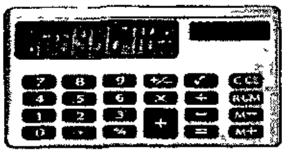
UNIVERSITY EXAMINATIONS



UNIVERSITEITSEKSAMENS

UNISA university of south africa

FAC2602

October/November 2016

SELECTED ACCOUNTING STANDARDS AND SIMPLE GROUP STRUCTURES

Duration 2 Hours

100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible.

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

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This paper consists of EIGHT (8) pages.

PLEASE NOTE:

1 This paper consists of **FOUR (4)** questions

2 All questions must be answered

3 Basic calculations, where applicable, must be shown

4 Ensure that you are handed the correct examination answer book (blue for Accounting) by the invigilator

5 Each question attempted must be commenced on a new (separate) page

6 **PROPOSED TIMETABLE:**

Question Number	Subject	Marks	Time in minutes
1	Group financial statements	21	25
2	Group financial statements	45	54
3	Statement of cash flows	28	34
4	Multiple choice questions	6	7
		100	120

[TURN OVER]

QUESTION 1 (21 marks)(25 minutes)

FitnessFreak Ltd and HealthHarry Ltd are both in the health and fitness industry FitnessFreak Ltd is a retailer of body building equipment, protein shakes and protein bars HealthHarry Ltd is a manufacturer of protein shakes and protein bars On 14 June 2012, HealthHarry Ltd became a subsidiary of FitnessFreak Ltd, when FitnessFreak Ltd purchased 80% of the shares in HealthHarry Ltd Assume one share carries one vote and that voting rights alone determine control

The following balances form part of the statement of financial position as at 30 April 2016

	Fitness Freak Ltd R	**Health Harry Ltd R**
Current account with FitnessFreak Ltd (debit)		70 000
Dividends payable		30 000
Current account with HealthHarry Ltd (credit)	20 000	

Unless otherwise indicated, the current accounts are used to account for intragroup transactions

Additional information

1 On 1 December 2014, HealthHarry Ltd purchased a machine from FitnessFreak Ltd for R70 000 FitnessFreak Ltd made a profit of 25% on the transaction Both companies depreciate machinery at 15% per annum according to the straight-line method

2 FitnessFreak Ltd purchases all its protein shakes and protein bars from HealthHarry Ltd at cost price plus 20% At year end, the inventory on hand was as follows

	Fitness Freak Ltd R	**Health Harry Ltd R**
30 April 2015	96 000	67 000
30 April 2016	114 000	96 000

3 The following dividends have been declared:

	Fitness Freak Ltd R	**Health Harry Ltd R**
30 April 2016	50 000	30 000

FitnessFreak Ltd has not yet provided for the dividends receivable from HealthHarry Ltd

4 HealthHarry Ltd is currently busy replacing old machinery with more energy efficient machinery One of these older machines has been leased to FitnessFreak Ltd since 1 June 2015 The operating lease instalments amount to R12 500 per month and are payable in arrears

FitnessFreak Ltd has subsequently fallen behind with lease payments and at year end the lease payments for March and April 2016 were in arrears The outstanding lease payments have been included in FitnessFreak Ltd's trade payables

QUESTION 1 (continued)

REQUIRED

	Marks
Draft the following pro-forma consolidation journal entries of the FitnessFreak Ltd Group for the year ended 30 April 2016, after taking the above-mentioned information into account	
Journal entries in the accounting records of FitnessFreak Ltd	
a) Journal to record the dividends receivable from HealthHarry Ltd	2
b) Journal to allocate the lease payments which are in arrears, to the current account	2
Pro-forma consolidation journal entries	
c) Elimination of the unrealised profit included in opening inventory	3
d) Elimination of the depreciation associated with the sale of the machinery	6
e) Elimination of the intragroup dividends and recording of the non-controlling interests in the dividends	3½
f) Elimination of the intragroup current accounts	4½
	[21]
Please note:	
Indicate clearly to which company each account refers to	
Journal narrations are not required	
Show all calculations and round off all amounts to the nearest Rand	
Ignore the taxation effect on unrealised profits and/or losses as well as capital gains tax	

QUESTION 2 (45 marks)(54 minutes)

Skhosana Ltd is a company that manufactures and sells exclusive office equipment Nduli Ltd is a retailer of office equipment Both companies have a 31 October year end

The following are extracts from the trial balances of the two companies for the year ended 31 October 2015

	Skhosana Ltd R	Nduli Ltd R
Credits		
Share capital – ordinary shares (800 000/350 000 shares)	1 600 000	600 000
Share capital – 10% preference shares (50 000 shares)	-	100 000
Retained earnings – 1 November 2014	11 600 000	3 600 000
Loan from Nduli Ltd	200 000	-
Accumulated depreciation	180 000	140 000
Trade and other payables	520 000	614 400
Revenue	6 000 000	5 000 000
Other income	500 000	680 000
	20 600 000	10 734 400
Debits		
Property, plant and equipment	8 000 000	3 600 000
Investment in Nduli Ltd at fair value		
- Ordinary shares (cost price R4 000 000)	4 000 000	-
- Preference shares (cost price R40 000)	40 000	-
Loan to Skhosana Ltd	-	200 000
Trade and other receivables	1 025 500	438 000
Cash and cash equivalents	1 640 900	1 613 120
Inventories	1 000 000	700 000
Ordinary dividends paid – 31 October 2015	100 000	60 000
Preference dividends paid – 31 January 2015	-	3 000
Preference dividends paid – 31 October 2015	-	7 000
Cost of sales	2 400 000	2 000 000
Other expenses	1 690 000	1 500 000
Finance charges	40 000	4 000
Income tax expense	663 600	609 280
	20 600 000	10 734 400

Additional information

1 On 1 February 2015, Skhosana Ltd acquired 85% of the issued ordinary shares of Nduli Ltd at R4 000 000 Each share carries one vote and voting rights alone determine control The issued share capital of Nduli Ltd remained unchanged since 1 February 2015 Assume that the carrying amounts of all the assets and liabilities of Nduli Ltd were considered to be equal to their respective fair values, on the date of acquisition

Furthermore, it is also group policy to disclose goodwill at cost less impairment in the consolidated financial statements Goodwill was not impaired during the current year

2 On the same day, Skhosana Ltd also acquired 40% of the issued preference shares of Nduli Ltd at R40 000 There were no preference dividends in arrears on the date of acquisition Nduli Ltd classified the 10% preference share capital as equity

QUESTION 2 (continued)

3 Nduli Ltd purchases inventory from Skhosana Ltd at a profit of 25% on Skhosana Ltd's cost price Since 1 February 2015, Nduli Ltd purchased inventory to the value of R500 000 from Skhosana Ltd On 31 October 2015, 70% of Nduli Ltd's inventory on hand was purchased from Skhosana Ltd since 1 February 2015.

4 On 1 August 2015, Skhosana Ltd purchased a machine from Nduli Ltd at a profit of R50 000 The carrying amount of this machine on the date of the sale was R100 000 The residual value remained unchanged at R20 000 It is the policy of the group to write off depreciation at 20% per annum using the straight-line method

5 Nduli Ltd granted a loan of R200 000 to Skhosana Ltd on 1 April 2015 The capital is repayable on 21 March 2018 The loan bears interest at a rate of 9,5% per annum, which is payable monthly in arrears The interest did not qualify for capitalisation and was accounted for by both companies

6 Included in other expenses of Nduli Ltd are salaries amounting to R100 000, paid to employees that were appointed since 1 March 2015

7 The income and expenses of Skhosana Ltd and Nduli Ltd were earned and incurred evenly during the current year, except where otherwise indicated You can assume that the income tax of Nduli Ltd for the period 1 November 2014 to 31 January 2015 amounted to R158 118 and for the period 1 February 2015 to 31 October 2015, R451 162

8 The Skhosana Ltd Group measures its investments in equity instruments at cost

REQUIRED

	Marks
Prepare the consolidated statement of profit or loss and other comprehensive income of the Skhosana Ltd Group for the year ended 31 October 2015	45
	[45]
Please note: Your answer must comply with the requirements of International Financial Reporting Standards (IFRS) Ignore the taxation effect on unrealised profits and/or losses, as well as capital gains tax Notes to the consolidated statements are not required Show all calculations and round off all amounts to the nearest Rand	

QUESTION 3 (28 marks)(34 minutes)

The following balances were extracted from the accounting records of Taste Ltd for the financial year ended 30 April 2016

	2016	2015
	R	R
Credits		
Share capital (250 000/225 000 ordinary shares)	500 000	450 000
Revaluation surplus	120 000	100 000
Retained earnings – 1 May 2015	824 311	547 112
Deferred tax	14 000	14 000
Trade and other payables	260 000	138 000
Dividends payable	30 000	20 000
Short-term borrowings	80 000	40 000
Revenue	1 900 000	1 500 000
Dividends received	18 000	8 000
Other income	100 000	62 000
Tax payable	111 924	133 689
Accumulated depreciation – plant and equipment	178 000	150 000
Long-term borrowings	270 000	300 000
	4 406 235	3 462 801
Debits		
Land and buildings at valuation	840 000	700 000
Plant and equipment at cost	450 000	300 000
Inventory	240 000	120 000
Trade and other receivables	480 000	500 000
Financial assets at fair value through profit or loss	650 000	500 000
Bank	90 000	50 000
Cost of sales	1 100 000	920 000
Other expenses	370 000	240 000
Income tax expense	150 408	107 801
Dividends declared	15 000	10 000
Interest paid	20 827	15 000
	4 406 235	3 462 801

Additional information

1 The company sold equipment which originally cost R36 500 during the year There were no other sales of plant and equipment in the current year Additional equipment was purchased to increase the production capacity of the company The cost of this equipment amounted to R90 000 Additional plant and equipment were acquired to replace outdated technology

Additional land and buildings were acquired to expand production capacity

2 The company made provision for credit losses of R40 000 (2015 R20 000) which are included in trade and other receivables

Trade and other receivables also include an amount of R60 000 (2015 R50 000) in respect of prepaid expenses

3 Other income includes an amount of R94 000 which relates to profit on disposal of financial assets The financial assets had a fair value of R80 000 on date of disposal The balance of other income relates to interest income.

QUESTION 3 (continued)

4 Interest on loans is paid in cash at the end of each financial year

5 Included in other expenses is an amount of R18 000 which relates to the fair value adjustments on the financial assets, the depreciation expense of R55 000 and a loss on the disposal of plant and equipment of R3 500

REQUIRED

	Marks
Draft the following sections of the statement of cash flows of Taste Ltd, according to the **direct method**, for the year ended 30 April 2016, after correcting and adjusting for all entries mentioned above	
a) Cash flows from the operating activities	13½
b) Cash flows from investing activities	14½
	[28]
Please note:	
Your answer must comply with the requirements of International Financial Reporting Standards (IFRS)	
Round off all amounts to the nearest Rand	
Show all calculations	
No comparative figures are required	
The notes to the statement of cash flows are not required	

QUESTION 4 (6 marks)(7 minutes)

REQUIRED

Answer the following multiple choice questions in your examination answer book Each question has only one correct answer

1 An entity that is controlled by another entity is called a (2)

1 parent
2 associate
3 subsidiary
4 controller

2 Select the **incorrect** statement For an investor to control an investee, the following, amongst other things, must be applicable (2)

1 the investor must have power over the investee
2 the investor must have more than 50% shareholding in the investee
3 the investor must be able to use its power to affect returns
4 the investor must have exposure or rights to returns from the investee

3 Assume that control is based on voting rights only, which is determined by the percentage interest Which percentage interest will make a company a subsidiary of another company?(2)

1 100%
2 more than 60%
3 more than 75%
4 more than 50%