



FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
CAMPUS(ES)	APK, SWC
MODULE NAME	Accounting 2B
MODULE CODE	ACC02B2/ACT02B2/REK2B01
SEMESTER	Second
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Summative Assessment Opportunity November 2019

ASSESSMENT DATE	14 November 2019	SESSION	12:30 – 15:30
ASSESSOR(S)	MR Z ALLY MS T MAHMOOD MRS C MOENG		
MODERATOR(S)	MS Z PATEL		
DURATION	180min (3 hours)	TOTAL MARKS	120

NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	8
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INFORMATION/INSTRUCTIONS:

- The assessment opportunity paper consists of 3 questions.
- Silent non-programmable calculators are allowed.
- Answer each question in a separate book.
- Read the questions carefully and answer only what is required.
- Show all calculations.
- Answers containing tippex or pencil will not qualify for remarking.
- Cross out open spaces and empty pages.

QUESTION 1**(45 MARKS)
(68 MINUTES)**

Rowdey Ltd is a manufacturer and retailer of leather bags. You have been appointed as the senior accountant of Rowdey and the financial director has requested your assistance in finalising the accounts for the reporting period ended 31 December 2018.

The following appeared in the trial balance of Rowdy Ltd for the reporting period ended 31 December 2018:

	Note	R
Delivery vehicle (Cost)	1	1 500 000
Equipment at carrying amount	2	?
Inventory	3	?
Accounts receivable	4	90 000
Bank	5	120 000

- On 1 January 2016, a delivery vehicle was acquired. Vehicles are depreciated at 25% per annum on the straight line method. This delivery vehicle had become too small for deliveries and on 1 April 2018 management decided to sell the delivery vehicle after the necessary maintenance was completed on the vehicle.

A potential buyer has been identified and the sale is expected to be completed within the next six months. Maintenance was completed on 1 July 2018. A valuation based on the fair value of the vehicle on 1 April 2018 was set at R550 000 (excl. VAT) and on the 1 July 2018 it was estimated at R500 000 (excl. VAT). Costs to sell the vehicle are estimated at R96 000 (excl. VAT). On the 31 December 2018 transfer of the vehicle had still not taken place, and the fair value and costs to sell had not changed from the earlier estimation.

- Equipment used to manufacture leather bags was purchased on 1 May 2017 for R1 480 000 (excl. VAT). Installation cost amounts to R200 000 (excl. VAT). On 31 December 2017 the residual value for 5-year-old similar equipment was R120 000 (excl. VAT). The equipment can be sold for R188 000 (**incl. VAT**) after the remaining 4 years of its useful life.

During the course of the year, management decided to change the depreciation method to better depict the use of the equipment from the reducing balance method at 20% per annum to the units of production method. This type of equipment is usually replaced when the total units produced amounts to 250 000 leather bags.

The following output was recorded:

Reporting period end	Units of leather bags produced
1 May 2017 - 31 December 2017	75 000
1 January 2018 - 31 December 2018	120 000

QUESTION 1 (CONTINUED)

3. Inventories on hand consist of:

	Cost	Net realisable value
	R	R
Raw materials	53 000	57 000
Work in progress	64 500	59 000
Finished products	?	?

3.1 The following information is provided with respect to finished products:

	R/unit
Manufacturing cost	550
Delivery costs to customers	75
Storage cost	5
VAT	18
Abnormal wastage	4
Selling price	?

- 3.2 There were 2 350 units of finished products on hand at 31 December 2018.
- 3.3 The selling agents' commission is 20% of the selling price.
- 3.4 Selling price is marked up 25% on cost.
- 3.5 Rowdey Ltd values its inventories at the lower of cost, measured on the first-in-first-out basis, or net realisable value.
4. Mrs. Ferguson has been one of Rowdey Ltd.'s main clients since the company was formed. Her account has been unpaid for the past 18 months, however the company continued to sell leather bags to her. As at the end of the reporting period the total amount owed by Mrs. Ferguson was R25 000. On the 8 January 2019 an announcement to all Mrs. Ferguson's creditors was made stating she had been declared bankrupt and that a liquidation dividend of 15c to the Rand would be paid for any amounts outstanding.
5. Cash on hand amounted to R15 500. Rowdey Ltd maintains a current account with FRB Bank Limited. As at 31 December 2018, the account with FRB Bank Ltd had a favourable balance of R120 000.
6. A meeting will be held on the 31 March 2019 to authorize the current period's financial statements for issue.
7. Assume a VAT rate of 15% and a tax rate of 28% where applicable.

PLEASE TURN PAGE OVER FOR REQUIRED INFORMATION

QUESTION 1 (CONTINUED)

REQUIRED:

- a) **Disclose the following notes** to the Statement of Financial Position for Rowdey Ltd for the reporting period ended 31 December 2018 to comply with *International Financial Reporting Standards (IFRS)*.
- Property, plant and equipment
 - Inventory
 - Trade and other receivables
 - Change in accounting estimate **(40)**
- b) Present **only the assets section** as it should appear in the Statement of Financial Position for Rowdey Ltd for the reporting period ended 31 December 2018. **(5)**

Please note:

- Only the notes in relation to the assets are required.
- Notes on the **accounting policy** are **not** required.
- Comparative figures are **not** required.
- Shows **all** your calculations clearly.

QUESTION 2**(55 MARKS)****(83 MINUTES)**

You have been presented with the following abridged financial statements of Stewie Ltd and Quagmire Ltd for the reporting period ended 31 December 2019.

STATEMENT OF FINANCIAL POSITION FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2019		
	Stewie Ltd	Quagmire Ltd
ASSETS		
Buildings	2 750 000	1 560 000
Plant and equipment	3 165 000	1 859 500
Cost price	4 545 000	2 480 000
Accumulated depreciation	(1 380 000)	(620 500)
Investment in Quagmire Ltd at fair value:		
160 000 ordinary shares (cost price: R1 800 000)	2 150 000	-
120 000 10% preference shares	305 000	-
Inventories	908 000	335 000
Trade receivables	445 000	268 000
Bank	690 000	96 000
	10 413 000	4 118 500
EQUITY AND LIABILITIES		
R10 - ordinary share capital	6 000 000	2 000 000
R2 - 10% preference share capital		800 000
Mark-to-market reserve	350 000	-
Retained earnings	3 212 000	860 500
Distributable reserve	-	295 000
Trade payables	851 000	163 000
	10 413 000	4 118 500

STATEMENTS OF CHANGES IN EQUITY FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2019			
	Mark-to-market reserve	Retained earnings	
	Stewie Ltd	Stewie Ltd	Quagmire Ltd
Balance at 1 January 2019	300 000	2 328 940	565 870
Profit for the year		1 083 060	459 630
Other comprehensive income	50 000	-	-
Transfer to distributable reserve	-	-	(45 000)
Dividend paid - Ordinary dividend	-	(200 000)	(40 000)
- Preference dividend	-	-	(80 000)
Balance at 31 December 2019	350 000	3 212 000	860 500

QUESTION 2 (CONTINUED)

STATEMENTS OF COMPREHENSIVE INCOME FOR THE REPORTING PERIOD ENDED 31 DECEMBER 2019		
	Stewie Ltd	Quagmire Ltd
Revenue	3 860 250	1 160 000
Cost of sales	(1 675 000)	(315 000)
Gross profit	2 185 250	845 000
Other income	216 000	31 875
Net operating expenses	(897 000)	(238 500)
Profit before tax	1 504 250	638 375
Tax	(421 190)	(178 745)
Profit for the year	1 083 060	459 630

ADDITIONAL INFORMATION:

- On 1 January 2017 Stewie Ltd acquired an interest in the ordinary shares of Quagmire Ltd. On that date the equity of Quagmire Ltd consisted of:

Ordinary share capital (R10 shares)	2 000 000
Retained earnings	125 000
- Since acquisition date, Quagmire Ltd sells inventory to Stewie Ltd at cost plus 25%. On the 1 January 2019, R35 000 of the inventory purchased was still on hand
- Total intra-group sales for the current reporting period ended 31 December 2019 amounted to R435 700. All inventory purchased was sold to third parties during the reporting period ended 2019 i.e. no inventories were on hand as at 31 December 2019.
- On 3 January 2019, the management of Quagmire Ltd sold a vehicle with a carrying amount of R110 000 on that date for R150 000 to Stewie Ltd. Depreciation is written off using the straight line method. The remaining useful life was estimated to be 5 years on date of sale. This profit on the sale was included in the line item "Other income".
- On 1 November 2019, Stewie Ltd purchased 120 000 preference shares for R305 000 from Quagmire Ltd.
- Quagmire Ltd declared and paid ordinary and preference dividends during the current reporting period. Stewie Ltd included their share of the dividends declared and paid by Quagmire Ltd in "Other income".
- Stewie Ltd classified the equity investment in Quagmire Ltd under IFRS 9 in its separate financial statements and recognised all fair value adjustments in other comprehensive income in the mark-to-market reserve.
- It is the accounting policy of Stewie Ltd to measure non-controlling interest in ordinary shares at the fair value on the date of acquisition. At that date the fair value of the non-controlling interest was R432 250.
- Assume that the identifiable asset acquired and the liabilities assumed at acquisition date are shown at their acquisition-date fair values, as determined in terms of IFRS 3, *Business Combinations*.

QUESTION 2 (CONTINUED)

10. You may ignore tax implications

REQUIRED:

- 1.1 Prepare the necessary pro forma consolidation journal entries relating to the **intra-group transactions ONLY** for the reporting period ended 31 December 2019. **(10)**
- 1.2 Prepare the analysis of the owner's equity **of the ordinary shares** of Quagmire Ltd for the reporting period ended 31 December 2019. **(15)**
- 1.3 Prepare the main pro-forma consolidation journals eliminating only Stewie Ltd.'s investment in the ordinary shares of Quagmire Ltd. **(5)**
- 1.4 Prepare the analysis of the owner's equity **of the preference shares** of Quagmire Ltd for the reporting period ended 31 December 2019. **(5)**
- 1.5 Prepare the Consolidated Statement of Comprehensive Income of Stewie Ltd and its subsidiary for the reporting period ended 31 December 2019. **(10)**
- 1.6 Prepare the Consolidated Statement of Changes in Equity of Stewie Ltd and its subsidiary for the reporting period ended 31 December 2019. **(10)**

Please note: Total columns are NOT required.

(55)

QUESTION 3**(20 MARKS)**
(30 MINUTES)

Sweetness Ltd is a listed company specialising in candy and chocolates in South Africa.

The following is an abridged statement of comprehensive income of Sweetness Ltd for the reporting period ended 31 December 2019:

	2019	2018
	R	R
Profit before dividends and tax	5 000 000	4 650 000
Dividends received	275 000	200 000
Profit before tax	5 275 000	4 850 000
Tax expense	(1 477 000)	(1 358 000)
Profit for the period	3 798 000	3 492 000
Other comprehensive income		
Mark-to-Market reserve	-	317 000
Total comprehensive profit for the period	3 798 000	3 175 000

Additional Information

1. The issued ordinary share capital of Sweetness Ltd on 1 January 2018 was 1 500 000 shares of R2 each. On 31 July 2018 the company issued 450 000 shares for cash.
2. On 1 September 2019 a rights issue was made of four ordinary shares for eight ordinary shares held on that date, issued at fair value.
3. On 1 November 2019 the company made a capitalisation issue of two ordinary shares for every five ordinary shares.
4. A preference dividend of R450 000 is payable to the 15% redeemable preference shareholders on 31 July 2019.
5. The accountant of Sweetness Ltd noted on 1 January 2020 that an impairment of R65 000 on a machine was not recorded at year end. This was done in order to overstate the assets of Sweetness Ltd. The financial statements were authorized for issue on 31 March 2020.
6. On 31 October 2019, Sweetness Ltd issued 375 000 12% cumulative redeemable preference shares of R7.50 each. Based on the terms of the contract, Sweetness Ltd has an option to redeem the shares after 5 years when the shares reached their maturity date.

REQUIRED:

- a) Present and disclose earnings per share (EPS) in the financial statements for the reporting period ending 31 December 2019 to comply with the minimum requirements of the Companies Act and IFRS.

(20)