



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Commercial Accounting
CAMPUS(ES)	SWC
MODULE NAME	Financial Accounting 3A
MODULE CODE	FAC33A3/FAC3AA3
SEMESTER	First
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Summative Assessment Opportunity May 2019

ASSESSMENT DATE	31 May 2019	SESSION	
ASSESSOR(S)	Mrs S Adam Mr L Khumalo Ms L Mbhalati		
MODERATOR)(Internal)	Ms B Madikizela		
MODERATOR)(external)	Mr M Malinga		
DURATION	3 hours	TOTAL MARKS	100

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	9
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INFORMATION/INSTRUCTIONS:

- 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 closest Rand.
- A VAT rate of 15% is applicable.

Question	Topic	Marks	Time
1	Concepts and pervasive principles	10	18 minutes
2	Property, Plant and Equipment	35	63 minutes
3	Intangible Assets	12	21 minutes
4	Borrowing costs	10	18 minutes
5	Financial Instruments	14	25 minutes
6	Leases	19	35 minutes
		100	180 minutes

Question 1**[10 Marks]**

Aggressive (Pty) Ltd “Aggressive” is an events management company. It has recently been discovered that the company has been paying bribes to government officials in order to obtain contracts.

It is estimated that these payments have come to a figure of R500 000. Management has tried to make everything look as normal as possible so they have capitalised these payments.

A junior bookkeeper has questioned whether this treatment is correct. Your services, as an IFRS for SMME’s expert, have been sourced in order to resolve this. Alternatively, management has suggested that these amounts should not be recorded at all.

REQUIRED:

- 1.1 Discuss whether Aggressive (Pty) Ltd’s capitalisation as an asset of these bribe payments is correct. **(7)**
- 1.2 With reference to the qualitative characteristics of financial information, discuss whether it would be appropriate for management not to record these payments at all. **(3)**

Question 2**[35 Marks]**

Logan (Pty) Ltd (Logan) is a steel manufacturer with a 31 December financial reporting period date. The directors have requested your assistance in how to deal with some of their assets.

Factories

On 1 June 2016 they acquired a factory with a useful life of 20 years for R1 725 000 (incl. VAT). It was initially available for use on 1 October 2016 but was only brought into use on 1 January 2017. The residual value of the factory was estimated to be R500 000 (excl. VAT). During the 2017 year the directors estimated a new residual value of R125 000 (excl. VAT) and a remaining useful life of nine years from 31 December 2017.

On 31 December 2017, the directors realised that their factory was applying outdated processes and was not as profitable as those of competitor companies. On this date the factory could be sold for R1 000 000 (excl. VAT), net of any disposal costs. If they decided to keep using the factory they would generate cash flows with a net present value of R900 000.

Vehicles

Logan has three trucks. Two of these were purchased for R250 000 (excl. VAT) each and brought into use on 30 June 2016 while the third was purchased for R275 000 (excl. VAT) and brought into use on 1 January 2018. Vehicles are depreciated on the straight-line method over a useful life of ten years with a R25 000 (excl. VAT) residual value.

Logan uses the revaluation model to measure its vehicles. On 1 January 2018, the gross replacement value for the first two trucks was determined to be R300 000 (excl. VAT) each.

REQUIRED:

2.1 Prepare the property, plant and equipment reconciliation note for Logan (Pty) Ltd for the reporting period ended 31 December 2018.

(35)

Comparatives are required.

Total column is not required.

A VAT rate of 15% is applicable.

Ignore deferred tax implications for this question.

Question 3**[12 Marks]**

The following is an extract from the opening balances to the financial statements of Tokyo (Pty) Limited ("Tokyo"), a home industry store, as at 1 July 2018.

	Software	Customer Lists	Right to use a 3D Printer
Cost	255 000	100 000	?
Accumulated amortisation	(170 000)	?	?
Carrying amount	85 000	?	?

Additional information:

- Software was purchased on 1 July 2016. On that date, the estimated useful life was 3 years and a residual value of R nil. On 30 June 2019, the entity estimated that the software could still be used for a few more years. The remaining useful life on 30 June 2019 was determined to be 3 years.
- Customer lists were acquired in a separate acquisition on 1 January 2015 for R100 000. Estimated useful life—five years from date of acquisition. A competitor entered the market in the current year and management became concerned about the value of these lists. The value in use could not be determined, however the fair value was calculated on the 30 June 2019 to be R20 000 and disposal costs was estimated to be R2 000.
- During the current year, the company spent a significant amount of cash on research with regard to the right of use of 3D printers in the business, in order to remain ahead with the rapid changes in technology brought on by the fourth industrial revolution. Tokyo spend R55 000 on research to determine the feasibility of the 3D printer in the business and thereafter purchased the right to use a 3D printer from a reliable supplier for R500 000 on the 1 March 2019. Management believes this right has an indefinite useful life, and therefore was unable to determine an exact useful life.

REQUIRED:

3.1 Provide the Intangible Assets note to the financial statements of Tokyo (Pty) Ltd for the reporting period ended 30 June 2019 in compliance with section 17 of IFRS for SMEs. **(12)**

Comparatives and total column are **not** required.

Question 4**[10 Marks]**

Risana (Pty) Ltd is a manufacturing company based in Randburg. The company has been growing rapidly and the directors decided to build a new plant. The company's financial reporting period end date is 31 December.

The plant was financed as follows:

- The company obtained a loan of R2 000 000 from ABC Bank on the January 2018 at 2% per month, the interest is payable annually on 31 December. The capital is repayable in full in 2020.

Construction of the plant started on 01 April 2018, however the preparation of the site started on the 01 March 2018 with a visit to the site by specialist to inspect and prepare the site and make sure it is ready for construction. They were paid R100 000 on the same day. The junior accountant who has just started work at the company is not sure when to start capitalisation as she is not familiar with the requirements of section 24 of IFRS for SME's.

REQUIRED:

- 4.1 Discuss when the capitalisation of borrowing costs should start by applying the requirements as per section 24 of IFRS for SMEs. **(5)**
- 4.2 Prepare the journal entries to account for the interest on the loan in the books of Risana (Pty) Ltd for the reporting period ended 31 December 2018. **(5)**

Question 5**[14 Marks]****PART A**

On the 31 January 2018, Mfumo Ltd purchased 125 000 shares cash in Open Ltd. Transaction costs amounted to R11 000 and were paid immediately in cash. The shares are to be valued at fair value through profit and loss. The price per share during the year was as follows:

- 31 January 2018 : R10.00
- 30 December 2018 : R10.50
- 31 December 2018 : R11.30

On 15 December 2018, Open Ltd declared a dividend of 60cents per share. The dividends were paid on 31 January 2019. Open Ltd had a total of 500 000 issued shares as at 31 December 2018.

REQUIRED:

5.1 Prepare the journal entries to account for the transactions in the books of Mfumo Ltd for the reporting period ended 31 December 2018. **(5)**

5.2 Prepare the journal entries to account for the dividends only, in the books of Open Ltd for the reporting period ended 31 December 2018. **(4)**

PART B

Liquid Ltd is a retail company based in Radiokop. The company has a financial reporting period end date of 31 December. During the current year, 2018, the company decided to expand its operations. To fund the expansion, the company issued 100 000 debentures on 01 January 2018 for R8.00 per debenture. The debentures have a principal amount of R6.50 each and a coupon rate of 12% per annum.

The full principal amount is repayable in cash on 31 December 2025. The effective interest rate is 11.0664%. The cost of issuing the debentures amounted to R30 000.

The amortisation table has been **correctly calculated** as follows:

Year ending	Opening Balances	Interest	Payment	Capital balance
31/12/2018	870 000	96 278	- 65 000	901 278
31/12/2019	901 278	99 739	- 65 000	936 017
31/12/2020	936 017	103 583	- 65 000	974 600
31/12/2021	974 600	107 853	- 65 000	1 017 453
31/12/2022	1 017 453	112 595	- 65 000	1 065 048

REQUIRED:

5.3 Give two examples of derivatives. **(2)**

5.4 Present the financial instrument in the financial statements of Liquid Ltd for the reporting period ended 31 December 2018. Comparative figures are required. **(3)**

IGNORE VAT

Question 6**[19 Marks]**

Down and Up (Pty) Ltd manufactures designer play areas for kids. The company has a reporting date of 31 December 2018.

The company leases two machines. These leases were entered into on 1 January 2018 and the machines are available for use on the same day. Details of each lease agreement are given below:

	<u>Lease A</u>	<u>Lease B</u>
Lease term	4 years	4 years
Fair value of machine at start of lease	R60 000	R60 000
Present value of minimum lease payments	R34 500	R59 500
Useful life of machine	10 years	4 years
Lease instalments per annum on 31 December	R8 000	R15 000

REQUIRED:

- 6.1 Classify **Lease A and Lease B** in the financial statements of Down and Up (Pty) Ltd for the reporting period ended 31 December 2018. Provide reasons for your answers. **(6)**
- 6.2 Prepare the journal entries for **Lease B** in the accounting records of Down and Up (Pty) Ltd for the reporting period ended 31 December 2018 assuming an Interest rate implicit in the lease of 10%. **(9)**
- 6.3 Disclose **Lease A** in the financial statements of Down and Up (Pty) Ltd for the reporting period ended 31 December 2018. **(5)**

IGNORE VAT