



University of Fort Hare  
*Together in Excellence*

**NKUHLU DEPARTMENT OF ACCOUNTING  
ADVANCED DIPLOMA IN ACCOUNTING  
ACCOUNTING ADA  
AAC301E**

**FINAL ASSESSMENT OPPORTUNITY  
NOVEMBER 2019**

<b>ASSESSORS:</b>	Mrs Wendy Terblanche
<b>MODERATOR</b>	Prof Rikus de Villiers (External - North-West University) Prof Sean Weldon (Internal)
<b>TIME:</b>	4 hours (plus 30 minutes reading time)
<b>MARKS:</b>	160
<b>PAGES:</b>	11 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 accord
7. ance with said rules.
8. 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	70	105
2	90	135
	<b>160</b>	<b>240</b>

## QUESTION 1

70 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. The following information relates to the Datalog group – the financial year of all companies within the group ends on 30 September:

Datalog Limited				
Consolidated statement of financial position at 30 September		Notes	2019 R	2018 R
<b>Non-current Assets</b>			2 634 852	3 427 010
Goodwill			518 000	633 744
Property, plant and equipment		(4)	2 116 852	2 793 266
<b>Current Assets</b>			1 129 436	1 117 700
Inventory			388 400	349 400
Trade receivables			655 466	633 300
Bank and cash			85 570	135 000
Non-current assets held for sale			680 000	-
<b>Total assets</b>			4 444 288	4 544 710
<b>Equity and liabilities</b>				
Share capital		(1)	500 000	500 000
Retained earnings		(2)	1 652 174	1 491 646
Non-controlling interest			2 152 174	1 991 646
Total equity			154 457	248 956
<b>Non-current liabilities</b>			2 306 630	2 240 602
Other non-current liabilities		(3)	1 079 124	1 509 513
Deferred tax			894 594	1 324 265
<b>Current liabilities</b>			184 530	185 248
Other current liabilities		(5)	1 058 533	794 595
Bank overdraft			800 716	614 268
Taxation payable			152 455	95 800
<b>Total equity and liabilities</b>			105 362	84 527
			4 444 287	4 544 710

Datalog Limited			
Consolidated statement of profit or loss for the year ended 30 September 2019		Notes	2019 R
Revenue from contracts with customers			5 826 360
Operating profit		(4),(5)	578 000
Finance costs		(3)	(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

**Notes:**

- (1) There have been no changes in the share capital in any of the companies in the Datalog group.
- (2) Cash flow for dividends paid to the shareholders of Datalog and to the non-controlling interests during the 2019 financial year has been correctly calculated as R171 591.
- (3) Finance costs includes interest paid on bank loans and interest on the debentures issued to the former shareholders of Analyzit Limited (see below).
- (4) Depreciation on property, plant and equipment of R255 000 has been taken into account in calculating operating profit.
- (5) Datalog has a share based payment arrangement for its senior managers. The arrangement required the senior managers to remain in the employment of Datalog from 1 October 2016 to 30 September 2019. In terms of the arrangement, the senior managers are entitled to 1 000 share appreciation rights each, that is, to be paid in cash the difference between the strike price (R10 per SAR) and the market price of the shares of Datalog on vesting date. Any liability arising from this arrangement at 30 September 2018, was included in other current liabilities. At 30 September 2019, the senior managers still in the employ of Datalog all exercised all of their rights.

Date	No. of qualifying employees employed at this date	No. of qualifying employees expected to be employed at 30 September 2019	Fair value of the SARs at this date	Market price of a Datalog ordinary share
30 September 2018	8	7	R5.25	R14.75
30 September 2019	6	-	-	R15.00

**Accounting policies:**

- 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.

Other than what is detailed below, Datalog did not purchase or sell any interests in any companies during the 2019 financial year. The following summarised trial balances of certain subsidiaries of the Datalog group, prepared on different dates, have been provided to you.

Summarised Trial Balances	ITCloud	Analyzit	Efficient Processing
	30 Sept 2019	1 Oct 2017	1 April 2019
	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
	R	R	R
Ordinary Share capital	(100 000)	(480 000)	(250 000)
Preference Share capital	(142 000)	-	-
Retained earnings	(245 000)	(458 048)	(212 460)
Preference Dividends paid (30/9/2019)	11 360	-	-
Trade and other payables	(18 000)	(127 020)	(161 820)
Deferred tax liability	(30 000)	(13 072)	(11 429)
Land	150 000	276 980	87 800
Building	300 000	317 100	238 300
Equipment	135 140	130 000	272 739
Trade receivables	16 027	197 980	75 000
Inventory	-	90 000	39 000
Bank and cash	19 490	66 080	48 350
Operating profit	(121 620)	-	(154 230)
Income tax expense	24 603	-	28 750
	-	-	-

#### ITCloud (Proprietary) Limited

- 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 share dividends annually on 30 September each year. On 30 September 2019, Datalog sold a 22.5% interest in ITC for R120 000. Datalog retained control of ITC with its remaining 52.5% interest in the ordinary shares of ITC.

#### Analyzit Limited

- Datalog has a controlling interest in Analyzit Limited ('Analyzit'). Analyzit specialises in tracking buying behaviour, customer segmentation and sales strategy enhancements through predictive analytics. Datalog recognised goodwill on acquisition of control of Analyzit but due to lower than expected performance, goodwill was impaired in the 2019 financial year (see point 5 below) and Datalog decided to restructure Analyzit's operations (see point 6 below).

3. Datalog had held a 25% interest in the ordinary shares of Analyzit since its incorporation (cost R120 000). 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 R350 000.
  - Building was valued at R425 000.
4. On 1 October 2017 the fair value of the 25% interest was R290 000. Datalog settled the consideration for the additional 55% interest in Analyzit on 1 October 2017 as follows:
  - In cash of R360 000;
  - A further cash payment of R50 000 to be made on 30 September 2019 if an agreed upon profit target is met by that date. At 1 October 2017, the fair value of this contingent consideration was R26 970;
  - By issuing 4 500 debentures to the former shareholders of Analyzit at their fair value of R402 517. 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%.
5. The fair value of the contingent consideration remained unchanged until 30 September 2019 when the profit target was not met and no additional payment was made.

Although the value of the goodwill had not previously been impaired, it was impaired by half of its value on 30 September 2019 – the impairment loss has been included in group operating profit.
6. Datalog decided to restructure the operations of Analyzit by consolidating the administration functions of Datalog and Analyzit. The plan to restructure the operations of Analyzit was announced to all involved parties on 15 August 2019 and included the following:
  - Sale of Analyzit's land and building: The land and building, which originally cost R276 980 and R528 500 when Analyzit acquired the property on 1 October 2007, met the criteria to be classified as held for sale on 15 August 2019. The building is depreciated over a 25 year useful life to an insignificant residual value. SARS grants capital allowances on the cost of this building. The fair value less cost to sell of the land and building on 15 August 2019 was R680 000 and this value remained unchanged at 30 September 2019.
  - Relocation and retraining of 5 admin employees of Analyzit (cost R45 000).
  - Retrenchment of 6 of Analyzit's admin employees at a cost of R15 000 each. Two of these employees agreed to assist with the move to Datalog's offices and accepted a retrenchment package of R20 000 each.

The effects of this decision were correctly accounted for in the year ended 30 September 2019, any related provisions included in other current liabilities and any related income/expense included in operating profit. By 30 September 2019 the land and buildings had not yet been sold. The relocation, retraining and retrenchment packages were settled during October and November 2019.

### Efficient Processing Limited

7. When Datalog acquired a 60% controlling interest in Efficient Processing Limited ('EP') a number of years ago, the retained earnings of EP was R120 000, the net assets of EP were considered to be fairly valued and Datalog recognised goodwill arising from this business combination transaction. This goodwill has not been subsequently impaired.
8. On 1 April 2019, Datalog sold its entire shareholding in EP and Datalog recorded a profit on sale of its investment in EP (in its separate financial statements) of R100 000.

### 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 couple 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 R60 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 2

90 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. The terms of the loan have however not been renegotiated.

**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. On 1 July 2019, Unwaste received a directive from the Minister of Environmental Affairs to cease the disposal of waste at the BF landfill site until such time as certain directives pertaining to the management of the landfill have been implemented. Although Unwaste had already voluntarily implemented a number of these directives, it decided to put the site on a care-and-maintenance programme until the regulator grants it approval to re-open the site. At 30 September 2019, this approval had not yet been received but the directors were hopeful that it would be received within a short period.

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 – at the end of 40 years the landfill site will be closed. The landfill site is depreciated on a straight-line basis over its useful life to an insignificant residual value. The landfill site was revalued, in terms of Unwaste's accounting policy, on 30 September 2018, to its fair value of R4 million. The following information was correctly calculated at 30 September 2018:

Historical carrying amount	R3 600 000
Revaluation surplus	<u>R 400 000</u>
Revalued carrying amount	R4 000 000

- b) 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 guaranteed the residual value of the vehicles at the end of the lease to be R350 000. Unwaste expects to pay R79 000 in terms of this residual value guarantee. 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).
- c) Waste processing machinery was all purchased and brought into use on 1 October 2010 at a cost of R2.5 million in cash. Machinery 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 the new motor detailed below) was correctly calculated at R234 688.
- d) 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.

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 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 R713 984.

- Dividends received from a South Africa company of R66 500 are included in profit before taxation.
- SARS does not give any capital allowances or normal tax deductions on the cost of the landfill site.
- At 30 September 2018, there were net taxable temporary differences of R428 572 (including temporary differences arising from all assets and liabilities) before taking into account the assessed loss below.
- 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, only in so far as there were sufficient taxable temporary differences, as at that date it was not probable that future taxable profit would be available against which the unused tax loss could be utilised.
- During the financial year ended 30 September 2019 taxable temporary differences, other than any temporary differences relating to the BF Landfill site and related assets and liabilities, increased by R350 000.
- 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.
- The landfill site is revalued at the end of every third year in terms of the revaluation model in IAS 16 *Property, Plant and Equipment*.
- All other 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 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-ADA

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.