and your knowledge of ethics, discuss whether you believe that the decision taken by Steinhoff to misrepresent its financial statements is ethical or not. **(10)**