



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2B
ACG 221E / ACG 221

NOVEMBER SUPPLEMENTARY EXAMINATION 2024

ASSESSOR	:	Ms Ntombentsha Mnconywa Mr Gordon Adams
MODERATOR	:	Mr Sinelizwi Qakaza (Internal)
TIME	:	180
MARKS	:	100
PAGES	:	7 pages (including front page & AOE TEMPLATE)

INSTRUCTIONS:

1. Answer **all** the questions.
2. Show and reference all workings clearly – marks are allocated to workings.
3. Only silent, non-programmable calculators are allowed.
4. Students that contravene examination rules in the General Prospectus of the University of Fort Hare will be disciplined in accordance with said rules.

QUESTION 1

65 MARKS (117 MINUTES)

Part A

BACKGROUND

Shein Mani Ltd ("SM") is diversified company that invests in shares issued by other companies, mainly technology companies and manufactures robots with AI capabilities, these robots can assist companies in making the right investment decisions by analysis financial information of the target companies in 2 minutes. SM has a 31 March year end.

INFORMATION

Shein Mani ("SM") has two lease agreements in place at year end, 31 March 2024. SM applies IFRS 16 Leases in accounting for these lease agreements. It is the accounting policy of SM to measure all rights-of-use assets under the cost model and to elect to apply the recognition exemption to leases of low-value assets and short-term leases.

Lease agreement 1

SM leases a computer from Data Limited which qualifies as a lease of low-value asset. The details of the lease are as follows:

Commencement: 1 November 2022
Period: 2 years
Payment terms: R1 200 per month for the first year and R1 500 per month for the second year

Lease agreement 2

SM entered into an agreement with Plant Hire Limited for the lease of machinery. The details of the agreement are as follows:

Commencement: 1 April 2022
Period: 5 years, non-cancellable
Payment terms: Five fixed lease payments of R100 000 per annum, payable annually in arrears, starting on 31 March 2023. Ownership of the machinery will transfer to SM at the end of the lease.

Additional information:

1. The interest rate implicit in the lease was not readily determinable by SM and thus the entity uses its incremental borrowing rate. The incremental borrowing rates were as follows:
 - 1 April 2022 – 10%
2. The machinery has a useful life of 5 years with a nil residual value.
3. Ignore taxation.

QUESTION 1 CONTINUED

Part B

SM issued 10 000 debentures with a face value of R500 each on 1 November 2023 in order to fund the purchase of additional Temul shares. The debentures were issued at a premium of 21% and are redeemable at their face value of R500 each on 31 October 2026. Interest on the debentures is payable in arrears every 3 months. The coupon rate of the debentures was 12% per annum. Transaction costs on the issue of the debentures amounted to R50 000. The debentures are measured at amortised cost.

SM Ltd purchased a new manufacturing machine in 2023, obtaining control over it on 30 June 2023 when it was delivered to its factory. SM Ltd agreed to pay for the machine as follows:

- R3 764 500 on 30 June 2023,
- \$15 700 on 31 July 2023 (this settlement period is considered normal)
- R663 560 on 31 July 2023

The machine was expected to manufacture a total of 30 000 Robots over its useful life, after which it would have no value.

The machine started manufacturing robots on 31 August 2023.

The machine manufactured the following number of Robots in each financial year:

- 2023: 7 500 robots
- 2024: 18 000 robots
- 2025: 4 500 robots

Exchange rates are as follows:

- 30 June 2023: R15.00 = \$1
- 31 July 2023: R15.50 = \$1

Part C

SM Ltd enters into a three year contract with Moto Limited, a road transport company, for the use of ten trucks to deliver machines to companies like Google and

The model and capacity of the trucks are specified in the contract and the trucks are painted in the corporate colours of SM Ltd. SM Ltd provides its own drivers.

The vehicles are parked at SM Ltd factory when not in use and can be used for storage or to transport goods of other manufacturers. Moto Limited cannot take back a vehicle during the contract period. If a particular vehicle needs servicing or repair, Moto Limited is required to substitute a vehicle of the same type.

QUESTION 1 CONTINUED

QUESTION 1 REQUIRED:		Sub-total	Total
PART A	i) Prepare the journal entries to recognise the lease agreements for the period 1 April 2022 to 31 March 2023 . <ul style="list-style-type: none"> • <i>Show your workings and narrations</i> 	11	25
	ii) Prepare the note to disclose the leases (lease note) in the financial statements of SM Limited for the financial year ended 31 March 2024 (1 April 2023 to 31 March 2024)	14	
PART B	Prepare all the journal entries that are necessary to account for the debentures of Shein Mani Ltd for the year ended 31 March 2024. Assume an effective interest rate of 1.2% per period is applicable to the amortization of the debenture <ul style="list-style-type: none"> • Include the effective interest rate table • Dates and narration required • Show all workings 	15	15
PART C.1	Prepare the journal entries in SM Ltd books to record the transaction relating to the machine for the year ended 31 March 2024 <ul style="list-style-type: none"> • <i>Include depreciation entries</i> • <i>Dates and narration required</i> • <i>Show all your workings</i> 	15	15
PART C.2	Discuss if the arrangement between SM Ltd and Moto Ltd contains a lease	10	10
TOTAL MARKS			65

QUESTION 2 CONTINUED

ADDITIONAL INFORMATION

1. Goodwill is considered to be fairly valued at its original cost (i.e. no impairment has taken place).
2. The group's policy is to value the non- controlling interests initially at their share of the separately identifiable net assets of the subsidiary at the date of acquisition.
3. Ignore taxation.

QUESTION 2 REQUIRED:		Sub-total	Total
A.	Prepare the pro-forma journal entries (Consolidation journal entries) to incorporate Egyptian Cotton Limited to Fleece textiles Limited Group for the year ended 31 December 2023.	15	
B.	Prepare the Consolidated Statement of Financial Position of Fleece Textiles Limited Group at 31 December 2023.	11	
	Prepare the Analysis of Equity as workings. <ul style="list-style-type: none">• <i>Notes and comparatives are not required.</i>	9	
	TOTAL		35