FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accountancy
DEPARTMENT	Accounting
CAMPUSES	APK and SWC
MODULE NAME	Accounting 3AB
MODULE CODE	REK3AB0/REK3A01/ACC03A3/ACC3AB0/ADIA001/S3PACQ1
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Supplementary Summative Assessment Opportunity / Assessment Opportunity 3 July 2019

ASSESSMENT DATE	18 July 2019	**SESSION**	08:00 – 11:30
ASSESSOR(S)	Mr. G Barnes Ms. B Madikizela Ms. Z Patel Ms. TP Shavhani		
MODERATOR(S)	Mr. M van Wyk		
DURATION	Reading time (37.5mins) Writing time (150 mins)	**TOTAL MARKS**	125

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	**11**

INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- The assessment consists of **5 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

QUESTION 1 **(30 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

Xelor Ltd, a manufacturer of affordable watches was incorporated on 1 July 2013. The following two lease agreements were entered into:

Lease agreement 1:

- On 1 July 2013 manufacturing activities commenced on the leased premises (which consists of land with a factory building). The annual instalments total R198 000 per year (14% VAT included) for five years. The estimated useful life of the premises is 30 years. There is no certainty relating to the renewal of this lease contract. The correctly calculated present value of the future cash flows is R633 470.54 calculated at an effective interest rate of 17%.

Lease agreement 2:

- On 1 July 2013 the board also entered into an agreement to lease a new manufacturing machine for 10 years (the estimated useful life is 12 years). According to the agreement:

  - Xelor Ltd will insure and maintain the machine.
  - Xelor Ltd will be able to purchase the machine at a bargain price of 10% of its market value (as determined at the end of the contract) on expiry of the lease agreement.
  - The effective interest rate of the lease is 17%.
  - The cash price amounts to R644 000 (14% VAT included).
  - The instalments of R138 238 each are payable on 30 June annually commencing 30 June 2014

The board has already decided to purchase the machine on maturity of the lease.

The following extract (1 July 2013 – 30 June 2015) of the correctly prepared amortisation schedule was provided to you.

Date	**Instalments**	**Interest**	**Capital**	**Capital amount outstanding on**
1/7/2013				644 000
30/6/2014	138 238	109 480	28 758	615 242
30/6/2015	138 238	104 591	33 647	581 595

At year end, no journal entries relating to either of the above leases had been made except for the lease instalments paid which were debited to the ‘Lease Instalments paid’ account.

QUESTION 1 (CONTINUED) **(30 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

Xelor Ltd provides for deferred tax using the comprehensive allocation basis. Assume a constant tax rate of 28%.

Depreciation on all machinery is provided on the straight line method. There are no expected residual values.

The lessor and lessee are both registered VAT vendors. The VAT relating to the leased assets may be claimed as input VAT upon inception of the lease agreement.

Round amounts off to the nearest R1. Assume that IFRS16 *Leases* is applicable for the purposes of these transactions and that they qualify for lease accounting in terms of IFRS 16.

REQUIRED

a) Determine how much deferred tax should be provided for, by Xelor Ltd, in terms of *IAS 12 Income Taxes*, in respect of the **lease agreement 2 (machine)** for the reporting period ended 30 June 2014. Use the Statement of Financial Position (balance sheet) approach to show all your calculations **(12)**

b) Journalise the necessary entries to correctly account for lease agreement 1 (land and bulidings) and lease agreement 2 (machine) in the general journal of Xelor Ltd for the reporting period ended 30 June 2014. **(18)**

Please note:

- All deferred tax consequences may be ignored for this part of the question.
- Journal entries should be dated and narrated.
- Show all calculations as marks will be awarded

QUESTION 2 **(30 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

Thermalogic Ltd is a company that produces electric blankets and low cost heaters. As global warming has resulted in a drop of temperatures the demand for their products has increased exponentially over the last 5 years, and the existing factory space proved to be too small to supply all the regions. As a result the company purchased an additional factory building in the North West province.

Factory Building
During the reporting period ended 31 December 2017 and 31 December 2018, the company incurred expenses relating to the North West factory building. The cost of the improvements was R120 000 for the 2017 year and R160 000 for the 2018 year. The factory building will be available for use in 2019. Depreciation on factory building is provided at on the straight-line method over a useful life of 10 years. When preparing the draft financial statements for the current year, management discovered that the cost of the improvements for **both years** had been erroneously charged to other operating expenses instead of correctly capitalising these costs as part of property, plant and equipment.

Delivery Vehicles
Delivery vehicles consist of heavy weighted delivery vehicles and light weighted delivery vehicles. During a management inquiry, it was found that the useful life of heavy weighted delivery vehicles were shorter than the useful lives of light weighted delivery vehicles. Whilst initially both types of vehicles were depreciated over 5 years, the directors decided that a useful life of 4 years would be applied to heavy weighted delivery vehicles from the current year as this would lead to a better estimated useful life for these heavy weighted vehicles. The directors wish the adjustment to depreciation to affect all future years equally.

As at 31 December 2017, the following balances related to **ALL** delivery vehicles:

Cost	760 000
Accumulated Depreciation	304 000
Carrying Amount	456 000

Of the entity's 30 delivery vehicles, 18 were categorised as light weighted delivery vehicles with the remaining being categorised as heavy weighted delivery vehicles. All vehicles were purchased in an auction and the total cost was attributable to all 30 vehicles.

Depreciation for **ALL** the delivery vehicles for the current year (based on the old useful life) amounted to R152 000.

QUESTION 2 (CONTINUED) **(35 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

The draft statement of profit or loss and changes in equity based on the **incorrect allocation of the factory costs** and on the **original estimate** of the vehicle's useful life is provided below:

Thermalogic Ltd
Draft statement of profit or loss for the reporting period ended 31 December 2018

	2018 R	2017 R
Revenue	2 500 000)	1 900 000)
Cost of sales	(1 000 000)	(950 000)
Gross profit	1 500 000)	950 000)
Operating costs	(650 000)	(640 000)
Profit before tax	850 000)	310 000)
Tax expense	(255 000)	(93 000)
Profit for the year	595 000)	217 000)
Other comprehensive income for the year	-	–
Total comprehensive income for the year	595 000	217 000

Thermalogic Ltd
Draft statement of changes in equity for the reporting period ended 31 December 2018

	Total R	Retained earnings R	Share capital R
Balance at 31 December 2016	**2 630 000**	**130 000**	**2 500 000**
Total comprehensive income for the year	217 000	217 000	-
Dividends	(80 000)	(80 000)	-
Balance at 31 December 2017	**2 767 000)**	**267 000**	**2 500 000**
Total comprehensive income for the year	595 000	595 000	-
Dividends	(100 000)	(100 000)	-
Balance at 31 December 2018	**3 262 000**	**762 000**	**2 500 000**

Additional Information
The normal tax rate applicable to the current and previous years is 28%.

QUESTION 2 (CONTINUED) **(35 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

REQUIRED

a) Journalise the transactions to adjust of the depreciation charge based on the directors decision to change the useful life of the heavy weighted delivery vehicles in the general journal of Thermalogic for the reporting period ended **31 December 2018**. **(10)**

Please note:

- Show all calculations as marks may be awarded thereto
- Statement references **are** required
- Journal dates and journal narrations are **NOT** required
- Include any deferred tax journals

b) Prepare the statement of profit or loss of Thermalogic Ltd for the reporting period ended 31 December 2018. **(10)**

Please note:

- Show all calculations as marks may be awarded thereto
- Comparative figures **ARE** required

c) Present only the “Retained earnings” column of the statement of changes in equity of Thermalogic Ltd for the reporting period ended 31 December 2018. **(10)**

Please note:

- Show all calculations as marks may be awarded thereto
- Comparative figures **ARE** required

QUESTION 3 **(30 MARKS)**
READING TIME: [9 MINUTES]
WRITING TIME: [36 MINUTES]

Rainbow Ltd is a company that manufactures and sells various cleaning products and materials. During the year ended 31 December 2016 the following transactions took place.

Transaction 1

- On 1 January 2016, Rainbow Ltd entered into a contract to transfer 100 of the new no squeeze mop to a customer on 31 March 2016. The contract was not cancellable in case of unsatisfactory performance by any of the two parties. The contract required the customer to pay a consideration of R200 per mop in advance on 31 January 2016. The customer paid the consideration on 1 March 2016. Rainbow Ltd transferred the product on 31 March 2016. Assume that any financing element is immaterial for this specific transaction.

Transaction 2

- On 1 June 2016, Rainbow Ltd entered into a contract to transfer 10 cordless carpet vacuums and 10 hand vacuums to a customer in return for a consideration of R10 000 in total. The contract requires that the cordless vacuums be delivered first and states that the payment for the delivery of the cordless vacuums is conditional for the delivery of the cordless carpet vacuum. In other words, the consideration of R10 000 (incl. VAT) is due only after Rainbow Ltd has transferred both the cordless carpet vacuum and the hand vacuums to the customer. It is Rainbow Ltd’s customary business practice to allow a customer to return any faulty vacuums within 7 days of delivery and the customer would receive a full refund. Further, the company uses the expected value method in its estimate. Based on experience, the company estimates 1% of the units sold to be returned within 7 days of delivery.

  The supply of the two types of vacuums, cordless and hand, was considered as separate performance obligations. Their retail value at inception of the contract were as follows:

Cordless carpet vacuum	R650
Hand vacuums	R350

  Rainbow Ltd delivered the cordless carpet vacuums on 30 June 2016 and the hand vacuums on 31 July 2016. The customer settled the consideration due on 5 August 2016 and at this date there were no faulty vacuums returned.

REQUIRED

In each of the transactions above, provide, with reasons, the journal entries that would have been recorded on the relevant dates in the accounting records of Rainbow Ltd for the reporting period ended 31 December 2016 assuming that Rainbow Ltd had early adopted IFRS 15 *Revenue from the contract with customers.* **(30)**

Please Note:

- Provide detailed reasons for the journal entries recorded.
- There is no need to use the 5 step approach of IFRS 15.

QUESTION 4 **(25 MARKS)**
READING TIME: [7.5 MINUTES]
WRITING TIME: [30 MINUTES]

Excerpts of various Enterprise Foods Listeria media statements and articles since outbreak of Listeria

1. CEO statement regarding Enterprise recall – 4 March 2018

"Food safety remains the highest priority at Tiger Brands – where we always place consumers' health and safety above all else. Therefore, we can confirm that we have, with immediate effect, undertaken a full national recall of the affected Enterprise ready-to-eat meat product range," says Lawrence Mac Dougall, Chief Executive Officer at Tiger Brands.

"We are being extra vigilant and cautious as consumer safety remains our highest priority and therefore immediate action is being taken. Additionally, we have suspended operations at both Enterprise manufacturing facilities (Polokwane and Germiston) and have halted supply to trade."

2. **Enterprise Foods Media Statement - 09 March 2018**

We are doing everything we can to get to the root cause of LST6 being found in our Polokwane plant. We have appointed a team of local and international scientific experts. Our Polokwane and Germiston factories remain closed whilst we conduct a deep cleaning process.

He concludes: "We acknowledge and recognise that we are dealing with a national crisis which has impacted customers, consumers and the industry. Tiger Brands wants to be at the forefront of finding a solution."

Notes to editors
To date we have recalled the majority of all products from retail outlet. These were removed with dedicated trucks and are being kept in a quarantine warehouse awaiting disposal by incineration.
We have rolled out a national consumers' communication campaign on radio, print and broadcast media to provide our consumers with information on how to return a product for refund.

We have set up a consumer helpline specifically to assist anyone requiring more information around this recall.

QUESTION 4 (CONTINUED…) **(25 MARKS)**
READING TIME: [7.5 MINUTES]
WRITING TIME: [30 MINUTES]

3. Tiger Brands Listeria Update – 19 March 2018

Test results from February
On Thursday,15 March, Tiger Brands received independent laboratory testing results that confirmed the presence of Listeria monocytogenes in the physical plant environment at the Enterprise Foods Factory in Polokwane. Our independent testing confirmed the findings of the Department of Health for the presence of ST6 strain of Listeria monocytogenes in the environment. In addition, there was a positive detection of Listeria ST6 (LST6) on the outer casing of two samples. Whether this presence of LST6 can be said to have caused any illness or death remains unclear at present and testing in that regard is an ongoing process likely to take time.

Test results from March
Tiger Brands continued extensive testing of our products and production facilities beyond Polokwane and Germiston, and discovered the presence of very low levels of Listeria at the Pretoria meat processing factory. These results have been sent for whole genome sequencing to determine whether ST6 is present or not at the facility. The results will only become available in due course.

Although the level detected was well within the range of government standards for the presence of Listeria, Tiger Brands has taken the precautionary measure of closing the factory and has instituted a product recall of all Snax products manufactured at the Pretoria factory with immediate effect. In addition, we will be sending samples for genome sequencing to establish the specific strain of Listeria.

Given the suspension of operations at the Polokwane, Germiston and Pretoria sites, which are the primary recipients of the production of the Company's Clayville abattoir, operations at the Clayville abattoir will be wound down with the objective of suspending operations completely at the end of March 2018.

http://www.tigerbrands.com/media/press-releases/
Accessed on 11 April 2018

4. 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)

QUESTION 4 (Continued…) **(25 MARKS)**
READING TIME: [7.5 MINUTES]
WRITING TIME: [30 MINUTES]

REQUIRED

a) **Identify and discuss** the implications that the above, excerpt 1 to 3, would have on the elements of financial statements (Assets Liabilities, Equity, Income and Expenses), from a company perspective, that Tiger Brands will have to consider for the financial reporting period ending 30 September 2018 resulting from the Enterprise Foods Listeria media statement of 9 March 2018. **(8)**

b) Assuming that the lawyers of Tiger Brands are of the opinion that the class action, excerpt 4, is highly probable. That is, the court will rule in favour of the applicants, i.e. against Tiger Brands, **discuss** the accounting treatment of the class action. **(8)**

Please note: Use the 5 step approach to answering theory questions for a) and b). **(4)**

c) **List** the factors a potential investor would consider a priority when deciding whether to invest in the shares of Tiger Brands. **(5)**

QUESTION 5 **(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)**