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	Supplementary Final Assessment, January 2020

ASSESSMENT DATE	7 January 2020	**SESSION**	11:30
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

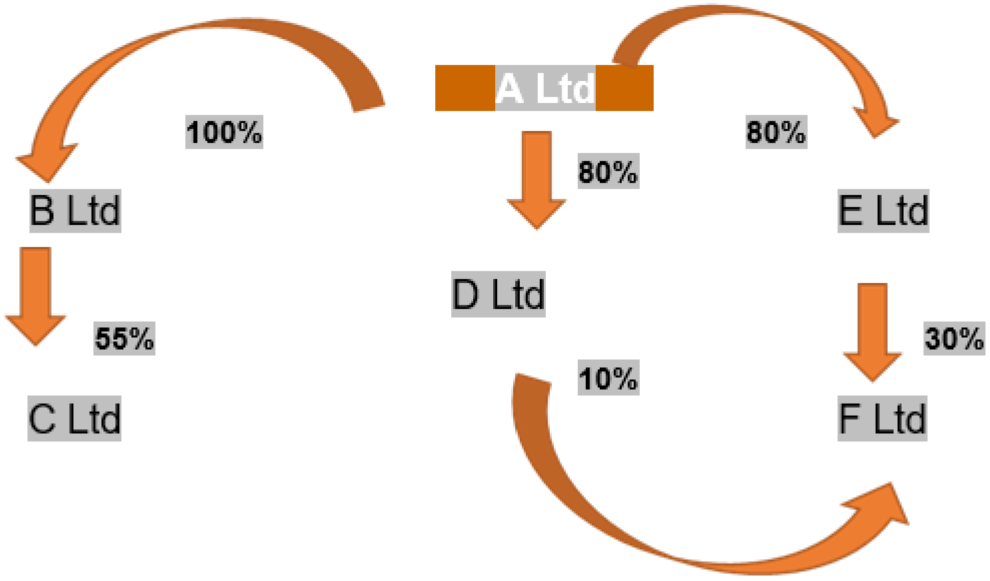
NUMBER OF PAGES OF QUESTION PAPER (Including cover page)	**11**

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. For question 2 the last page of this assessment must be handed in with your answer sheets.
- 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 **(10 MARKS)**

The following structure is presented to you:



ANSWER THE FOLLOWING QUESTIONS BASED ON THE ILLUSTRATION ABOVE:

1.1	What does the illustration above represent and define the concept?	(2)
1.2	Provide a list of the companies above which are subsidiaries of A Ltd?	(4)
1.3	Define control.	(3)
1.4	What is the relationship between E Ltd and F Ltd?	(1)
		(10)

QUESTION 2 **(45 MARKS)**

You are the accountant of P Ltd Group. The following financial statements are presented to you:

Condensed statements of financial position at 31 December 2019

	P Ltd R	S Ltd R
ASSETS		
Land	950 000	400 000
Office building	1 200 000	730 000
Plant	745 000	380 000
Investment in S Ltd	850 000	-
Investment In listed shares	-	350 000
Inventories	375 000	210 000
Trade receivables	380 000	130 000
Bank	225 000	-
Total assets	R4 725 000	R2 200 000
EQUITY AND LIABILTIES		
Share capital – Class A shares (P Ltd: 1 000 000/S Ltd: 500 000 shares)	3 500 000	1 000 000
Share capital – Class B 6% preference shares (S Ltd: 5 000 shares)	-	500 000
Retained earnings	749 500	384 000
Trade and other payables	475 500	260 000
Bank overdraft	-	56 000
Total equity and liabilities	R4 725 000	R2 200 000

Extract from the statements of changes in equity for the year ended 31 December 2019

	Retained earnings	
	P Ltd R	S Ltd R
Balance at 1 July 2018	500 900	300 000
Changes in equity:		
Class A dividend	(50 000)	(20 000)
Class B preference dividend	-	(30 000)
Total comprehensive income for the year	298 600	134 000
Balance at 31 December 2019	R749 500	R384 000

Extract from the statements of profit or loss and other comprehensive income for the year ended 31 December 2019		
	P Ltd R	**S Ltd R**
Gross Profit	496 600	232 300
Dividend received	12 000	-
Other Expenses	(68 000)	(39 500)
Profit before tax	440 600	192 800
Income tax expense	(142 000)	(58 800)
PROFIT FOR THE YEAR	298 600	134 000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	298 600	134 000

ADDITIONAL INFORMATION:

1. On 1 January 2013 P Ltd obtained 300 000 S Ltd shares at R950 000.
   At that date, the equity of S Ltd consisted of the following:

	R
Class A Share capital - 500 000 shares	1 000 000
Retained earnings	250 000

   At the acquisition date P Ltd was of the opinion that the inventory of S Ltd was worth R50 000 **less** and land R150 000 **more** than their carrying amounts. S Ltd did not account for these remeasurement differences in its records.

   The Class B 6% preference shares were issued on 1 January 2016 and they have the following preferential rights:
   - Their dividend payment has priority over that of the Class A shareholders; and
   - They will receive the return of their investment upon liquidation of the acquiree.

   At the acquisition date the fair value of the Class B shares was R520 000.
   P Ltd did not acquire any of the Class B shares.
   No Class B 6% dividends are in arrears.

   S Ltd has issued no additional shares since the acquisition date.

2. S Ltd purchased items of plant from P Ltd on 1 January 2017. The plant did not form part of P Ltd's inventories. P Ltd realised a gain of R7 000 on the transaction. Depreciation is recognised annually on the straight-line basis at a rate of 25% per annum but the group.

3. P Ltd has been purchasing all of its inventories from S Ltd since the acquisition date at cost price plus 25%. The inventories of P Ltd was R300 000 at 1 July 2018. Intragroup revenue for the reporting period was R1 000 000.

4. P Ltd elected to measure any non-controlling interests in an acquiree at their proportionate share of the acquiree's identifiable net assets.

5. P Ltd chose to account for the equity investment in S Ltd using the cost method in its separate financial statements.

REQUIRED:

2.1 Prepare all the pro-forma journal entries relating to **intragroup transactions** to account for the consolidation for the year ended **31 December 2019** for the P Ltd group

Please note:

- Indicate clearly which entity's figures, as well as which components of the financial statements are affected by the transaction.
- Journal narrations are not required.
- Show all calculations as principle marks are based on them **(20)**

2.2 Prepare the analyses of the equity of S Ltd on the supplied Appendix (refer to the back of the paper).

You are supplied with the partly completed analyses of the equity of S Ltd of which the given information may be assume to be correct.

TEAR THE PAGE OUT AND HAND IN WITH THE REST OF YOU ANSWER SHEET.
(5)

2.3 Prepare **ONLY** the consolidated statement of financial position at **31 December 2019** for the P Ltd Group to comply with IFRS.

Please note:

- Show all calculations clearly as marks will be awarded for them. **(20)**

QUESTION 3 **(35 MARKS)**

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

Extract from trial balance:	Notes	2018	2017
Investment property at fair value	1	17 500 000	15 300 000
Equipment at cost	2	43 300 000	39 500 000
Accumulated depreciation – Equipment	2	(15 400 000)	(12 700 000)
Accumulated impairment – Equipment	2	(730 000)	-
Delivery vehicles (acquired in terms of a lease contract)		3 800 000	3 800 000
Accumulated depreciation - Delivery vehicles		(2 280 000)	(1 520 000)
Patents at cost		4 100 000	3 710 000
Accumulated amortisation – Patents		(1 353 000)	(1 224 000)
Investment in listed shares at fair value	3	1 700 000	-
Investment in subsidiary at cost	4	5 620 000	-
Inventories		18 422 000	14 640 000
Trade receivables	5	21 605 000	20 301 000
Cash and cash equivalents		27 421 000	13 250 000
Mortgage loan		(5 775 000)	(7 250 000)
Lease liability: Delivery vehicles		(2 442 000)	(2 998 000)
Trade payables	6	(11 910 000)	(6 347 000)
Provision for warranties		(250 000)	-
Shareholders for dividends	7	(2 200 000)	(1 600 000)
Current tax payable		(1 072 000)	(1 224 000)
Share capital	7	(61 250 000)	(48 950 000)
Retained earnings (closing balance)		(37 806 000)	(25 688 000)
Short-term portion of mortgage loan		(1 000 000)	(1 000 000)

Items as contained in the statement of comprehensive income for the year ended 31 December 2018

	Notes	R
Revenue		181 198 000
Dividend income - listed shares (cash received)		235 000
Other income (including fair value adjustments)		2 350 000
Distribution costs, administrative and other expenses		(92 004 000)
Finance costs	8	(1 018 000)
Income tax expense		(3 463 000)

NOTES:

1. Investment property

1.1 No investment property was sold or purchased during the current reporting period.

2. Equipment

2.1 On 31 December 2018, Equipment AA, with a cost price of R3 200 000, was withdrawn and written off as it was fully depreciated.

2.2 Equipment BB was purchased from Webster Ltd to replace Equipment AA. The item was delivered on the same date (31 December 2018) and half of the purchase price was paid in cash.
The remaining amount will be paid on 31 January 2019.

2.3 No other items of equipment were bought or sold during the current reporting period.

3. Investment in listed shares

3.1 During 2018, JSE listed shares of Roadster Ltd were acquired in cash at a cost of R1 550 000. The shares were classified as financial assets at fair value through profit and loss.

4. Investment in subsidiary

4.1 The investment in subsidiary was acquired by way of a cash transaction in the current year

5. Trade receivables

5.1 Trade receivables are shown after taking into account for provision for doubtful debts of R975 000 for 2018 and R634 000 for 2017.

6. Trade payables

6.1 Included in trade payables is an amount of R3 500 000 that is owed to Webster Ltd regarding the equipment purchased at the end of the year (refer 2.2).

7. Share capital

7.1 The increase in the issued share capital is attributable to a rights issue for cash during the current reporting period.

7.2 The only dividend for the year was declared on 30 December 2018 and amounted to R1 950 000.

8. Finance cost

8.1 Finance cost consists of interest paid on the mortgage loan in cash of R985 000 and R33 000 interest on the lease liability.

REQUIRED:

Prepare the statement of cash flows of Khoza Bazaar Ltd for the year ended 31 December 2018 according to the **direct method**. (35)

Please note:

- Show ALL calculations clearly as marks are rewarded for these.
- No notes are required.
- Ignore VAT.
- Comparative figures are not required.

QUESTION 4 **(35 MARKS)**

Khoza Bazaar Ltd (hereafter KB) is a company involved in a variety of business activities. The following transactions are applicable for the current year of assessment ended 31 December 2018:

1) Foreign loan

KB borrowed $10 000 from an American Bank on 1 January 2017 and received the total amount on that day. The loan is unsecured. Brix is required to make 4 annual payments in arrears of $3 000 each, commencing 31 December 2017. The loan and related interest was correctly accounted for in the 2017 financial year. Interest levied is calculated at 7.714% per annum. The following exchange rates apply:

Date	Spot rates	Average rates
1 January 2017	$1=ZAR15.47	
31 December 2017	$1=ZAR13.74	
31 December 2018	$1=ZAR12.38	
2017		$1=ZAR14.6
2018		$1=ZAR13.2

2) Software development

KB started with the development of new software in 2016. In 2016 and 2017, KB incurred various research and development expenditure in the ratio 3:2. The research costs were correctly expensed, while the financial manager capitalised the development costs in the respective years. However, all the criteria necessary to capitalise the development costs as required per IAS 38 *Intangible assets* were only met on 2 January 2018.

Expenditure for 2015 and 2016:

Research and development expenditure – 2016	R580 000
Research and development expenditure – 2017	R670 000

Expenditure for 2018:

Cost of testing the new software	R150 000
Design costs	R270 000
Salaries of persons only involved in development	R360 000
Administration costs incurred during the development process	R120 000

The development work ceased on 31 December 2018 and manufacturing immediately commenced. Management is of the opinion that the company will increase their sales for 3 years as a result of this new software. All costs were settled in cash.

3) Machinery

KB owns a machine that was acquired for R200 000 on 1 July 2017. Depreciation is recognised at 20% per year on the diminishing balance method, and the machine has a residual value of Rnil.

On 31 October 2018, KB took a formal decision to sell the machine, as it changed its manufacturing process and actively started to locate a buyer. At that date the fair selling price was R146 000 and the financial manager estimated that it would cost R6 000 to sell the machine. Due to the change in the manufacturing process the machine's value in use on this date is Rnil.

At the end of the reporting period the machine was still unsold due to a few small technical aspects. The demand for such machines has increased drastically over the past few months and the financial manager estimated that a more realistic selling price was R156 000 and that the costs to sell the machine would amount to R4 000 and the sale is likely to occur in the next two months.

4) Claim resulting from accident

Mr Xenon, one of KB's employees was involved in a car accident on 23 December 2018. Mr Xenon was driving one of the company's new luxury cars. He sustained some serious injuries on his back and has instituted a claim against the company on 2 January 2019 in terms of which the company is summoned for his medical costs (not yet determined), as well as for an amount of R3 000 000 for loss of income.

The company's lawyers are of the opinion that both of Mr Xenon's claims will not succeed as he was involved in an accident while going to a Christmas party at his friend's place and was not on a work assignment. At 15 February 2019, when the financial statements were authorised for issue, this case was still awaiting trial in court.

REQUIRED:

4.1 Provide the journal entries (including cash transactions) in relation to the foreign loan and software development for the reporting period ended 31 December 2018 in the general journal of Khoza Bazaar Ltd.

Journal descriptions are not required.
Show all your calculations.
Ignore tax implications (15)

4.2 Prepare **all** the relevant notes to the financial statements of Khoza Bazaar Ltd for the reporting period ended 31 December 2018 in accordance with IFRSs as it relates to all of information provided.

Please note:

- Accounting policy notes are **not** required.
- The long term borrowings note is **not** required.
- Ignore comparatives.
- Round amounts to the nearest Rand.
- Provide the relevant notes as far as the information permit.

(20)

Notes page

STUDENT NUMBER:_________________________________

THIS PAGE SHOULD BE TORN OFF AND HANDED IN WITH THE REST OF YOUR ANSWER SHEET

QUESTION 2 **APPENDIX**

CLASS A SHARE CAPITAL	**Total**	**P Ltd 60%**		**NCI 40%**
		At	**Since**	
At acquisition (1 January 2013)				
Ordinary share capital	1 000 000	600 000		400 000
Retained earnings				
				-
Consideration		950 000		
Since acquisition				
Until beginning of current year				
Retained earnings				
Calc:				
Current year				
Profit for the year				
Calc:				

CLASS B SHARE CAPITAL	**Total**	**P Ltd 0%**		**NCI 100%**
		At	**Since**	
At acquisition (1 January 2016)				
Class B share capital	500 000	-		500 000
Equity represented by goodwill - NCI	20 000			20 000
Consideration	520 000	-		520 000
Since acquisition				
Current year				
Attributable profit for the year	30 000			30 000
Preference dividend paid	(30 000)			(30 000)
	520 000			520 000