

# Tutorial letter 202/1/2014

## Distinctive Financial Reporting FAC3702

### Semester 1

### Department of Financial Accounting

This tutorial letter contains the suggested solution to compulsory assignment 02.

**IMPORTANT INFORMATION:**

Please activate your *myUnisa* and *myLife* email addresses and ensure you have regular access to the *myUnisa* module site FAC3702 as well as your group site.

Note: This is an online module, and therefore your module is available on *myUnisa*. However, in order to support you in your learning process, you will receive some study material in printed format.

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## 1. INTRODUCTION

Dear Student,

Attached please find the suggested solution to assignment 02.

You will notice in our suggested solutions, dealing with company financial statements, opposite certain items calculations are shown in brackets. Such calculations are given for tuition purposes only and consequently do not form part of the statutory disclosure requirements.

## 2. LECTURERS AND CONTACT DETAILS

Please use only the following **e-mail address** for all communication with the lecturers:



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Please use the following **telephone number** for all communication with the lecturers:



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### 3. SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 02

Correct answers for the multiple choice questions are the following:

1. 1
2. 4
3. 3
4. 5
5. 2
6. 2
7. 5
8. 1
9. 2
10. 3

The detailed disclosure and calculations for Motorlink Ltd are given below for tuition purposes.

#### MOTORLINK LTD

#### NOTES FOR THE YEAR ENDED 31 DECEMBER 2013

##### 1. Profit before tax

	<b>R</b>
Profit before tax include the following items:	
<i>Income</i>	
Reversal of impairment loss (calc 5.2)	11 268
Rental income (30 000 x 6)	180 000
Fair value adjustment (calc 3.3 and calc 4.3)	250 000
<i>Expenses</i>	
Amortisation (calc 5)	125 337
Depreciation (calc 2.4)	87 500

##### 2. Property, plant and equipment

	<b>Land R</b>	<b>Building R</b>	<b>Total R</b>
Carrying amount at the beginning of the year	1 200 000	1 910 000	3 110 000
Cost	1 200 000	2 250 000	3 450 000
Accumulated depreciation	-	(340 000)	(340 000)
Revaluation (calc 1.1 and calc 2.3)	100 000	327 500	427 500
Depreciation (calc 2.4)	-	(87 500)	(87 500)
Carrying amount at the end of the year	1 300 000	2 150 000	3 450 000
Gross carrying amount	1 300 000	2 237 500	3 537 500
Accumulated depreciation	-	(87 500)	(87 500)

The land and building were revalued on 31 December 2013 by an independent sworn appraiser.

If the land and building was carried at cost minus accumulated depreciation the carrying amount would have amounted to R3 041 765 (Land: R1 200 000; Building: R1 841 765 (calc 2)).

**SUGGESTED SOLUTION ASSIGNMENT 02 (Continued)****3. Investment property**

	Land R	Building R	Total R
Carrying amount at the beginning of the year	1 100 000	1 650 000	2 750 000
Fair value adjustment (calc 3.3 and calc 4.3)	50 000	200 000	250 000
Carrying amount at the end of the year	1 150 000	1 850 000	3 000 000

The land and buildings was revalued on 31 December 2013 by an independent sworn appraiser.

(Note: Only the total column can be disclosed)

**4. Intangible assets**

	Purchased R
Carrying amount at the beginning of the year	428 236
Cost	780 000
Accumulated amortisation and impairment losses (calc 5) (205 833 + 130 000 + 15 931)	(351 764)
Amortisation (included in other expenses) (calc 5)	(125 337)
Reversal of impairment loss (included in other income) (calc 5.2)	11 268
Carrying amount at the end of the year	314 167
Cost	780 000
Accumulated amortisation and impairment losses	(465 833)

The intangible asset consists of a software package with a carrying amount at year end amounting to R314 167 and a remaining useful life of 2 years and 5 months (29 months).

**5. Deferred tax**

	R
Owner-occupied property - Land:	
Revaluation net of related depreciation (100 000 x 66,6% x 28%)	18 648
Owner-occupied property - Building:	
Revaluation net of related depreciation (308 235 x 28%)	86 306
Accelerated tax allowances [(1 841 765 – 1 462 500) x 28%]	106 194
Investment property - Land:	
Fair value adjustment (150 000 x 66,6% x 28%)	27 972
Investment property - Building:	
Fair value adjustment (250 000 x 66,6% x 28%)	46 620
Intangible asset:	
Accelerated tax allowances [(314 167 – 0) x 28%]	87 967
Deferred tax liability at end of the year	373 707

## **SUGGESTED SOLUTION ASSIGNMENT 02 (Continued)**

### **Alternative deferred tax note**

	<b>R</b>
Owner occupied property:	
Land [(1 300 000 – 1 200 000) x 66,6% x 28%]	18 648
Building [(2 150 000 – 1 462 500) x 28%]	192 500
Investment property:	
Land [(1 150 000 – 1 000 000) x 66,6% x 28%]	27 972
Building [(1 850 000 – 1 600 000) x 66,6% x 28%]	46 620
Intangible asset [(314 167 – 0) x 28%]	87 967
Deferred tax liability at the end of the year	373 707
(Note: This is the preferred deferred tax note)	

### **CALCULATIONS**

#### **1. Owner occupied - Land:**

	Carrying amount R	Tax base R	Exempt difference R	Temporary difference R	Deferred tax asset /(liability) R
Cost 1 May 2007	1 200 000	-	1 200 000		
Revaluation (calc 1.1)	100 000	-	-		
Carrying amount (calc 1.2)	1 300 000	-	1 200 000	100 000	(18648)

1.1.  $1\,300\,000 - 1\,200\,000 = 100\,000$

1.2.  $(1\,300\,000 - 1\,200\,000 \text{ exempt difference}) \times 66,6\% \times 28\% = 18\,648$

#### **2. Owner occupied - Building:**

	Carrying amount R	Historical carrying amount R	Reval- uation R	Tax base R	Tempo- rary difference R	Deferred tax asset/ (liability) R
Cost 1 May 2007	2 250 000	2 250 000	-	2 250 000		
Depreciation / Building allowance (calc 2.1 – 2.2)	(340 000)	(340 000)	-	(675 000)		
Carrying amount 31 December 2012	1 910 000	1 910 000	-	1 575 000	335 000	(93 800)
Revaluation (calc 2.3)	327 500	-	327 500	-		
Depreciation / Building allowance (calc 2.4 – 2.7)	(87 500)	(68 235)	(19 265)	(112 500)		
Carrying amount 31 December 2013 (calc 2.8)	2 150 000	1 841 765	308 235	1 462 500	687 500	(192 500)

**SUGGESTED SOLUTION ASSIGNMENT 02 (Continued)**

- 2.1.  $(2\,250\,000 - 750\,000) / 300 \times 68 = 340\,000$   
 2.2.  $2\,250\,000 / 20 \times 6 = 675\,000$   
 2.3.  $[(2\,150\,000 - 750\,000) / 192 \times 204] + 750\,000 = 2\,237\,500$ ;  
 $2\,237\,500 - 1\,910\,000 = 327\,500$   
 2.4.  $(2\,237\,500 - 750\,000) / 204 \times 12 = 87\,500$ ;  $2\,237\,500 - 2\,150\,000 = 87\,500$   
 2.5.  $(1\,910\,000 - 750\,000) / 204 \times 12 = 68\,235$   
 2.6.  $87\,500 - 68\,235 = 19\,265$  OR  $327\,500 / 204 \times 12 = 19\,265$   
 2.7.  $2\,250\,000 / 20 = 112\,500$   
 2.8.  $(2\,150\,000 - 1\,462\,500) \times 28\% = 192\,500$

**3. Investment property – Land:**

	<b>Carrying amount R</b>	<b>Exempt difference R</b>	<b>Temporary difference R</b>	<b>Deferred tax asset /(liability) R</b>
Cost	1 000 000	1 000 000		
Fair value adjustment (calc 3.1)	100 000	-		
Carrying amount 31 December 2012 (calc 3.2)	1 100 000	1 000 000	100 000	(18 648)
Fair value adjustment (calc 3.3)	50 000	-		
Carrying amount 31 December 2013 (calc 3.4)	1 150 000	1 000 000	150 000	(27 972)

- 3.1.  $1\,100\,000 - 1\,000\,000 = 100\,000$   
 3.2.  $(1\,100\,000 - 1\,000\,000 \text{ exempt difference}) \times 66,6\% \times 28\% = 18\,648$   
 3.3.  $1\,150\,000 - 1\,100\,000 = 50\,000$   
 3.4.  $(1\,150\,000 - 1\,000\,000 \text{ exempt difference}) \times 66,6\% \times 28\% = 27\,972$

**4. Investment property – Building:**

	<b>Carrying amount R</b>	<b>Tax base R</b>	<b>Temporary difference R</b>	<b>Deferred tax asset /(liability) R</b>
Cost	1 600 000	1 600 000		
Fair value adjustment (calc 4.1)	50 000	-		
Carrying amount 31 December 2012 (calc 4.2)	1 650 000	1 600 000	50 000	(9 324)
Fair value adjustment (calc 4.3)	200 000	-		
Carrying amount 31 December 2013 (calc 4.4)	1 850 000	1 600 000	250 000	(46 620)

**SUGGESTED SOLUTION ASSIGNMENT 02 (Continued)**

- 4.1.  $1\ 650\ 000 - 1\ 600\ 000 = 50\ 000$   
 4.2.  $(1\ 650\ 000 - 1\ 600\ 000) \times 66,6\% \times 28\% = 9\ 324$   
 4.3.  $1\ 850\ 000 - 1\ 650\ 000 = 200\ 000$   
 4.4.  $(1\ 850\ 000 - 1\ 600\ 000) \times 66,6\% \times 28\% = 46\ 620$

**5. Intangible asset:**

	<b>Actual carrying amount</b>	<b>Historical carrying amount</b>
	<b>R</b>	<b>R</b>
Cost 1 June 2010	780 000	780 000
Amortisation 2010 & 2011 (780 000 / 72 x 19)	(205 833)	(205 833)
Carrying amount 31 December 2011	<u>574 167</u>	<u>574 167</u>
Amortisation 2012 (780 000 / 6)	(130 000)	(130 000)
Carrying amount after amortisation before impairment loss	<u>444 167</u>	<u>444 167</u>
Impairment loss (calc 5.1)	(15 931)	-
Carrying amount 31 December 2012	<u>428 236</u>	<u>444 167</u>
Amortisation 2013 (428 236 / 41 x 12)	(125 337)	(130 000)
Reversal of impairment (calc 5.2)	11 268	-
Carrying amount 31 December 2013	<u><u>314 167</u></u>	<u><u>314 167</u></u>

**5.1. Impairment loss:**

Carrying amount before impairment loss	<b>R</b> 444 167
Recoverable amount	(428 236)
Fair value less cost to sell: R420 000	
Value in use: R428 236	
i = 10,5%	
CF0 = 0	
CF1 = 195 000	
CF2 = 178 000	
CF3 = 143 000	
Impairment loss	<u><u>15 931</u></u>

**5.2. Reversal of impairment**

Historical carrying amount	<b>R</b>	<b>R</b> 314 167
Carrying amount before reversal (428 236 – 125 337)	302 899	
Recoverable amount	378 000	
Fair value less cost to sell: R378 000		
Value in use: R370 000		
Limited to historical carrying amount (302 899 – 314 167)		<u><u>11 268</u></u>

Tax base of intangible asset = Rnil (Tax allowance is allowed over 3 years. Asset is older than 3 years at year end on 31 December 2013, thus already written off in full for tax purposes)