



University of Fort Hare
Together in Excellence

NKUHLU DEPARTMENT OF ACCOUNTING
GENERAL ACCOUNTING 2B
ACG221/221E

EXAMINATION 12 NOVEMBER 2018

ASSESSORS: Mrs Matshutsha Vuzane
Mr Bonakele Ncemane

MODERATOR: Mrs Wendy Terblanche (Internal)

TIME: 3 hours (plus 15 minutes reading time)

MARKS: 150

PAGES: 10 pages (Including analysis work sheet)

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	Business combinations , consolidations and forex	77	92
2	Financial instruments	15	21
3	Cashflow statements	58	67
	TOTAL	150	180

QUESTION 1**77 MARKS****PART A****58 MARKS**

Hergio Limited (hereafter Hergio) is a company listed on the Johannesburg Stock Exchange (JSE) under Oil and Gas Producers sector. Hergio supplies off the grid products and energy generation equipment. Hergio's financial reporting period end is **30 September**.

On 30 September 2016, Hergio acquired 7 500 000 ordinary shares of Submos Limited (hereafter Submos) for R50 000 000 cash, at this date all the assets and liabilities of Submos were fairly value. Submos is also listed on the JSE under Oil and Gas Producers sector. Submos is the sole supplier of off the grid products and energy generating equipment.

The statement of financial position of Submos as at 30 September 2016 was as follows:

	Note	2016
		R
Non-current assets		
Property plant and equipment		50 000 000
Intangibles		15 000 000
Investment in financial assets		25 000 000
Loan to Hergio	4	10 000 000
		100 000 000
Current assets		
Inventories		10 000 000
Trade receivables		10 000 000
Cash and cash equivalents		30 000 000
		50 000 000
Total assets		150 000 000
Equity and Liabilities		
Share capital (R1 per share)		10 000 000
Retained earnings		50 000 000
		60 000 000
Non-current liabilities		
Debentures		80 000 000
		80 000 000
Current liabilities		
Trade payables		10 000 000
		10 000 000
Total equity and liabilities		150 000 000

The statement of profit or loss and other comprehensive income of Submos for the financial year ended 30 September 2017 was as follows:

		2017	
		R	
	Note	Hergio	Submos
Revenue	1	250 000 000	120 000 000
Cost of sales	2	(100 000 000)	(50 000 000)
Gross profit		150 000 000	70 000 000
Other income	3&4	40 000 000	10 000 000
Other expenses	3	(59 400 000)	(20 000 000)
Finance cost	4	(600 000)	0
Profit before tax		130 000 000	60 000 000
Tax expense		(30 000 000)	(10 000 000)
Profit and total comprehensive income for the year		100 000 000	50 000 000

Notes

- Submos made sales of R50 000 000 to Hergio during the financial year ended 30 September 2017.
- Unrealized profit included in the inventory purchased from Submos at 30 September 2017 amounted to R700 000.
- Submos paid the following expenses to Hergio during the year:
 - Management fees 3 000 000
 - Rent 500 000
- Submos granted loan to Hergio amounting to R10 000 000. Hergio paid finance costs amounting to R600 000 and the amount paid by Hergio is included in other income of Submos.
- The non-controlling interest were initially measured at their share of net identifiable assets.

Statement of changes in equity for the financial year ended 30 September 2017 for both Hergio Ltd and Submos Ltd was as follows:

	Share capital Hergio Ltd	Share capital Submos Ltd	Retained earnings Hergio Ltd	Retained earnings Submos Ltd
	R	R	R	R
Balance at 1 October 2016	20 000 000	10 000 000	100 000 000	50 000 000
Total comprehensive income for the year	0	0	100 000 000	50 000 000
Dividends paid	0	0	(50 000 000)	(10 000 000)
Balance at 30 September 2017	20 000 000	10 000 000	150 000 000	90 000 000

On 30 September 2017 Hergio issued 1 000 000 ordinary shares at R10 each. The shares have not been recorded as the accountant of Hergio (Mr Canelo Alvarez) forgot about it.

- Ignore deferred tax.

	REQUIRED: PART A	TOTAL
1	Calculate the percentage of Hergio Limited controlling interest in Submos Limited	2
2	Prepare the pro-forma consolidation journal entries required to consolidate Submos into the Hergio Limited Group for the financial year ended 30 September 2017. You may choose to prepare the analysis worksheet as your workings Journal narrations are not required	24
3	Prepare the consolidated statement of profit or loss and other comprehensive income for the financial year ended on 30 September 2017 of Hergio Limited Group.	21
4	Prepare the consolidated statement of changes in equity of Hergio Limited Group for the financial year ended 30 September 2017.	10
Please note: Round off all figures to the nearest Rand. No comparative figures are required.		
Presentation mark: presentation in compliance with IFRS		1
Total		58

PART B**11 MARKS**

Carolina Logistics Limited (hereafter Carolina) is a company listed on the Johannesburg Stock Exchange (JSE) under Industrial Transportation sector. Carolina's financial reporting period end is 30 June. Carolina invested in 1 000 000 ordinary shares of Valentia Limited (hereafter Valentia) on 1 April 2017 at R5 per share. Valentia is listed on the JSE and have 2 000 000 ordinary shares in issue. In terms of the purchase agreement, Carolina has a right to appoint 5 of the 10 directors in the board of Valentia, one of whom must be elected chairperson. In a case where there is tie in a vote, the chairperson of the board has a casting vote.

REQUIRED: PART B		
A	Discuss whether Carolina controls Valentia in accordance with IFRS 10 <i>Consolidated financial statements</i>	10
	Presentation mark: neatness, language and clarity of expression	1
Total		11

Part C**8 Marks**

Leather Mill Limited was established in Port Elizabeth in 2009. The founding philosophy was to offer quality functional furniture manufactured to our clients' needs by our skilled artisans. Since its incorporation the company has been exporting to foreign countries some of their local manufactured goods.

On 1 July 2017, Leather Mill sold 20 of their high quality leather couches for the total amount of \$50 000, when the spot exchange rate was \$1=R14.50. Half of the amount due was received on 31 October 2017 when the exchange rate was \$1=R14.80

The company's year-end is 31 December. At 31 December 2017 the exchange rate strengthened to \$1=R14.00. Leather Mill Limited has a functional currency of South African Rands.

REQUIRED –Part C		Marks	
		Sub-total	Total
(a)	Prepare all Journal entries in the books of Leather Mill Limited to record the above transactions for the year ended 31 December 2017. Journal dates are required Narrations are required		8
Total			8

QUESTION 2**15 MARKS**

Plumb Ltd issued debentures with a par value of R5 000 000 to Serenade Limited on 1 January 2017 at a discount of 5%. The debentures are a financial liability in the books of Plumb Ltd and it is classified as financial liability at amortized cost in terms of IFRS 9, *Financial Instruments*. The debentures are redeemable at par in five years' time and bear interest at 12% per annum until redemption date. Plumb's financial reporting period end is 31 December.

Effective interest Rate: 13.437%

REQUIRED	TOTAL
Prepare all of the journal entries to be recorded by Plumb Limited to correctly account for the debentures for the financial years ended on: -31 December 2017 -31 December 2021 Prepare an amortization table as your workings Journal narrations not required	15
Please note: Round off all figures to the nearest Rand. Show all your workings.	
Total	15

Background

You have recently been appointed as an Accountant of Port Elizabeth Greenhouse Limited, a company that specializes in construction of built greenhouses. A greenhouse is a structure with walls and roof made chiefly of transparent material, such as glass, in which plants requiring regulated climatic conditions are grown.

Port Elizabeth Greenhouse Limited's (PEG) new manufacturing plant was constructed in Port Elizabeth (PE) allowing both aluminum and steel frames for greenhouses to be produced in this state-of-the-art facility. PE facility was doubled in size for additional manufacturing capacity and new automated Computer Numerical Control (CNC) machinery. Significant investments are regularly made in robotic welding and cutting machinery to maximize efficiency.

The statement of financial positions as at 31 December 2017 and 2016 are presented to you in **appendix 1**

ADDITIONAL INFORMATION:**1. Non -Current assets**

1.1 No land and buildings were disposed of during the year. The fixed property acquired was for expansion of activities.

1.2 On 1 March 2017 the company acquired two new machineries to replace a machine that had to be written off during the year. The old machine had a cost price of R22 000 and accumulated depreciation of R20 500 when it was written off. PEG Limited sold the machine as scrap to a scrapyard for R850.

1.3. Equipment with a cost of R20 000 and accumulated depreciation of R16 500 (on disposal date) was sold on 1 January 2017 for R6 500. Depreciation on Equipment is calculated at 10% per annum on cost on the straight-line basis

1.4 On 1 April 2017 an investment (financial asset) with a book value of R10 000 was sold at R12 500 by PEG Limited. 5000 shares were purchased for a market price of R10 on 1 June 2017 and transaction costs of R5000 were incurred. A fair value increase of R10 000 was accounted for at the end of the year.

2. Expected Credit loss allowance is maintained at 10% of the debtors.

3. On 1 January 2017 104 500 ordinary shares were issued at R1.00, 38 500 of the shares were issued in return for additional machinery with the cost price of R38 500. The management discovered that the additional machinery had fault and could not be used. Instead of returning it back to the suppliers PEG Ltd decided to donate the machinery.

3.1 On 31 May 2017 an interim dividend of R30 000 was declared and paid. A final dividend of R 17 500 was declared on 31 December 2017.

3.2 On 1 January 2017 all convertible preference shares were converted into ordinary shares.

4.1 Additional loans of R15 000 each from standard bank were borrowed on 1 June 2017 and 31 December 2017 respectively.

4.2 The 12% debentures are redeemable from 31 December 2017 in annual payments of R10 000. At 31 December 2017 a further R40 000 of debentures were issued. Debenture interest is paid annually on 31 December.

5. During 2017 an amount of R13 900 was paid to SARS as provisional tax.

8. Finance costs paid for the current year was R16 875 before taking into account the interest on debentures.

9. Revenue for the year ended 31 December 2017 amounted to R656 250 and dividends received amounted to R25 000

QUESTION 3– REQUIRED		Marks	
		Sub-total	Total
(a)	Prepare the statement of cash flows of PE Greenhouse Limited for the year ended 31 December 2017 in accordance with the IFRS requirements.	2)	57
	-Net cash flows from operating activities –Using the direct method	34)	
	-Net cash flows from investing activities	14)	
	- Net cash flows from financing activities	7)	
	Please note: Round off all figures to the nearest Rand. No comparative figures are required.		
	Presentation mark: Logic, layout and neatness		1
Total			58

APPENDIX 1

PORT ELIZABETH GREENHOUSE LIMITED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017 AND 31 DECEMBER 2016

	Note	2017	2016
ASSETS		R	R
Non-current assets	1		
Land and buildings	1.1	450 000	270 000
Machinery@ Carrying value	1.2	125 000	60 000
Cost		200 000	100 000
Accumulated depreciation		(75 000)	(40 000)
Equipment @ Carrying value	1.3	165 000	155 000
Cost		250 000	270 000
Accumulated depreciation		(85 000)	(115 000)
Investments	1.4	125 000	75 000
Current assets			
Inventories		85 000	65 000
Debtors, net of expected credit loss allowance	2	70 000	55 000
Bank		85 000	65 000
Total assets		1 043 000	745 000
EQUITY AND LIABILITIES			
Ordinary shares (2016 : 150 000 shares)	3	449 500	170 000
15% Convertible preference shares	3.2	0	175 000
Retained earnings		246 750	45 000
Non-current liabilities			
10% Interest bearing loan: Standard bank	4.1	190 000	160 000
12% Debentures	4.2	170 000	140 000
Current liabilities			
Creditors		16 250	19 500
Dividends payable	3.1	17 500	22 000
Taxation payable	5	15 000	13 500
Total equity and liabilities		1 043 000	745 000

