



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING
ACCOUNTING 3
ACC300E

FINAL ASSESSMENT OPPORTUNITY
NOVEMBER 2019

- ASSESSORS:** Mrs Wendy Terblanche
Mrs Dharmini Fakir
- MODERATOR** Ms Nkabaneng Mashile (UNISA)
Mrs Wendy Terblanche (Internal)
Prof Sean Weldon (Internal)
- TIME:** 4 hours (plus 30 minutes reading time)
- MARKS:** 160
- PAGES:** 13 pages (including front page, worksheet and 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.
7. The following texts are allowed for use during the examination (provided they contain NO annotations other than underlining, side-lining and/or highlighting):
 - A Guide through IFRS

Question	Marks	Minutes
1	75	112
2	85	128
	160	240

QUESTION 1

75 marks

Datalog Limited ('Datalog') is an ITC solutions and services group listed on the JSE Limited. Datalog is the holding company in the Datalog Limited Group ('Datalog group') and has a number of subsidiaries. You are currently preparing the consolidated financial statements of the group and have reached the stage of preparing the statement of cash flows. The following summarised trial balances of certain subsidiaries of the Datalog group, prepared on different dates, have been provided to you.

Trial balances	Analyzit	Efficient Processing	ITCloud
	1 Oct 2017	1 April 2019	30 Sept 2019
	R	R	R
Ordinary Share capital	(480 000)	(250 000)	(100 000)
Preference Share capital			(142 000)
Retained earnings	(458 048)	(212 460)	(245 000)
Trade and other payables	(127 020)	(161 820)	(18 000)
Deferred tax	(13 072)	(11 429)	(30 000)
Land	276 980	87 800	-
Building	317 100	238 300	-
Equipment	130 000	272 739	35 140
Investment property			550 000
Trade and other receivables	197 980	75 000	16 027
Inventory	90 000	39 000	-
Bank and cash	66 080	48 350	19 490
Operating profit	-	(154 230)	(57 630)
Fair value gain on investment property	-	-	(63 990)
Preference Dividends paid (30/9/2019)	-	-	11 360
Income tax expense	-	28 750	24 603
	-	-	-

Analyzit Limited

- Datalog held a 25% interest in Analyzit Limited ('Analyzit') since its incorporation (cost R120 000). Analyzit specialises in tracking buying behaviour, customer segmentation and sales strategy enhancements through predictive analytics. Datalog gained control of Analyzit when it acquired a further 55% interest in its ordinary shares on 1 October 2017. On 1 October 2017 Datalog considered the net assets of Analyzit to be fairly valued in the books of Analyzit except for the following:
 - Land was valued at R390 000.
 - Building was valued at R465 000.

QUESTION 1 (continued)

2. The fair value of the 25% investment was R290 000 and the equity accounted value was R234 512 on 1 October 2017. Datalog settled the consideration for the additional 55% interest in Analyzit on 1 October 2017 as follows:
 - In cash of R386 970;
 - By issuing 4 500 debentures to the former shareholders of Analyzit at their fair value. The debentures pay annual interest of R45 000 and will be redeemed on 30 September 2022 at R450 000. The market related rate for similar debentures at this date was a pre-tax rate of 13%.
3. The value of the goodwill had not previously been impaired, however it had lost half of its value on 30 September 2019 – the impairment loss has been included in the group's operating profit.

ITCloud (Proprietary) Limited

4. Datalog acquired a 75% controlling interest in the ordinary shares of ITCloud (Proprietary) Limited ('ITC') on 1 January 2012 for R167 000, which was settled in cash on that date, when the retained earnings attributable to the ordinary shareholders of ITC was R101 500. All of the assets and liabilities of ITC were fairly valued in the books of ITC at 1 January 2012. Datalog does not own the preference shares of ITC, which were issued on 1 October 2005 and are correctly classified as equity instruments. Datalog has declared and paid the preference dividends annually on 30 September each year. On 30 September 2019 Datalog sold 30% of its shareholding in ITC for R120 000. Datalog retained control of ITC with its remaining 52.5% interest in the ordinary shares of ITC.

Efficient Processing Limited

5. Datalog acquired a 60% controlling interest in Efficient Processing Limited ("EP") a number of years ago at a cost of R250 000 when the retained earnings was R120 000. At this date the net assets of EP were considered to be fairly valued. The goodwill on this business combination transaction has subsequently not been impaired.
6. On 1 April 2019 Datalog sold its entire shareholding in EP for R350 000.

Other information

The following information relates to the Datalog Group and the financial year ended 30 September 2019:

Datalog Limited	
Consolidated statement of profit or loss	2 019
for the year ended 30 September 2019	R
Revenue from contracts with customers	5 826 360
Operating profit	578 000
Finance costs	(101 250)
Profit before tax	476 750
Taxation	(123 955)
Profit for the year	352 795
- Attributable to parent shareholders	264 596
- Attributable to non-controlling interests	88 199

Datalog Limited		
Consolidated statement of financial position	2 019	2 018
at 30 September 2019	R	R
Non-current Assets	3 314 852	3 426 114
Goodwill	518 000	632 848
Property, plant and equipment	1 921 852	1 917 256
Investment property	550 000	486 010
Intangible assets	325 000	390 000
Current Assets	1 129 436	1 117 700
Inventory	388 400	349 400
Trade and other receivables	655 466	633 300
Bank and cash	85 570	135 000
Total assets	4 444 288	4 543 814
Equity and liabilities		
Share capital	500 000	500 000
Retained earnings	1 652 174	1 491 646
	2 152 174	1 991 646
Non-controlling interest	154 457	248 956
Total equity	2 306 630	2 240 602
Non-current liabilities	1 079 124	1 509 513
Other non-current liabilities	894 594	1 324 265
Deferred tax	184 530	185 248
Current liabilities	1 058 533	793 699
Current portion of non-current liabilities	150 116	125 108
Trade payables and provisions	650 600	489 160
Bank overdraft	152 455	94 904
Taxation payable	105 362	84 527
Total equity and liabilities	4 444 287	4 543 814
	-	-

QUESTION 1 (continued)

Additional information:

- There have been no changes in the share capital of any of the companies in the Datalog group.
- Interest paid includes interest paid on bank loans and interest on the debentures issued to the former shareholders of Analyzit.
- Depreciation on property, plant and equipment of R255 000 has been taken into account in calculating operating profit.
- There were no additions or disposals of intangible assets or investment properties other than is evident from the information above.
- There has been no impairments of any property, plant and equipment or intangible assets.

Accounting policies:

- Investment properties are accounted for on the fair value model in terms of IAS 40 *Investment property*.
- Property, plant and equipment is accounted for on the cost model in terms of IAS 16 *Property, plant and equipment*.
- Datalog accounts for investments in subsidiaries and associates at cost in terms of IAS 27 *Separate Financial Statements*.
- Non-controlling interests are accounted for at their share of net identifiable assets on the acquisition date.

Taxation related matters:

- The normal tax rate has always been 28% and 80% of capital gains are included in taxable income.

CEO and the Revised Conceptual Framework

The CEO of Datalog is quite knowledgeable about financial reporting and is well aware that the International Accounting Standards Board has issued a revised “*Conceptual Framework for Financial Reporting*” (‘the revised CF’).

He has asked you a number of questions:

- a. The CEO said, “*We spend a lot of money on collecting data. Then we spend more money on data analytics in order to uncover hidden patterns, market trends and customer preferences that can help organisations make informed business decisions. I was hoping that under the revised CF we would be able to recognise the data that we collect as an asset. Our financial reporting team tell me we still have to apply IAS 38 Intangible assets.*”

“Why can’t we use the revised CF to develop a new accounting policy for data?”

- b. The CEO said, “*We have two situations that I believe should lead to the recognition of an asset. Everyone would agree that in both situations we have a right that has the potential to produce economic benefits to our company – which is an asset. But our financial reporting team tell me that we can’t recognise these assets.*
- i) *The first is a court case in which we are suing a supplier for damages due to poor quality product delivered to us. The lawyers told us that the probability of receiving anything from this case is low but we are hoping to receive between R100 000 and R500 000.*
- ii) *The second is a research project that we bought. We paid R600 000 for this research project. We can’t be sure that we will be able to turn this research project into a profitable product but we are hoping for returns of between R200 000 and R400 000.*”

“What does the revised CF say about the recognition of assets arising from these two situations?”

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
In full conformity with all applicable International Financial Reporting Standards - showing all workings clearly and - rounding amounts to the nearest R1.			
(a)	Prepare the following note to the Consolidated Statement of Cash Flow of Datalog Limited group for the year ended 30 September 2018 : - Disclosing the acquisition of the controlling interest in Analyzit on 1 October 2017.		16
(b)	Prepare all the <i>pro forma</i> journal entries to correctly account for ITCLOUD (Proprietary) Limited in the consolidated financial statements of Datalog Limited group for the year ended 30 September 2019 . Journal narrations are not required.		16
(c)	Prepare ONLY the cash flows from operating activities section of the consolidated statement of cash flows of the Datalog Limited group for the year ended 30 September 2019, using the indirect method . Presentation marks	31 1	32
(d)	Write an email to the CEO of Datalog in which you answer the questions he raised regarding the revised "Conceptual Framework for Financial Reporting": a. "Why can't we use the revised CF to develop a new accounting policy for data?" b. "What does the revised CF say about the recognition of assets arising from these two situations?" Amounts and calculations are not required. Communication marks – format and clarity of expression	2 7 2	11
Total			75

QUESTION 2

85 marks

Background

Unwaste Limited ('Unwaste') is the leading waste management company operating in Southern Africa. Unwaste uses innovative and creative solutions to deal with a range of waste problems.

1. Foreign loan receivable

Unwaste made a loan of \$100 000 to a Zimbabwean waste management company on 1 October 2017. The loan was denominated in US dollars. The terms of the loan agreement require the Zimbabwean debtor to repay the loan over 10 years in instalments of \$19 925 annually on 30 September each year. Unwaste incurred costs of \$1 296 on drawing up the loan documents. Unwaste has never had an intention to sell this loan.

Until 30 September 2019, the Zimbabwean debtor made payment on due dates and due to the excellent management of the company and positive cash flows the credit manager of Unwaste has always considered the collectability of this loan to be good. However, at 30 September 2019, due to the worsening business operating environment in Zimbabwe, the credit manager now expects that there is a much higher likelihood of a default event occurring that will result in the Zimbabwean debtor struggling to make payments on due dates.

2. BF Landfill site

Unwaste operates a landfill site near Bloemfontein ('BF'). Unwaste provides various waste removal and waste management services to the Mangaung Municipality. Unwaste is required to operate the landfill site in terms of relevant regulatory requirements. These requirements include a requirement to rehabilitate the landfill site at the end of its useful life.

The BF Landfill site is a cash-generating unit (CGU) for purposes of impairment testing in terms of IAS 36 *Impairment of assets*. The directors of Unwaste correctly identified the assets that belong to the CGU, and correctly calculated the recoverable amount of the CGU, at 30 September 2019. The financial accountant started calculating the impairment loss but fell ill before she could complete the calculation or prepare the relevant journal entries. Her workings are provided to you below:

CGU impairment calculation – 30 September 2019:	R
Recoverable amount (correctly calculated)	4 550 000
Carrying amount of assets in CGU:	
- Landfill site	?
- Right of use asset – vehicles	?
- Waste processing machinery	?
Impairment loss	?

The following information is relevant to the landfill site and the assets, and related liabilities, which are used in relation to the landfill site operations:

- a) The landfill site was acquired and brought into use on 1 October 2010 for R4.5 million, settled in cash on that date. The landfill site has a finite useful life of 40 years. The landfill site is depreciated on a straight-line basis over its useful life to an insignificant residual value.

QUESTION 2 (continued)

- b) On 1 October 2010, Unwaste incurred an obligation to rehabilitate the landfill site. At that date the estimated future cost of rehabilitation of the landfill site was estimated at R15 000 000 and this estimate has not subsequently changed.
- c) Unwaste leases its motor vehicles in terms of a lease agreement that requires monthly payments of R25 000 on the last day of each month. The lease agreement was entered into on 1 February 2018 and the lease term is 60 months. Unwaste has to pay R79 000 at the end of the lease period and will be able to use the vehicles for a further two year period. Unwaste paid a deposit of R120 000 on entering into the lease on 1 February 2018 and incurred incremental costs of obtaining the lease of R7 500. Unwaste's incremental borrowing rate at 1 February 2018 was 12% p.a. (1% per month).
- d) Waste processing machinery was all purchased and brought into use on 1 October 2010 at a cost of R2.5 million in cash and is depreciated on a straight-line basis over a useful life of 10 years to an insignificant residual value. Depreciation (and wear and tear) of machinery for the year ended 30 September 2019 (excluding depreciation of the new motor detailed below) was correctly calculated at R234 688.
- e) The motor of a waste processing machine had to be replaced unexpectedly. This motor, which originally cost R175 000, was not recognised as a separate component of the machinery at initial recognition. The new motor was ordered on 1 September 2018 from a foreign supplier at a cost of \$15 750 (shipping terms: free on board). It was shipped from the foreign port, and the risks and rewards of ownership were transferred to Unwaste, on 15 October 2018 and arrived at the local port on 29 October 2018. The old motor was removed and scrapped, and the new motor was fitted and installed by Unwaste and ready for use on 15 November 2018. The new motor is expected to have a useful life of 15 600 operating hours. This motor operated for 2 600 hours during the financial year ended 30 September 2019.
- f) Unwaste entered into a forward exchange contract (FEC) on 1 September 2018 to purchase \$15 750 on 1 November 2018. The FEC was not designated as a hedging instrument. The foreign supplier was settled in full on 1 November 2018.

3. Profit or loss and taxation related information for the year ended 30 September 2019

The profit before taxation for the year ended 30 September 2019, after correctly accounting for all of the matters raised above, has been correctly calculated as R801 710.

- Dividends received from a South African company of R66 500 are included in profit before taxation.
- SARS does not grant any capital allowances or normal tax deductions on the cost of the landfill site.
- Rehabilitation costs are deductible when incurred.
- Unwaste had an assessed loss carried forward of R500 000 at 30 September 2018. Deferred tax was provided on this assessed loss at 30 September 2018, as future taxable profits are expected to be generated.
- The normal tax rate has always been 28% and 80% of capital gains are included in taxable income.

4. Additional information

- Unwaste prepares its financial statements in full conformity with International Financial Reporting Standards.
- All items of Property, Plant and Equipment are accounted for using the cost model in terms of IAS 16 *Property, Plant and Equipment*.
- An appropriate pre-tax risk adjusted interest rate of 12% p.a. applies throughout.
- Assume IFRS 16 *Leases* has always been in issue.
- Unwaste's functional and presentation currency is the South African Rand.
- The following exchange rates may be applicable:

Rand/US Dollar exchange rate	Spot rate 1\$ = R1?	Forward rate for FEC expiring on 1 November 2018 1\$ = R1?
1 October 2017	13.5912	-
1 September 2018	14.1090	14.4147
30 September 2018	15.5199	15.6880
15 October 2018	14.8145	14.8787
29 October 2018	15.2589	15.2696
1 November 2018	15.3962	-
30 September 2019	14.7806	-
Average rate for 12 months		
- 30 September 2018	13.1011	
- 30 September 2019	14.4715	

EXAM-2019-ACC3

This page is provided for you to make notes on during reading time. It is NOT to be handed in and it must therefore not form part of your final solution.