



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2A
ACG221E/221

SUPPLEMENTARY ASSESSMENT OPPORTUNITY
JANUARY 2020

ASSESSORS:

Ms Matshutsha Vuzane
Mr Bonakele Ncemane

MODERATOR:

Mrs Chuma Mjali (Internal)
Ms Wendy Terblanche (Internal)

TIME:

3 hours (plus 15 minutes reading time)

MARKS:

150

PAGES:

9 pages (including worksheet page)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Start each question on a new page.
3. Show all workings clearly – marks are allocated to workings.
4. Only answers in ink will be marked (including workings). Pages where pencil or tippex were used will not qualify for remarking.
5. Only silent, non-programmable calculators are allowed.
6. Students that contravene the rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

| Question | Topics covered | Marks | Minutes |
|-----------------|----------------------------|--------------|----------------|
| 1 | Group financial statements | 47 | 56 |
| 2 | Financial instruments | 17 | 20 |
| 3 | Leases | 26 | 31 |
| 4 | Cash flow statement | 60 | 73 |
| | TOTAL | 150 | 180 |

QUESTION 1

47 marks

Information

You have recently been seconded to Hall Ltd. The financial director has given you the responsibility of preparing the group financial statements. The following extract from the financial statements has been prepared by the bookkeeper.

| Abridged Statement of Financial Position at 31 December 2017 | Hall Ltd R | Small Ltd R |
|---|-----------------------|------------------------|
| ASSETS | | |
| Property, plant and equipment | 1,000,000 | 620,000 |
| Investment in Small Ltd | 700,000 | - |
| Loan to Small Ltd | 50,000 | - |
| Receivables | 350,000 | 151,000 |
| Inventory | 250,000 | 180,000 |
| Bank | 200,000 | 190,000 |
| | 2,550,000 | 1,141,000 |
| EQUITY AND LIABILITIES | | |
| Share capital | 700,000 | 400,000 |
| Retained earnings (year-end) | 1,080,000 | 370,000 |
| Other reserve | 120,000 | 180,000 |
| Mortgage loan | 400,000 | - |
| Loan from Small Ltd | - | 50,000 |
| Accounts payable | 250,000 | 141,000 |
| | 2,550,000 | 1,141,000 |

Additional information:

- Hall Ltd acquired a 75% interest in Small Ltd on 1 January 2011 when the retained earnings of Small Ltd was R170 000, and the other reserve amounted to R100 000.
- Hall Ltd elected to measure the non-controlling interest in Small Ltd at its initial proportionate share of Small Ltd's identifiable net assets.
- Hall Ltd purchased the following inventory from Small Ltd (at cost plus 25%), which Small Ltd had purchased from an external supplier:
 - 2016: R200 000 (On hand at 31 December 2016: R30 000)
 - 2017: R260 000 (On hand at 31 December 2017: R40 000)
- On 1 October 2015 Hall Ltd sold a machine (classified as property, plant and equipment) to Small Ltd at a profit of R30 000 and remaining useful was 4 years at the date of sale. Small Ltd agreed with this useful life.
- The following information relating to the year ended 31 December 2017 may be relevant:

| | Hall Ltd R | Small Ltd R |
|---|-----------------------|------------------------|
| Profit for the year | 250,000 | 100,000 |
| Dividends declared and paid | 30,000 | 20,000 |
| Transfers to the other reserve from retained earnings | 20,000 | 10,000 |

- Ignore the deferred tax effect of inter-company transactions.

QUESTION 1 (CONTINUED)

| QUESTION 1 – REQUIRED | | Marks | |
|-----------------------|--|-----------|-----------|
| | | Sub-total | Total |
| a) | Prepare the analysis of shareholders equity of Small Limited at 31 December 2017. Use Annexure A attached. | | 18 |
| b) | Prepare the assets section of the consolidated statement of financial position of Hall Ltd and its subsidiary at 31 December 2017. | | 7 |
| c) | Prepare the consolidated statement of changes in equity of Hall Ltd and its subsidiary for the year ended 31 December 2017 | | 20 |
| | Communication and presentation marks | | 2 |
| Total | | | 47 |

Information

Eskor Limited ("Eskor") is coal mining company that supplies coal to the energy industry in South Africa. It has a small treasury department focusing on raising finance to support its operating and investing activities. Eskor has a financial year-end of 31 December.

You are the financial manager at Eskor and you have received the following email from Siphon Mabuza, a treasury clerk.

To: Financial Manager
From: Siphon Mabuza (Treasury Clerk)
Subject: Debentures
Date: 8 January 2018

Dear Financial Manager

Hope you are well.

Debentures

It came to my attention that Eskor issued 200 000 debentures on 1 January 2017 at R 20 (each) and paid R50 000 for transaction costs. The debentures have a coupon rate of 11% and they are compulsory redeemable on 31 December 2020 at a 20% premium. Eskor classifies these debentures measured at amortised costs.

I am not sure how to journalise this transaction in the financial records for the 2017 financial year. Could you please provide me with the necessary journal entries I need to process in connection with these debentures as I do not have an idea where to start?

Regards,
Siphon Mabuza

| QUESTION 2 – REQUIRED | | Marks | |
|-----------------------|---|-----------|-----------|
| | | Sub-total | Total |
| a) | Respond to the email received from Sipho Mabuza. In your response: | | 17 |
| | <p>i) Only include the journal entries and supporting calculations necessary to account for the debenture in the financial records of Eskor Limited for the financial year ended 31 December 2017. Journal narrations must be included.</p> <p>Round all amounts to the nearest R1. Round interest rate percentage to the fourth decimal.</p> <p>Ignore taxation.</p> | 17 | |
| Total | | | 17 |

QUESTION 3

26 marks

1. Background

Atlas (Proprietary) Limited ('Atlas') applies IFRS 16 Leases in accounting for these lease agreements. It is the accounting policy of Atlas to measure all rights-of-use assets under the cost model.

2. Information

Atlas entered into a non-cancellable lease over an office building, for a non-cancellable period of five years with SKM Properties (Pty) Ltd ('SKM Properties') on 1 January 2017.

Atlas paid R 30 000 in advance lease payment on 1 January 2017 (the remaining lease payments of R 30 000 per annum, are payable in arrears commencing on the 31 December 2017) and further incurred initial direct costs of R 10 000 on this date. SKM Properties reimbursed Atlas R 5 000 of the initial direct costs. Atlas also paid for repairs on the building to the value of R11 000 in January 2017.

The appropriate discount rate is 12% p.a.

| QUESTION 3 – REQUIRED | | Marks | |
|-----------------------|--|-----------|-----------|
| | | Sub-total | Total |
| a) | Briefly explain how the lease gives rise to an asset that meets the definition of an asset in the conceptual framework, from the point of view of Atlas (Proprietary) Limited. | | 4 |
| b) | Prepare all the journal entries of Atlas (Proprietary) Ltd for the year ended 31 December 2017, in accordance with IFRS 16 Leases Show your workings Work to the nearest R1 Journal narrations are <u>not</u> required Ignore taxation | | 22 |
| Total | | | 26 |

QUESTION 4

60 Marks

1. Background

You have recently qualified as a chartered accountant and the bookkeeper of Clarity (Proprietary) Limited ('Clarity') has asked for your assistance with the preparation of the statement of cash flows for the year ended 30 September 2017. The accountant has provided you with some financial information.

2. Information

| DRAFT TRIAL BALANCE AS AT 30 SEPTEMBER 2017 | | | |
|---|-------------|-------------------|-------------------|
| Debit/(Credit) | Note | 2017 R | 2016 R |
| 5% Preference share capital (discretionary, cumulative) | | -150,000 | -150,000 |
| Ordinary share capital | 1,2 | -495,000 | -250,000 |
| Retained earnings | | -640,110 | -710,100 |
| Replacement reserve | | -84,000 | -23,500 |
| Long term loan | 2 | -387,650 | -268,350 |
| Debentures | 3 | ? | |
| Accounts payable – trade | | -361,420 | -239,450 |
| Shareholders for dividends | | -40,000 | -160,000 |
| Normal tax payable | | -58,300 | -18,500 |
| Equipment: Cost | 2, 4 | 1,130,000 | 734,550 |
| Equipment: Accumulated Depreciation | 4 | -552,275 | -367,000 |
| Vehicles: Cost | 5 | 215,000 | 380,000 |
| Vehicles: Accumulated Depreciation | 5 | -124,000 | -152,000 |
| Trademarks - Carrying Amount | 6 | 307,000 | 345,000 |
| Investment in Vision Ltd | 7 | 247,560 | 180,000 |
| Inventory | | 435,600 | 396,800 |
| Accounts receivable – trade | | 364,520 | 276,400 |
| Bank | | 587,560 | 26,150 |

Additional information:

- Clarity declared dividends of R90 000 for ordinary shares during the year.
- On 30 September 2017, Clarity took over the equipment and its related loan from Purpose (Pty) Ltd. The carrying amount of the asset was R350 000 and the loan payable was R240 000. Clarity issued ordinary shares to Purpose (Pty) Ltd in lieu of payment for the balance of the amount.

All other ordinary shares issued were done for cash.

- On 1 October 2016, Clarity issued 50 000 R8 debentures at fair value. Clarity paid transaction costs of R20 000. The debentures have a coupon rate of 8.5% and is compulsorily redeemable on 30 September 2020 for R9 each. These debentures are classified at amortised cost.

4. Clarity sold equipment on 30 September 2017 that was purchased on 31 March 2016 at a cost of R250 000. The equipment's useful life was estimated to be 5 years and it was depreciated on the straight-line method. The profit made on the sale was of R35 000.
5. One of the employees of Clarity was involved in a car accident at the beginning of the financial year. As a result, the vehicle, with a cost of R165 000 carrying amount of R90 000, was written off. No new vehicles were acquired.
6. No trademarks were acquired or disposed during the year.
7. On 1 March 2017 additional shares were purchased. This investment is accounted for at fair value through profit and loss. The fair value gain at 30 September 2017 was R 17 560.
8. The following items, amongst others, are included in the profit and loss account:

| | 2017 R |
|-----------------------|-----------|
| Revenue | 2,426,000 |
| Dividends income | 30,000 |
| Interest paid - loans | -5,000 |
| Tax expense | -112,560 |

| QUESTION 4 – REQUIRED | | Marks | |
|-----------------------|---|-----------|-----------|
| | | Sub-total | Total |
| a) | Prepare the statement of cash flows, as per IAS 7 Statement of Cash flows, for Clarity (Proprietary) Limited for the year ended 30 September 2017, using the <u>direct</u> method. No reconciliation or notes are required, however, show workings clearly. Marks are awarded for calculations. | | 58 |
| | Presentation marks | | 2 |
| Total | | | 60 |

