



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
ACCOUNTING 2B
ACC221E

EXAMINATION NOVEMBER 2019

ASSESSORS: Ms Sipokazi Mahintsho
MODERATOR : Mrs Dharmini Fakir (Internal)
TIME: 3 hours (plus 20 minutes reading time)
MARKS: 150
PAGES: 10 pages (including worksheet)

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	54	65
2	Leases	30	36
3	Share capital & Financial instruments	16	19
4	Cash flow statement	50	60
	TOTAL	150	180

1. Background

Kabaal Limited (Kabaal) is one of the largest forklift manufacturing companies based in East London. On 3 August 2016, Kabaal acquired 67% shareholding in Gilly Limited (Gilly) for growth purposes and assumed control of Gilly. The group and its subsidiaries has a financial year ending 30 June.

2. Information

The following are the statement of financial position and an extract from the statement of changes in equity of Kabaal and its partly-owned subsidiary, Gilly.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Kabaal	Gilly
	R	R
ASSETS		
Non - Current Assets		
Investment in Gilly at cost	800 000	-
Land at cost	121 000	475 000
Equipment at carrying amount	100 000	1 500 000
Current Assets		
Trade and other receivables	105 000	110 000
Inventory	1 525 000	150 000
Bank	101 000	-
	2 752 000	2 235 000
EQUITY AND LIABILITIES		
Share capital	500 000	400 000
Retained earnings	985 300	1 375 000
Non-Current Liabilities		
Deferred tax	296 000	97 000
Current Liabilities		
Trade creditors and other payables	970 700	363 000
	2 752 000	2 235 000

QUESTION 1 (continued)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019
(EXTRACT)

	<u>RETAINED EARNINGS</u>	
	Kabaal	Gilly
	R	R
Balance at 1 July 2018	326 000	970 000
Total comprehensive income for the year	659 300	841 000
Ordinary dividends paid	-	(436 000)
Balance at 30 June 2019	985 300	1 375 000

Additional information:

1. At acquisition date, the retained earnings of Gilly were R498 000 and the ordinary share capital of Gilly has remained unchanged since that date.
2. At the acquisition date, all the carrying amounts of the assets and liabilities as recognised by Gilly were considered to be fairly valued, in accordance with IFRS 3, except for land which was undervalued. No goodwill was recorded.
3. Since acquisition, Kabaal has purchased all of its inventory from Gilly at a mark-up of 25% on selling price.
4. In the 2018 financial year, an additional forklift with a total selling price of R1 631 000 was purchased and used for manufacturing purposes from the beginning of the year.
5. The balance of Kabaal's inventory on 1 July 2018 was R1 003 000.
6. Non-controlling interest is measured at a percentage of the net identifiable assets.
7. It is the policy of Kabaal Limited Group to depreciate forklifts on a straight line basis with a Nil residual value over a five-year period.
8. Assume that a company tax rate of 28% applies for all years under review. Ignore VAT and capital gains tax.

QUESTION 1 – REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare all the <u>pro-forma consolidation journal entries</u> in preparation of Kabaal Limited Consolidated Financial Statements for the year ended 30 June 2019. <i>Journal entries should clearly indicate the account type (statement of financial position (SFP), statement of changes in equity(SCE), Profit or loss(P/L) or other comprehensive income (OCI) and journal narrations are required.</i>	37	
(b)	Prepare a Consolidated Statement of Changes in Equity for Kabaal Limited Group for the ended 30 June 2019.	15	
	Presentation marks (layout and neatness)	2	
Total			54

QUESTION 2

30 marks

1. Background

Bakajuju Limited (Bakajuju) is a consulting firm located in Vincent, East London. You are the new accounting trainee and you were provided with a number of cases to respond to by the close of the business day.

2. Various cases form clients

Case No. 1

SadziM operates a photography business and recently started a YouTube channel to teach people how to take videos. SadziM entered into a contract with Kimono Pixels, to rent a digital equipment to record videos for a period of 24 months from 1 July 2018. The equipment (DE0056) consists of a high quality digital video camera, computer and microphone. The agreement states that the payment is R6 000 per month and if SadziM has 15 000 views on YouTube, the monthly payment would decrease by R500 per month. SadziM managed to get more than 15 000 views from month eleven of the contract. Kimono Pixels installed software that connects the camera, computer and the microphone for efficient use. The equipment is a low value asset as defined. SadziM contacted Bakajuju to assist with how to account for this transaction.

Case No. 2

Glamour Boys is a company in the maintenance services industry that has a 30 June financial year end. Glamour Boys won a tender to maintain all the major stadiums for three years. On 1 July 2018 Glamour Boys concluded the lease contract with PMB United to acquire lawnmower machines for maintaining all the major stadiums in South Africa. The details of the lease agreement are given below:

- The cash price for the machines is R240 000 and estimated to be 40% more after two years.
- The period of the lease is a 2 year non-cancellable period with a negotiable option to renew.
- The lease payment is R79 000 per year, *paid* in advance.
- The interest rate implicit in the lease is 11% per annum.

Glamour Boys incurred legal costs of R15 000 and PMB United paid the legal costs of R5 000 on behalf of Glamour Boys on 1 June 2018.

The expected useful life of the machine is 5 years.

The tender is non-renewable.

QUESTION 2 – REQUIRED		Marks	
		Sub-total	Total
a)	<u>Case 1</u> Respond to SadziM on behalf of Bakajuju and explain how to account for the transaction. In your response show the journal entries that SadziM needs to process for the year ended 30 June 2019.	15	
(b)	<u>Case 2</u> Prepare the journal entries to account for the lease between Glamour Boys and PMB United in the financial statements of Glamour Boys for the year ended 30 June 2019.	14	
	Presentation marks (layout and neatness)	1	
Total			30

QUESTION 3**16 marks****Background**

Old Town (OT) is a clock manufacturer based in South Africa that supplies vintage clocks to retail stores around the world and is a well-known brand. OT has a 30 June financial year end.

In addition to the normal and organic growth of the business, on 1 July 2018 OT acquired 400 000 debentures issued by Wanda Ltd. Wanda Ltd debentures are securities backed by gold and are listed on the Johannesburg Stock Exchange. The investment in debentures is held by OT within a business model of which the objective is to collect contractual cash flows. OT incurred R10 500 brokerage fees.

OT acquired these debentures at their fair value of R 845 600. A coupon rate of 10% per annum is payable annually in arrears. These debentures mature on 30 June 2023 at the face value of R900 000.

Management estimated the 12-month loss allowance for expected credit losses on initial recognition of the debentures at an amount of R32 000. There was no significant increase in the credit risk of the debentures since initial recognition.

QUESTION 3 – REQUIRED		Marks	
		Sub-total	Total
(a)	Briefly discuss the classification of the financial instrument.	3	
(b)	Prepare the journal entries to account for the financial instrument for the year ended 30 June 2019.	10	
(c)	Briefly discuss the risks relating to this financial instrument.	3	
Total			16

QUESTION 4

50 marks

1. Background

You have been requested to assist the accountant of Kumbaya Limited (Kumbaya) with the preparation of the statement of cash flows for the year ended 30 June 2019. The accountant has provided you with the financial information for the year ended 30 June 2019.

2. Information

Statement of financial position as at 30 June 2019	2019 R	2018 R
ASSETS		
Non-current Assets		
Land	380 000	272 000
Buildings at cost	650 000	700 000
Buildings accumulated depreciation	(186 500)	(154 000)
Machine at carrying amount	292 000	-
Investments	103 000	154 000
Current Assets		
Inventory	650 000	474 000
Accounts receivable	710 000	490 000
Bank	229 000	253 000
	2 827 500	2 189 000
EQUITY AND LIABILITIES		
Capital and reserves		
Ordinary share capital	250 000	250 000
Retained earnings	947 060	896 000
Non-current Liabilities		
Long term loans	662 500	581 000
10% Redeemable debentures	584 940	-
Current Liabilities		
Accounts payable	220 000	250 000
Shareholders for dividends	45 000	124 000
Current tax payable	118 000	88 000
	2 827 500	2 189 000

Additional information:

- One of the buildings was sold for R120 000, with a carrying amount of R82 500 and a cost of R100 000 at the date of disposal.

QUESTION 4 (continued)

2. On 25 March 2019, Kumbaya acquired a machine from a German manufacturer for €15 000. Spot rate at acquisition date was €1: R16.13 and settled on that date.
3. Installation costs for the machine were R50 000.
4. Kumbaya depreciates the machine over 5 years on a straight line basis with a nil residual value. The machine was ready for use on 1 June 2019.
5. On 1 July 2018, Kumbaya issued 5 500 debentures with a nominal value of R100 each for R591 335 including transaction costs. The interest of 15% per annum is payable on the 30 June each year. The debentures are classified at amortised costs. Debentures are to be redeemed in five years at an amount of R550 000.
6. The following items were included in the profit and loss for the year:

	2019 R
Revenue	1 142 000
Dividends income	47 000
Interest paid - loans	6 823
Tax expense	152 000

7. During the year, Kumbaya declared a dividend of R35 000 to its shareholders.
8. During the year, Kumbaya cashed out a portion of the investment, there were no fair value adjustments.

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 Kumbaya Limited for the year ended 30 June 2019, using the <u>direct</u> method. Show all your calculations. Round to the nearest R1.	48	
	Presentation marks (layout and neatness)	2	
Total			50

