FACULTY/COLLEGE	College of Business and Economics
SCHOOL	School of Accounting
DEPARTMENT	Department of Accountancy
CAMPUS	APK
MODULE NAME	Accounting 200
MODULE CODE	ACC200
SEMESTER	Two
ASSESSMENT OPPORTUNITY, MONTH AND YEAR	Final Assessment, November 2019

ASSESSMENT DATE	16 November 2019	**SESSION**	12:30
ASSESSOR(S)	Prof N Stegmann; Mrs M Malan; Ms U Badal		
MODERATOR(S)	Ms Y Kulik; Ms A Gazi-Babana		
DURATION	188 minutes	**TOTAL MARKS**	125

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

INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- There are 4 questions and you must answer all of them.
- Answer each question on a different coloured paper as indicated by the invigilators.
- 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 and scratch out any open spaced and empty pages.

QUESTION 1 **(15 MARKS)**

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS

Part A **(7 MARKS)**

Snowball Ltd is a South African chocolatier and confectionery company. Snowball Ltd is known for its excellent chocolate truffles and chocolate bars.

On 1 January 2019 Snowball Ltd decided to invest in Sparky Sugar Ltd a company that manufactures a soft sugar jelly sweet, shaped as plump candy in a variety of colours.

Snowball Ltd acquired **all** the assets and liabilities of Sparky Sugar Ltd in a business combination on 1 January 2019. The assets and liabilities meet the definition of a business in terms of **IFRS 3 Business combinations**.

The following information is available:

STATEMENT OF FINANCIAL POSITION OF SPARKY SUGAR LTD AS AT 31 DECEMBER 2018		
	Carrying amounts R	**Fair Values R**
ASSETS		
Property, plant and equipment	200 000	500 000
Intangible assets (meet IAS 38 requirements)	150 000	200 000
Receivables	80 000	120 000
	430 000	
EQUITY AND LIABILITIES		
Share Capital	250 000	N/A
Retained Earnings	120 000	N/A
Long-term loan	40 000	55 000
Payables	20 000	30 000
	430 000	

The purchase consideration for the assets and liabilities is paid as follows:

- R550 000 is paid in cash immediately to the former owners on 1 January 2019.

Additional Information:

Sparky Sugar Ltd expensed development costs incurred of R180 000 in their separate financial statements for the reporting period ended 31 December 2018. The development costs were spent to develop a secret chocolate truffle recipe. The recipe is legally protected and no other company may view or use the secret recipe to produce chocolate truffles. The secret recipe was not recognised by Sparky Sugar Ltd in its separate financial statements as the probability of future economic benefits could not be demonstrated in terms of IAS 38 by Sparky Sugar Ltd at that stage. The fair value of the development costs on 1 January 2019 were R230 000 as determined by an independent valuator.

REQUIRED:

1.1 Discuss according to **IFRS 3 Business Combinations** whether the secret recipe will be recognised as an intangible asset acquired in a business combination. (5)

1.2 Assume that the secret trade recipe is recognised as an intangible asset acquired in a business combination. Discuss at what value the intangible asset should be recognised. (2)

Part B **(8 MARKS)**

Mellow Ltd is the second largest confectionery brand in the world known for its Dairy Milk chocolate, the Crème Egg and Roses selection box, and many other confectionery products. Mellow Ltd has a 31 December reporting date.

Mellow Ltd has held 40% of the issued shares capital of Milky Street (Pty) Ltd since 2015. One voting right is attached to each share. The remaining voting rights are held equally by 6 other shareholders (Including Reggie Ltd). The Articles of Association determines that decisions relevant to the activities of Milky Street (Pty) Ltd are made through a contractual agreement with Reggie Ltd. The contractual agreement grants Reggie Ltd the right to establish operating and capital decisions relating to **all the relevant activities** of Milky Street (Pty) Ltd, including budgets. Reggie Ltd establishes these decisions for its own benefit (i.e. as a principal). There are currently no restrictions over Reggie Ltd's rights in terms of either the shares or the shareholder's agreement.

REQUIRED:

1.3 Discuss which entity controls Milky Street (Pty) Ltd in terms **of IFRS 10 Consolidated Financial Statements.** (8)

QUESTION 2 (40 MARKS)

The following financial statements of P Ltd and S Ltd are presented to you for the reporting period ended 30 September 2019:

STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2019		
	P Ltd R	**S Ltd R**
ASSETS		
Equipment	4 200 000	1 600 000
Investment in S Ltd: 37 500 Class A shares in S Ltd	2 362 500	-
10 000 5% Class B shares in S Ltd	200 000	-
Non-current assets	6 762 500	1 600 000
Inventories	680 000	1 800 000
Trade receivables	557 500	1 600 000
Current assets	1 237 500	3 400 000
Total assets	8 000 000	5 000 000
EQUITY AND LIABILITIES		
Class A share capital (P Ltd: 250 000 shares/S Ltd: 50 000 shares)	4 000 000	2 500 000
5% Class B share capital (P Ltd: None/S Ltd: 25 000 shares)	-	500 000
Retained earnings	1 400 000	1 175 000
Total equity	5 400 000	4 175 000
Long term loan	800 000	-
Non-current liabilities	800 000	-
Trade payables	1 620 000	705 000
Bank overdraft	180 000	120 000
Current liabilities	1 800 000	825 000
Total equity and liabilities	8 000 000	5 000 000

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 SEPTEMBER 2019		
	P Ltd R	**S Ltd R**
Revenue	5 120 000	2 820 000
Cost of sales	(2 300 000)	(770 000)
Gross profit	2 820 000	2 050 000
Other income – Class A dividend from S Ltd	45 000	-
Class B dividend from S Ltd	10 000	-
Other expenses	(1 010 000)	(620 000)
Depreciation on equipment	(480 000)	(320 000)
Profit before tax	1 385 000	1 110 000
Income tax expense	(475 000)	(380 000)
PROFIT FOR THE YEAR	910 000	730 000
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	910 000	730 000

EXTRACT FROM THE STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 SEPTEMBER 2019					
	Class A capital		**5% Class B share capital**	**Retained earnings**	
	P Ltd R	**S Ltd R**	**S Ltd R**	**P Ltd R**	**S Ltd R**
Balance at 1 October 2018	4 000 000	2 500 000	500 000	780 000	530 000
Changes in equity for 2018					
Total comprehensive income for the year	-	-	-	910 000	730 000
Dividend paid – Class A	-	-	-	(290 000)	(60 000)
5% Class B dividend	-	-	-	-	(25 000)
Balance at 30 September 2019	4 000 000	2 500 000	500 000	1 400 000	1 175 000

ADDITIONAL INFORMATION:

P Ltd purchased 37 500 Class A shares in S Ltd at R63,00 per share, as well as 10 000 5% Class B shares at R20,00 per share on 1 October 2017. P Ltd obtained control over S Ltd in terms of **IFRS 10 Consolidated Financial Statements** from 1 October 2017. At that date the only other component of equity in the records of S Ltd was retained earnings which amounted to R240 000. The share capital of both entities has remained unchanged during the period under review.

P Ltd accounted for the investments in S Ltd in its separate accounting records at their cost price.

P Ltd elected to measure any non-controlling interests at fair value at acquisition date. On 1 October 2017 the relevant fair values were as follows:

- Class A shares R63,00 per share
- 5% Class B shares R20,50 per share

The 5% Class B shares have the following rights:

- their dividend payment has priority over that of the Class A shareholders;
- the dividends are cumulative; and
- the shareholders are entitled to receive the return of their investment upon liquidation of the acquiree.

At the **acquisition date** the values of the identifiable assets and liabilities of S Ltd were as follows:

	Carrying amounts in the records of S Ltd R	**Fair value as determined by P Ltd i.t.o. IFRS 3 R**
Equipment	1 700 000	2 000 000
Inventories	380 000	420 000
Trade receivables	1 080 000	1 080 000
Cash and cash equivalents	380 000	380 000
Trade payables	(800 000)	(800 000)
Net identifiable assets and liabilities	**2 740 000**	**3 080 000**

Any differences between the carrying amounts and the fair values were adjusted for on consolidation. S Ltd did not adjust the values of the assets in its individual records on acquisition date. The equipment was deemed to have a remaining useful life of 5 years at the acquisition date and is depreciated on the straight-line method.

The inventories that were on hand at the acquisition date were sold during the reporting period ended 30 September 2018.

S Ltd buys some of its inventories from P Ltd. P Ltd sells the goods to S Ltd at cost + 33,3%.
The following summary refers to such inventories:

	2018 R	2019 R
Sales to S Ltd	1 240 000	860 000
Inventories still on hand at 30 September (at cost to P Ltd)	320 000	440 000

Ignore tax implications.

Assume that all inventories on hand at the end of a reporting period have been sold by the end of the subsequent year.

REQUIRED:

2.1 Prepare all the pro forma journals for any fair value adjustments and intragroup transactions **ONLY** for the reporting period ended 30 September 2019. (12)

Please note:

- Indicate clearly which entity's figures are affected by the transactions, as well as which component of the financial statements are influenced by the transaction
- Brief journal narrations are required.
- Show all calculations

2.2 Prepare the consolidated financial statements of the P Ltd group for the reporting period ended **30 September 2019**. (28)

Please note:

- The analysis must be done as it will be used to check your calculations.
- No worksheet is required.

QUESTION 3 **(30 MARKS)**

You are provided with the following information in respect of Khoza Bazaar Ltd for the year ended 31 December 2018:

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Notes	**2018**	**2017**
		R	**R**
ASSETS			
Non-current assets		521 000	258 000
Property, plant and equipment	5	500 000	250 000
Intangible assets		11 000	-
Financial asset at fair value through other comprehensive income – unlisted shares		6 000	4 000
Investment in subsidiary at cost		4 000	4 000
Current assets		399 500	308 000
Inventories		170 000	140 000
Trade and other receivables		214 000	150 000
Financial assets at fair value through profit or loss		10 500	8 000
Cash and cash equivalents		5 000	10 000
Total assets		**920 500**	**566 000**
EQUITY AND LIABILITIES			
Total equity		489 900	240 000
Share capital	2	300 000	150 000
Retained earnings		172 900	85 000
Revaluation surplus		15 000	5 000
Mark-to-market reserve		2 000	-
Total liabilities		430 600	326 000
Non-current liabilities			
Long-term borrowings	4	250 000	235 000
Current liabilities		180 600	91 000
Trade and other payables		103 000	71 000
Current portion of long-term borrowings		10 000	10 000
Current tax payable		47 600	-
Bank overdraft		20 000	10 000
Total equity and liabilities		**920 500**	**566 000**

EXTRACT FROM THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	R
Profit or loss		
Revenue		1 500 000
Other income	8	5 500
Finance costs		(30 000)
Income tax expense		(47 600)
Other comprehensive income		
Gain on revaluation of land		10 000
Gains on remeasurement of share investment		2 000

EXTRACT FROM THE NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
2. Share capital		
Ordinary shares		
Authorised and issued – 200 000 shares (2017: 100 000)	300 000	150 000
	300 000	150 000

	2018	2017
4. Long-term borrowings		
B Bank – secured by a first bond over land and buildings – repayable at R10 000 per annum	150 000	160 000
X Bank – unsecured – repayable on 1 January 2021	100 000	75 000
	250 000	235 000

5. **Property, plant and equipment**

	Land	Machinery and equipment	Vehicles	Total
Carrying amount at 1 January 20.18	150 000	50 000	50 000	250 000
Gross carrying amount / cost	150 000	80 000	75 000	305 000
Accumulated depreciation	-	(30 000)	(25 000)	(55 000)
Depreciation for the year	-	(38 000)	(5 000)	(43 000)
Revaluation	10 000	-	-	10 000
Additions	105 000	163 000	-	268 000
Replacements	-	20 000	-	20 000
Scrapping of assets	-	(5 000)	-	(5 000)
Carrying amount at 31 December 2018	265 000	190 000	45 000	500 000
Gross carrying amount/cost	265 000	255 000	75 000	595 000
Accumulated depreciation	-	(65 000)	(30 000)	(95 000)

		2018
8.	**Other income**	
	Included in other income are the following:	
	Investment income – dividends received	5 000
	Fair value adjustment – investment at fair value through profit or loss	500

ADDITIONAL INFORMATION:

1. The company purchased additional land and machinery during the year thereby increasing the production capacity of the company. A machine with a carrying amount of R5 000, on which R3 000 depreciation has been written off, was scrapped during the year and replaced by a similar machine at a cost of R20 000.

2. A patent to manufacture furniture was acquired on 30 December 2018 and therefore no amortisation was necessary.

3. Included in trade and other receivables is an amount of R4 000 (2017: Rnil) related to prepaid expenses.

4. Including in trade and other payables is an amount of R2 000 (2017: R2 000) in respect of dividends payable to shareholders. This is the outstanding amount in respect of ordinary dividends.

5. The bank overdraft is repayable on demand and forms an integral part of Khoza Basaar Ltd's cash management activities. The bank balance often fluctuates from being positive to overdrawn.

6. All finance costs incurred and dividend income received during the year was paid/received in cash.

7. Dividends of R40 000 were declared during the year.

REQUIRED:

Prepare the statement of cash flows, using the direct method, for Khoza Bazaar Ltd for the year ended 31 December 2018 in accordance with the requirements of International Financial Reporting Standards (IFRS). (30)

Please note:
- Comparative amounts are not required.
- Show calculations as marks are awarded for these.

QUESTION 4 **(40 MARKS)**

The CFO of Khoza Bazaar Ltd (hereafter KB), Claire Khoza, requests your assistance with several transactions before they can finalise the financial statements for the year. The financial statements will be authorised on 1 November 2019 at the annual general meeting (AGM). The following information is provided to you for the financial year ended 30 September 2019:

1. You received an extract from the asset register of KB with some explanatory information:

	Carrying amount 30/09/2018
Land	2 570 000
Plant	1 881 500

1.1 Land was purchased on 1 October 2017 for R2 570 000 and is measured using the revaluation method. It is the company's policy to revalue land every 2 years at the beginning of the year, starting on 1 October 2018. On this date the value was determined as R2 980 000. Land is not depreciated.

1.2 The plant, which was purchased on 31 March 2014, was impaired on 30 September 2018 by R1 102 500 to its recoverable amount of R1 881 500. This impairment was as a result of a fire that broke out due to poor safety regulations. The directors of KB made a decision to sell the plant as new technology has become available. The useful life of the plant was determined to be 25 years when it was purchased, and it was estimated to have no residual value.

On 30 September 2019 the plant met the recognition criteria to be accounted for as a non-current asset held for sale. The plant was valued by a sworn appraiser, Mr Nkosi, on 30 September 2019. The following values were reported by him:

	R
Fair value	1 760 000
Value in use	1 605 000
Commission paid to Mr Nkosi	138 000

2. KB imports different kinds of fruit from Europe through an export company, Fruits-4-All that is based in France. KB will use this fruit as raw materials in their new canned fruit facility. KB imported 30 000 kg of fruit at a price of EUR750 per 100kg. KB pays Fruits-4-All in Euro. The following exchange rates apply:

Date	**Description**	**1EUR:ZAR**
1 February 2019	Order date	1MAR = ZAR15.18
25 February 2019	FOB date	1MAR = ZAR15.84
1 April 2019	Delivery date	1MAR = ZAR16.10
30 May 2019	Payment date	1MAR = ZAR16.31

75% of the raw materials purchased were used in the production process.

All the other classes of inventory was already correctly measured by the accountant. The inventory on hand at year end amounts to:

	R
Merchandise	10 760 000
Finished goods	2 850 000
Work-in-progress	1 236 000

3. KB entered into a contract with Import Machines (Pty) Ltd to in respect of a machine that is used in the process of packing and labelling of the canned products. The accountant correctly identified that the contract is a lease contract, and also correctly accounted for the lease liability (and related lease payments) for all the years.

   However, the accountant failed to depreciate the right-of-use asset since the inception of the contract. The unaccounted depreciation is considered to be material. The following information applies to the lease contract:

• Inception of contract	1 October 2015
• Consideration payable on 30 September	R350 000 per year
• Implicit interest rate in the contract	15.75%
• Attorney fees paid to draft the contract	R12 500 (paid 1 October 2015)
• Duration of lease contract	5 years

4. A significant debtor of KB, with an outstanding balance of R1 350 000 on 30 September 2019, indicated on 20 October 2019 that they will be unable to pay the full amount owed due to a fire that occurred at their premises on 18 October 2019. The fire destroyed their warehouse with all their inventories, as well as part of their administrative offices. They are awaiting confirmation from the insurance company, but will most probably only settle all creditor balances on liquidation with 35c of every Rand owed. It is anticipated that this payment will be received within 12 months after the year en and the effect of discounting is immaterial. Claire Khoza is of the opinion that this information will likely affect the ability of users of the financial statements to make proper evaluations of the KB's performance.

REQUIRED:

Disclose the above transactions and events in the notes to the financial statements of Khoza Bazaar Ltd for the reporting period ended 30 September 2019. (40)

Please note:

- Accounting policy notes are not required.
- The lease obligation and lease commitment notes are not required.
- Comparative information is not required.
- Round off all amounts to the nearest Rand.
- Ignore tax implications.