



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2B
ACG221E/221

SUPPLEMENTARY JANUARY 2019

ASSESSORS: Mrs Matshutsha Vuzane
Mr Bonakele Ncemane

MODERATOR: Mrs Wendy Terblanche (Internal)

TIME: 3 hours (plus 15 minutes reading time)

MARKS: 150

PAGES: 9 pages (including worksheet and the notes 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	60	72
2	Financial instruments	17	20
3	Leases	23	28
4	Cash flow statement	60	72
	TOTAL	150	180

QUESTION 1**60 marks****Information**

You have recently been seconded to Hall Limited. 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 Limited R	Small Limited R
ASSETS		
Property, plant and equipment	1,000,000	620,000
Investment in Small Limited	700,000	-
Loan to Small Limited	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 Limited	-	50,000
Accounts payable	250,000	141,000
	2,550,000	1,141,000

Additional information:

- Hall Limited acquired a 75% interest in Small Limited on 1 January 2011 when the retained earnings of Small Limited was R170 000, and the other reserve amounted to R100 000.
- Hall Limited elected to measure the non-controlling interest in Small Limited at its initial proportionate share of Small Limited's identifiable net assets.
- Hall Limited purchased the following inventory from Small Limited (at cost plus 25%), which Small Limited 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 Limited sold a machine (classified as property, plant and equipment) to Small Limited at a profit of R30 000. Hall Limited depreciated the machinery for 6 years using the straight line method, remaining useful is 4 years. Small Limited agreed with this useful life.
- The following information relating to the year ended 31 December 2017 may be relevant:

	Hall Limited R	Small Limited 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, dividends tax.

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 2017 <i>pro-forma</i> consolidation journal entries arising from paragraphs 3 and 4 above. Journal narrations are required.		10
c)	Prepare the assets section of the consolidated statement of financial position of Hall Limited and its subsidiary at 31 December 2017.		11
d)	Prepare the consolidated statement of changes in equity of Hall Limited and its subsidiary for the year ended 31 December 2017		18
	Communication and presentation marks		3
Total			60

QUESTION 2

17 Marks

Information

Eskor Limited 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 Limited* has a financial year-end of 31 December 2016.

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

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

Dear Financial Manager

Hope you are well.

Debentures

It came under 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 20% premium. Eskor classifies these debentures at amortised costs.

I am not sure how to journalise this transaction in the financial records. 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,
Siphso Mabuza

QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
a)	Respond to the email received from Siphon Mabuza. In your response: i) Only include the journal entries and supporting calculations necessary to account for the debentures in the financial statements of <i>Eskor Limited</i> for the financial year ended 31 December 2017. Journal narrations must be included. Ignore taxation.	16	
	Communication and presentation marks		1
Total			17

QUESTION 3**23 marks****1. Background**

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

2. Information

Atlas (Proprietary) Limited entered into a non-cancellable lease over an office building, for a non-cancellable period of five years with *SKM properties (Proprietary) Limited* on 1 January 2017.

Atlas (Proprietary) Limited 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), further incurred initial direct costs of R 10 000. *SKM properties (Proprietary) Limited* reimbursed *Atlas (Proprietary) Limited* R 5 000 of the initial direct costs. *Atlas (Proprietary) Limited* also paid for repairs on the building to the value of R11 000.

The appropriate discount rate is 12%

QUESTION 3 – REQUIRED		Marks	
		Sub-total	Total
a)	Prepare all the journal entries of <i>Atlas (Proprietary) Limited</i> at 31 December 2017, in accordance with IFRS 16 <i>Leases</i> . Show your workings Work to the nearest R1		23
Total			23

QUESTION 4

60 Marks

1. Background

You have recently qualified as a CA (SA) and the accountant 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 Limited	7	247 560	180 000
Inventory		435 600	396 800
Accounts receivable – trade		364 520	276 400
Bank		587 560	26 150

Additional information:

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

All other ordinary shares issued were done for cash.

3. 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 carrying amount of R90 000, was written off. No new vehicles were acquired.
6. No trademarks were acquired or disposed during the year.
7. The original investment of 15 000 shares in *Vision Limited* was re-measured at R10 per share on 30 September 2016. On 1 March 2017 additional shares were purchased. This investment is accounted for at fair value through profit and loss.
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 <i>Statement of Cash flows</i> , for <i>Clarity (Proprietary) Limited</i> 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

