Tutorial letter 104/3/2015

Distinctive Financial Reporting

FAC3702

Semesters 1 & 2

Department of Financial Accounting

This tutorial letter contains additional integrated questions with suggested solutions.

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.

BAR CODE

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1 INTRODUCTION

Dear Student,

Attached please find additional integrated questions with the suggested solutions. We suggest that you do these integrated questions under exam conditions. Once you have completed the integrated questions, you should compare your answer to the suggested solutions. **Your answers to these integrated questions must not be submitted to Unisa.** These integrated questions will indicate to you the standard required of you in the exam and will help you to identify areas of weaknesses that you must pay attention to.

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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3 ADDITIONAL QUESTIONS AND SUGGESTED SOLUTIONS

The integrated questions are compiled as follows:

QUESTION No.	SUBJECT	MARKS	TIME (minutes)
1	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments	56	67
2	IAS 36 - Impairment of assets IAS 38 - Intangible assets IFRS 5 - Non-current assets held for sale and Discontinued operations	31	37
3	IAS 16 - Property, plant and equipment IFRS 5 - Non-current assets held for sale and Discontinued operations IAS 36 - Impairment of assets IAS 40 - Investment properties	50	60
4	IAS 38 - Intangible assets IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments	45	54
5	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments	60	72
6	IAS 36 - Impairment of assets IAS 38 - Intangible assets IFRS 5 - Non-current assets held for sale and Discontinued operations IAS 32, IFRS 7, IFRS 9 - Financial instruments	40	48
7	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IAS 38 - Intangible assets IAS 36 - Impairment of assets	54	65
8	IAS 36 - Impairment of assets IFRS 5 - Non-current assets held for sale IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates	40	48
9	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IFRS 5 - Non-current assets held for sale and Discontinued operations IAS 32, IFRS 7, IFRS 9 - Financial instruments	51	61

QUESTION No.	SUBJECT	MARKS	TIME (minutes)
10	IAS 36 - Impairment of assets IAS 38 - Intangible assets IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments	49	59
11	IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments IAS 38 - Intangible assets IFRS 5 - Non-current assets held for sale and Discontinued operations	50	60
12	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IAS 36 - Impairment of assets	50	60
13	IAS 21, IAS 32, IFRS 7, IFRS 9 - Effects of changes in foreign exchange rates and Financial instruments IAS 36 - Impairment of assets IAS 38 - Intangible assets	46	55
14	IAS 16 - Property, plant and equipment IAS 40 - Investment properties IFRS 5 - Non-current assets held for sale and Discontinued operations	54	65

QUESTION 1 (56 marks) (67 minutes)

Zaka Ltd is a stationery manufacturing company based in Cape Town. The financial year-end of the company is 31 March. Details of the company's assets are as follows:

Machinery

On 1 April 2010, Zaka Ltd placed a non-cancellable order for a Z1 pencil machine from a company in China for 340 000 Chinese yuan (¥). The invoice amount is payable on 28 February 2011. On 1 September 2010, the order was shipped free on board (FOB) and the machine was available for use, as intended by management on 30 September 2010.

On 1 April 2010, Zaka Ltd took out a forward exchange contract (FEC), for the same amount, to counter the exchange rate fluctuations. The FEC will expire on 28 February 2011. Zaka Ltd chose to apply hedge accounting and on 1 April 2010, designated the FEC as the hedging instrument and the firm commitment and foreign creditor that arises as a result of this transaction, as the hedged items. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. Zaka Ltd accounts for the hedge using cash flow hedge accounting.

Due to a manufacturing defect in the Z1 pencil machine it could not perform at its optimum level. As a result, Zaka Ltd withheld the payment to the Chinese company until the machine was repaired. On 15 March 2011 an engineer from China was sent to South Africa to repair the machine. On 31 March 2011, Zaka Ltd settled the outstanding supplier account.

The company uses the units of production method to depreciate its machinery. The useful life of this machine was estimated to be 300 000 units with a Rnil residual value. Machinery is carried at cost less accumulated depreciation and impairment losses. On 31 March 2011, the machine had produced 50 000 units.

The following dates and exchange rates are applicable:

Date	Spot rate ¥1 = R	Forward rate for FEC ¥1 = R	FEC period
1 April 2010	1,04	1,11	11 months
1 September 2010	1,13	1,16	6 months
28 February 2011	1,03		
31 March 2011	1,33		

Manufacturing building

Zaka Ltd owns a property located at Sea Point which is used for the manufacturing of its products. The property was purchased on 1 October 2008 for R6 000 000 (land: R2 500 000; building: R3 500 000) and was available for use, as intended by management, on that date. On that date, the useful life of the building was estimated to be 35 years. A residual value of R700 000 was allocated to the building.

QUESTION 1 (continued)

Property will be revalued every three years and on 31 March 2011 the property was revalued for the first time. Dr. Mula, an independent sworn appraiser, who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property being valued, determined the net replacement value of the property to be R5 400 000 (land: R2 450 000; building: R2 950 000). These values were determined by reference to current market evidence. The residual value and remaining useful life of the property remained unchanged. No decision has been made by the company to sell this property.

Office building

Zaka Ltd owns a property of which it utilises 15% of the total floor space for administration purposes. The building was purchased on 1 April 2010 for R2 000 000 (land: R500 000; building: R1 500 000). On that date, Zaka Ltd entered into a lease contract with Bahiri Ltd to rent out the remainder of the building for R12 000 per month. The directors of Zaka Ltd consider the 15% that Zaka Ltd occupies, to be insignificant.

During the 2011 financial year, Zaka Ltd renegotiated with its tenant and agreed that Bahiri Ltd will now only occupy 50% of the total floor space of the building, and the remainder will then be occupied by Zaka Ltd as they required more office space. On 31 March 2011, Zaka Ltd took occupation of the 35% of the floor space that was previously occupied by Bahiri Ltd. The directors of Zaka Ltd consider the 50% of the floor space of the building that Zaka Ltd occupied from 31 March 2011, to be significant. At year-end on 31 March 2011, the property's fair value was determined to be R2 250 000 (land: R525 000; building: R1 725 000). The fair values were determined by Dr Mula with reference to current market evidence.

The office building is registered under one title deed and it cannot be divided or sold separately. No decision has been made by the company to sell this property.

Additional information

1. It is the accounting policy of Zaka Ltd to account for owner occupied land and buildings using the revaluation model on the net replacement value basis. Depreciation for the year is calculated on the most recent revalued amount.

2. It is the accounting policy of Zaka Ltd to account for investment property using the fair value model.

3. The South African normal tax rate is 28%. 66,6% of all capital gains are taxable.

4. The South African Revenue Service allows the following as capital allowances:
   - An annual building allowance of 5% on industrial and administration buildings according to section 13(1) and 13quin of the Income Tax Act, on a straight-line method, not proportioned for part of the year;
   - a tax allowance on machinery, over 5 years, in terms of section 11(e) of the Income Tax Act, on the straight-line method, apportioned for a part of the year.

5. Depreciation on land and buildings are provided for according to the straight-line method over their estimated useful lives.

6. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no temporary differences other than those evident from the question.

7. Assume all amounts to be material.

QUESTION 1 (continued)

REQUIRED

1. Prepare all the relevant **journal entries (cash transactions included)** in the accounting records of Zaka Ltd for the year ended 31 March 2011, to account for the machinery, the foreign exchange transaction and the forward exchange contract. (19)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Indicate the date on which each journal entry is made.
   - Show all calculations.
   - Journal narrations are **not** required.
   - Ignore all tax implications.

2. Based on the given information, disclose the following notes to the annual financial statements of Zaka Ltd for the year ended 31 March 2011: (37)

   2.1. Property, plant and equipment (Disclose classes of property, plant and equipment separately)
   2.2. Deferred tax according to the statement of financial position approach.

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Accounting policy notes are **not** required.
   - Ignore comparative information.
   - Show all calculations.
   - Round all calculations to the nearest rand.
   - A total column for the property, plant and equipment note is not required.

QUESTION 1 SUGGESTED SOLUTION

1. JOURNAL ENTRIES

	Debit R	Credit R
01 September 2010		
Machinery	384 200	
Accounts payables / Creditors / Trade payables		384 200
Recording of creditor		
(340 000 x 1,13)		
FEC Asset	17 000	
Cash flow hedge reserve (OCI)		17 000
Revaluing FEC		
[340 000 x (1,16 - 1,11)]		
28 February 2011		
Cash flow hedge reserve (OCI)	44 200	
FEC Asset		17 000
FEC Liability		27 200
Revaluing FEC		
[340 000 x (1,16 - 1,03)]		
OR:		
Cash flow hedge reserve (OCI)	44 200	
FEC Liability		44 200
Revaluing FEC		
[340 000 x (1,16 - 1,03)]		
28 February 2011		
FEC Liability	27 200	
Bank		27 200
Settlement of FEC		
[340 000 x (1,11 – 1,03)]		
OR:		
FEC Liability	44 200	
FEC Asset		17 000
Bank		27 200
Settlement of FEC		
[340 000 x (1,11 – 1,03)]		
31 March 2011		
Foreign exchange difference / loss	68 000	
Accounts payables / Creditors		68 000
Revaluing the creditor		
[340 000 x (1,33 - 1,13)]		
Accounts payables / Creditors	452 200	
Bank		452 200
Payment to creditor		
(340 000 x 1,33)		

QUESTION 1 SUGGESTED SOLUTION (continued)

	Debit R	Credit R
OR:		
Foreign exchange difference / loss (P/L)		
[340 000 x (1,33 – 1,13)]	68 000	
Accounts payables / Creditors	384 200	
Bank (340 000 x 1,33)		452 200
Restatement and payment of creditor		
Reclassification adjustment (P/L)	4 533	
Cash flow hedge reserve (OCI)		4 533
Reclassification of cash flow hedge reserve		
[27 200 x 50 000 / 300 000]		
Depreciation	64 033	
Accumulated depreciation: Machinery		64 033
Recording depreciation		
[384 200 x 50 000 / 300 000]		

ZAKA LTD

2. NOTES FOR THE YEAR ENDED 31 MARCH 2011

2.1. Property, plant and equipment

	Land R	Buildings R	Machinery R	Total R
Carrying amount at beginning of year	**2 500 000**	**3 380 000**	**-**	**5 880 000**
Cost	2 500 000	3 500 000	-	6 000 000
Accumulated depreciation (calc 3)	-	(120 000)	-	(120 000)
Additions (calc 1)	-	-	384 200	384 200
Revaluation deficit (calc 1 and 2)	(50 000)	(360 769)	-	(410 769)
Depreciation (calc 1 and 3)	-	(69 231)	(64 033)	(133 264)
Transfer from investment property	525 000	1 725 000	-	2 250 000
Carrying amount at end of year	[1]**2 975 000**	[2]**4 675 000**	**320 167**	**7 970 167**
Cost/Gross carrying amount	2 975 000	4 744 231	384 200	8 03 431
Accumulated depreciation	-	(69 231)	(64 033)	(133 264)

[1.] 2 450 000 + 525 000
[2.] 2 950 000 + 1 725 000

Valuations were performed on 31 March 2011 by an independent sworn appraiser.

The carrying amount of land and buildings if it was carried at cost minus accumulated depreciation would have amounted to R8 050 000 (land: R3 025 000; buildings: R5 025 000).

QUESTION 1 SUGGESTED SOLUTION (continued)

2.2. Deferred Tax

	R
Land: [(2 450 000 – 2 500 000) x 66,6% x 28%] + [(525 000 – 500 000) x 66,6% x 28%] (calc 2 + 4)	4 662
Building: [(2 950 000 – 2 975 000) x 28%] + [(1 725 000 – 1 425 000) x 28%]	(77 000)
Machine: [(320 167 - 345 780) x 28%] (calc 1)	7 172
Deferred tax liability at the end of year	(65 166)

Note 1

The fair value adjustment on the building is calculated at 28% and not the capital gains tax rate of 28% x 66,6%. The property was transferred from Investment property to Property, plant and equipment.

CALCULATIONS

Calculation 1 - Machinery

	Carrying amount R	Historical carrying amount R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 01 September 2010	384 200	384 200	384 200		
Depreciation (calc 1.1)/ Tax allowance (calc 1.2)	(64 033)	(64 033)	(38 420)		
Carrying amount 31 March 2011 (calc 1.3)	320 167	320 167	345 780	(25 613)	7 172

1.1 384 200 / 300 000 x 50 000 = 64 033
1.2 384 200 /5 x 6/12 = 38 420
1.3 (320 167 – 345 780) x 28% = 7 172

Calculation 2 - Land – Manufacturing property (Property, plant and equipment)

	Carrying amount R	Historical carrying amount R	Revaluation deficit R	Exempt difference R	Tempo-rary differ-ence R	Deferred tax asset/ (liability) R
Cost 01 October 2008	2 500 000	2 500 000	-	2 500 000		
Accumulated depreciation	-	-	-	-		
Carrying amount 31 March 2010	2 500 000	2 500 000	-	2 500 000	-	-
Revaluation deficit (calc 2.1.)	(50 000)	-	(50 000)	-		
Depreciation	-	-	-	-		
Carrying amount 31 March 2011 (calc 2.2)	2 450 000	2 500 000	(50 000)	2 500 000	50 000	9 324

QUESTION 1 SUGGESTED SOLUTION (continued)

2.1. (2 450 000 – 2 500 000) = 50 000
2.2. (2 450 000 – 2 500 000) x 66,6% x 28% = 9 324

Calculation 3 - Building – Manufacturing property (Property, plant and equipment)

	Carrying amount R	**Historical carrying amount R**	**Revaluation deficit R**	**Tax base R**	**Temporary difference R**	**Deferred tax asset/ (liability) R**
Cost 01 October 2008	3 500 000	3 500 000	-	3 500 000		
Accumulated depreciation (calc 3.1) / Tax allowance (calc 3.2)	(120 000)	(120 000)	-	(350 000)		
Carrying amount 31 March 2010	3 380 000	3 380 000	-	3 150 000	230 000	(64 400)
Revaluation deficit (calc 3.3)	(360 769)	-	(360 769)	-		
Depreciation (calc 3.4, 3.5, 3.7) /Tax allowance (calc 3.6)	(69 231)	(80 000)	10 769	(175 000)		
Carrying amount 31 March 2011	2 950 000	3 300 000	(350 000)	2 975 000	(25 000)	7 000

3.1 [[(3 500 000 - 700 000) / 420] x 18] = 120 000

OR: [[(3 500 000 - 700 000) / 35] x 1,5] = 120 000

3.2 [(3 500 000 x 5%) x 2] = 350 000

3.3 [[(2 950 000 - 700 000) / 390 x 402] + 700 000] - 3 380 000 = - 360 769

OR: [[(2 950 000 - 700 000)/ 32,5 x 33,5] + 700 000] - 3 380 000 = - 360 769

OR: 2 950 000 + 69 231 = 3 019 231; 3 019 231 – 3 380 000 = - 360 769

3.4 [(3 380 000 - 360 769) - 700 000] / 402 x 12 = 69 231

OR: [3 019 231 - 700 000] / 402 x 12 = 69 231

OR: [(3 380 000 - 360 769) - 700 000] / 33,5 = 69 231

OR: (2 950 000 – 700 000) / 390 x 12 = 69 231

3.5 [(3 500 000 – 700 000) / 35] = 80 000

3.6 3 500 000 x 5% = 175 000

3.7 360 769 / 402 x 12 = 10 769

OR: 360 769 / 33,5 x 12 = 10 769

QUESTION 1 SUGGESTED SOLUTION (continued)

Calculation 4 - Land – Administration property (Investment property transferred to Property, plant and equipment)

	Carrying amount R	Histo-rical carrying amount R	Fair value adjust-ment R	Exempt differ-rence R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 April 2010	500 000	500 000	-	500 000		
Fair value adjustment (calc 4.1)	25 000	-	25 000	-		
Carrying amount 31 March 2011 (calc 4.2)	525 000	-	-	500 000	25 000	(4 662)

4.1 (525 000 – 500 000) = 25 000
4.2 (525 000 – 500 000) x 66,6% x 28% = 4 662

Calculation 5 - Building – Administration property (Investment property transferred to Property, plant and equipment)

	Carrying amount R	Histo-rical carrying amount R	Fair value adjust-ment R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 April 2010	1 500 000	1 500 000	-	1 500 000		
Fair value adjustment (calc 5.1)	225 000	-	225 000	-		
Tax allowance (calc 5.2)	-	-	-	(75 000)		
Carrying amount 31 March 2011 (calc 5.3)	1 725 000	1 500 000	225 000	1 425 000	300 000	(84 000)

5.1 (1 725 000 – 1 500 000) = 225 000
5.2 1 500 000 x 5% = 75 000
5.3 (1 725 000 – 1 425 000) x 28% = 84 000

LECTURER'S COMMENT

For all the capital gains tax calculations use 28% x 66,6% to ensure that rounding does not affect your answer. Do not round the CGT rate.

QUESTION 2 (31 marks) (37 minutes)

Vino Ltd is a company which produces and sells wine. The wine is produced in the Western Cape and bottled at their plant in Gauteng. The company has a 31 March year-end.

Vino Ltd has been operating in the wine industry for the past 30 years. On 1 April 2009, they purchased "Vino Veritas", a brand name, for R4 125 000. The asset had an indefinite useful life and a residual value of Rnil. The brand name was ready to be used, as intended by management, on acquisition date.

Due to employee strike action during the current financial year, the Gauteng bottling plant had to use temporary workers to enable the plant to meet its current volume demands. The temporary workers were not sufficiently trained in the operation of the machinery. This resulted in 20 000 bottles, filled during the months of July and August 2010, to be spoilt as they had not been properly sealed.

Management only became aware of this problem after the brand received negative publicity and subsequently decided to recall all those bottles of wine. However, most of these bottles had already been sold to the public. On 31 March 2011, the impact of the negative publicity on the brand name was assessed and the fair value less cost to sell on that date was estimated to be R2 400 000. Due to the negative publicity, it was estimated that the brand name would now have a remaining useful life of only 5 years, from 31 March 2011.

Management expects the brand to generate the following cash flows over its remaining useful life:

Year	**Net cash inflow**
	R
1 April 2011 – 31 March 2012	1 200 000
1 April 2012 – 31 March 2013	1 000 000
1 April 2013 – 31 March 2014	800 000
1 April 2014 – 31 March 2015	500 000
1 April 2015 – 31 March 2016	500 000

On 31 October 2010, the directors decided to sell the Gauteng bottling plant and all of its assets. On that date they approved a detailed formal plan of disposal. On 31 December 2010, the approved formal sales plan was at a stage of completion where no realistic possibility of withdrawal existed and all the requirements to classify the Gauteng bottling plant as held for sale were met. Management expects that a binding sales agreement for all the assets will be concluded by 1 May 2011, and the assets will be sold for cash.

Details of the bottling plant's assets are as follows:

- Machinery with an original cost price of R8 000 000 was acquired on 1 July 2005. The machinery is used specifically in the bottling process. It has a residual value of R80 000 and an expected useful life of 15 years. The machinery was available for use, as intended by management, on acquisition date. The carrying amount of the machinery on 1 April 2010 amounted to R5 492 000.

- The carrying amount of inventory on 31 December 2010 and 31 March 2011 amounted to R650 000 and R625 000 respectively. The net realisable value of the inventory amounted to R550 000 on 31 December 2010 and R525 000 on 31 March 2011.

- Vino Ltd developed a customised software package to be used in the bottling plant. The software package met all the criteria for the recognition as an intangible asset. The software was used to operate the machinery. The software was developed at a cost price of R860 000. It was estimated that the software will have an expected useful life of 20 years. The software was available for use, as intended by management, on 30 September 2007 and was brought into use on the same date. The carrying amount on1 April 2010 amounted to R752 500.

- No provision for depreciation or amortisation has been made for the current financial year.

QUESTION 2 (continued)

- The fair value less costs to sell of the bottling plant, on the respective dates, is as follows:

- 31 October 2010	R6 400 000
- 31 December 2010	R6 250 000
- 31 March 2011	R6 225 000

Additional information

1. A pre-tax discount rate of 15% is considered to be appropriate.

2. It is the accounting policy of Vino Ltd to account for intangible assets using the cost model.

3. Depreciation and amortisation is provided for in accordance with the straight-line method over the expected useful life of the assets.

4. The South African normal tax rate is 28% for all applicable periods. 66,6% of all capital gains are taxable.

5. Consider all amounts to be material to the financial statements.

REQUIRED

Disclose the following notes to the annual financial statements of Vino Ltd for the year ended 31 March 2011: (31)

1. Intangible assets
2. Impairment loss
3. Non-current assets held for sale

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- Accounting policy notes are **not** required.
- **Show all the data input into your financial calculator.**
- Show all calculations.
- Round all amounts to the nearest rand.
- Ignore comparative information.
- Ignore any VAT implications.
- A total column for the intangible assets note is not required.

QUESTION 2 SUGGESTED SOLUTION

VINO LTD

NOTES FOR THE YEAR ENDED 31 MARCH 2011

1. Intangible assets

	Purchased: Brand Name	Internally generated: Software package	Total
	R	R	R
Carrying amount at the beginning of year	4 125 000	752 500	4 877 500
Cost	4 125 000	860 000	4 985 000
Accumulated amortisation (860 500 – 752 500)	-	(107 500)	(107 500)
Amortisation (included in other expenses)	(687 500)	(32 250)	(719 750)
Impairment loss (included in other expenses)	(577 400)	-	(577 400)
Transferred to NCAHFS* (752 500 – 32 250)	-	(720 250)	(720 250)
Carrying amount at the end of the year	2 860 100	-	2 860 100
Cost	4 125 000	-	4 125 000
Accumulated amortisation and impairment losses	(1 264 900)	-	(1 264 900)

The brand name "Vino Veritas" has a remaining useful life of 5 years. The asset has a carrying amount of R2 860 100 at year-end.
*NCAHFS = Non-current assets held for sale

2. Impairment loss

The brand name "Vino Veritas" received negative publicity during the current financial year. The negative publicity is due to the 20 000 spoilt bottles of wine that were sold to the public. The impairment loss amounted to R577 400. The recoverable amount is based on the value in use and is determined using a pre-tax discount rate of 15%. The impairment loss was included in the statement of profit or loss and other comprehensive income in the other expenses line item.

3. Non-current assets held for sale

A decision to dispose of the assets of the Gauteng bottling plant was taken on 31 October 2010 after a formal detailed disposal plan for the assets of the bottling plant was approved. The plan regarding the once-off sale of the assets was at a stage of completion on 31 December 2010, where no realistic possibility of withdrawal existed. It is expected that the plan for the sale of the assets will be completed by 1 May 2011 for cash.

The disposal group under discussion comprises:

ASSETS	**R**
Plant and equipment	4 994 146
Intangible assets	705 854
Inventory (550 000 – 25 000)	525 000
	6 225 000

An impairment loss of R116 250 was recognised upon initial classification of the disposal group as held for sale. The impairment loss was included under loss after tax on remeasurement on the face of the statement of profit or loss and other comprehensive income.

QUESTION 2 SUGGESTED SOLUTION (continued)

CALCULATIONS:

Brand name

		R
Carrying amount		4 125 000
Cost price		4 125 000
Accumulated amortisation	Rnil as asset previously had indefinite useful life	-
Amortisation	4 125 000 / 6	(687 500)
Impairment loss		(577 400)
Carrying amount		2 860 100

Calculation of impairment loss

<u>**Using HP10bii financial calculator:**</u>

CF_0 0
CF_1 1 200 000
CF_2 1 000 000
CF_3 800 000
CF_4 500 000
CF_5 500 000
'i = 15%
Comp NPV = R2 860 100

OR:

Alternative:

FV = 1 200 000	FV = 1 000 000	FV = 800 000	FV = 500 000	FV = 500 000
N = 1	N = 2	N = 3	N = 4	N = 5
'i = 15%	'i = 15%	'i = 15%	'i = 15%	'i = 15%
PV = ? R1 043 478	PV = ? R756 144	PV = ? R526 013	PV = ? R285 877	PV = ? R248 588

Total PV = R2 860 100

Value in use	R2 860 100
Fair Value less cost to sell	R2 400 000

Therefore recoverable amount is R2 860 100 as it is the higher of value in use or fair value less cost to sell.

	R
Carrying amount (4 125 000 – 687 500)	3 437 500
Recoverable amount	2 860 100
Impairment loss	577 400

QUESTION 2 SUGGESTED SOLUTION (continued)

Disposal group

Step 1:
Determine the carrying amount of all the individual assets in the disposal group at 31 December 2010

Machinery

		R
Carrying amount on 1 April 2010		5 492 000
Depreciation	[(8 000 000 – 80 000) / 15 x 9/12]	(396 000)
Carrying amount on 31 December 2010		5 096 000

Software package

Carrying amount on 1 April 2010		752 500
Amortisation	[860 000/20 x 9/12]	(32 250)
Carrying amount on 31 December 2010		720 250

Inventory

Carrying amount on 31 December 2010	650 000
Write down to net realisable value (650 000 – 550 000)	(100 000)
Net realisable value on 31 December 2010	550 000
Carrying value of disposal group on 31 December 2010	**6 366 250**

Step 2:
Determine the fair value less cost to sell the disposal group at 31 December 2010

Fair value less cost to sell (given)	**6 250 000**

Step 3:
Determine the lower of carrying amount and fair value less cost to sell at 31 December 2010

Measure the disposal group at fair value less cost to sell

Fair value less cost to sell (given)	**6 250 000**

Step 4:
Calculate impairment loss suffered at 31 December 2010

Carrying amount less fair value less cost to sell	**116 250**

Step 5:
Allocate the impairment loss to the assets

	Carrying amount on initial classification	**Impairment loss allocated**	**Carrying amount after impairment allocated**
	R	**R**	**R**
Machinery(calc 1)	5 096 000	101 854	4 994 146
Software package (calc 2)	720 250	14 396	705 854
Inventory	550 000	nil	550 000
	6 366 250	116 250	6 250 000

1. 5 096 000 / 5 816 250 x 116 250 = 101 854
2. 720 250 / 5 816 250 x 116 250 = 14 396

QUESTION 3 (50 marks) (60 minutes)

Prop-Invest Ltd is a property investment company situated in Johannesburg, with property investments in Gauteng and the Western Cape. The company has a 30 June year-end.

The following details are available regarding certain assets of Prop-Invest Ltd:

Property in Bedfordview, Gauteng

Prop-Invest Ltd purchased this property on 30 September 2009 for R1 000 000 (land: R300 000; building: R700 000) for its own administrative purposes. The property was available for use as intended by management on the date of purchase. On this date, the useful life of the building was estimated to be 35 years and a residual value of R100 000 was allocated to the building.

The property was revalued for the first time on 30 June 2011 and on this date the net replacement values of the property were as follows:

	R
Land	400 000
Building	700 000

No decision has been made by the company to sell this property. The residual value and the remaining useful life of the property have remained unchanged.

Property in Struisbaai, Western Cape

This property was purchased on 28 February 2010 for R2 800 000 (land: R1 000 000; building: R1 800 000) with the intention to earn rental income from it. On 31 March 2010, Prop-Invest Ltd entered into a five (5) year operating lease contract with Mrs. Ndlovu, who uses the property for residential purposes.

However, the return on the investment in properties located in the Western Cape did not meet management's expectations and subsequently the board of directors decided to sell all properties located in the Western Cape and rather reinvest in Gauteng.

On 31 January 2011 a detailed formal plan of disposal was approved and publicly announced. On 30 June 2011, the approved formal sales plan was at a stage of completion where no realistic possibility of withdrawal existed. Management expects that a binding sales agreement for the property will be concluded by 30 September 2011. The property will be sold for cash. The property is marketed by an estate agent at a price that is reasonable in relation to its current fair value. The commission payable to the estate agent on the sale of the property will amount to R250 000.

On 31 January 2011 the sale of the property located in the Struisbaai geographical area met all the requirements for classification as held for sale in terms of IFRS 5.

The fair values of the Struisbaai property, on the respective dates, are as follows:

	30 June 2010	31 January 2011	30 June 2011
	R	R	R
Land	1 050 000	1 056 000	1 061 000
Building	1 900 000	1 910 000	1 918 000
	2 950 000	2 966 000	2 979 000

QUESTION 3 (continued)

Motor vehicle

On 31 March 2011, Prop-Invest Ltd purchased a motor vehicle for R150 000 to be used by its courier. The motor vehicle was available for use as intended by management on acquisition date. The motor vehicle has an estimated useful life of 120 000 kilometres and a residual value of R10 000 was allocated to the motor vehicle. The motor vehicle travelled a total distance of 7 000 kilometres during the 2011 financial year.

Recently, this motor vehicle manufacturer received a lot of negative publicity in the media due to defects discovered in the motor vehicles caused by technical problems in their production process. On 30 June 2011, the fair value less cost to sell of this motor vehicle was estimated to be R120 000 as a result of this negative publicity. There is no reason to believe that the motor vehicle's value in use materially exceeds its fair value less cost to sell.

No decision has been made by the company to sell this motor vehicle.

Additional information:

1. The following is an extract from the accounting policies of Prop-Invest Ltd:

1.1 Property, plant and equipment.

Owner occupied property is accounted for using the revaluation model. On revaluation, accumulated depreciation is eliminated against the gross carrying amount of the asset. Depreciation for the year is calculated on the most recent revalued amount.

All other property, plant and equipment is accounted for using the cost model.

1.2 Investment property.

Investment property is accounted for using the fair value model.

2. All the net replacement values and fair values of the properties were determined by Mr. Sharp, an independent sworn appraiser. Mr. Sharp has recent experience in the location and category of the property being valued. The net replacement values and the fair values were determined by reference to current market prices on an arm's length basis of similar properties in the same area.

3. The related income and expenses of the properties for the respective periods were as follows:

	Bedfordview, Gauteng		**Struisbaai, Western Cape**	
	1 Jul 2010 - 31 Jan 2011	**1 Feb 2011 - 30 Jun 2011**	**1 Jul 2010 - 31 Jan 2011**	**1 Feb 2011 - 30 Jun 2011**
	R	**R**	**R**	**R**
Rental income	-	-	98 000	87 000
Direct operating expenses	60 000	43 000	47 000	32 000
Finance cost on mortgage bond	113 000	115 000	75 000	28 000

4. Depreciation on buildings is provided according to the straight-line method over the asset's estimated useful lives. Depreciation on motor vehicles is provided according to the units of production method.

QUESTION 3 (continued)

5. The South African Revenue Service allows the following capital allowances:
   - An annual allowance of 5% on the administrative building according to section 13quin of the Income Tax Act, on the straight-line method, not proportioned for a part of the year.
   - A tax allowance on vehicles in terms of section 11e of the Income Tax Act, on the straight-line method, over 5 years, apportioned for a part of the year.
   - The South African Revenue Service does not allow a building allowance on the abovementioned residential buildings.

6. The applicable income tax rate has remained unchanged at 28% for the past few years. 66,6% of all capital gains are taxable.

7. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no other temporary differences other than those evident from the question.

8. The carrying amount of the investment property will be recovered through sale..

9. On 1 July 2010, the deferred tax liability balances relating to the respective properties were as follows:

	Bedfordview, Gauteng	**Struisbaai, Western Cape**
	R	**R**
Land	-	9 324
Building	6 200	18 648

You can assume that these balances are correct.

10. All expenses paid are deductible for tax purposes.

11. Assume all amounts to be material.

REQUIRED

1. Prepare a statement of profit or loss and other comprehensive income for **only the discontinued operation** of Prop-Invest Ltd for the year ended 30 June 2011, according to the requirements of only IAS 1 – Presentation of financial statements, IAS 12 – Income taxes and IFRS 5 – Non-current assets held for sale and discontinued operations.

   Present the detailed analysis of the discontinued operation on the face of the statement of profit or loss and other comprehensive income.

   Deferred tax should be calculated using the **statement of financial position approach**. (18½)

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Round all calculations to the nearest Rand.

QUESTION 3 (continued)

2. Disclose the following notes to the annual financial statements of Prop-Invest Ltd for the year ended 30 June 2011: (31½)

2.1. Property, plant and equipment
(A total column for the property, plant and equipment note is **not** required.)
2.2. Investment property
2.3. Non-current asset held for sale

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Round all calculations to the nearest Rand.

QUESTION 3 SUGGESTED SOLUTION

1. PROP-INVEST LTD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	R
Discontinued operations	
Revenue (98 000 + 87 000)	185 000
Other income (6 000 + 10 000 + 5 000 + 8 000) (see calc 3 – fair value adjustments)	29 000
Other expenses (47 000 + 32 000)	(79 000)
Finance costs (75 000 + 28 000)	(103 000)
Profit before tax	32 000
Income tax benefit / Income tax expense (calc 1)	(6 248)
Profit for the year from the discontinued operations	25 752

Calculation 1

	R
Income tax expense – discontinued operation	
Profit before tax (from statement of profit or loss and other comprehensive income)	32 000
Less: fair value adjustment on non-current asset held for sale	(29 000)
Calculated taxable income on the discontinued operation (185 000 – 79 000 – 103 000)	3 000
Income tax - current tax payable (3 000 x 28%)	840

Deferred tax – discontinued operation	
Opening balance (given) (9 324 + 18 648)	(27 972)
Closing balance (see calculation)	(33 380)
Movement in deferred tax balance (cr to SFP) (33 380 – 27 972)	(5 408)

SA normal tax benefit – discontinued operation	
Current tax payable	840
Deferred tax	5 408
SA normal tax benefit – discontinued operation	6 248

	Carrying amount	Tax base	Exempt difference	Temporary difference	Deferred tax
	R	R	R	R	R
Land	1 061 000	-	1 000 000	61 000	11 375[1]
Building	1 918 000	-	1 800 000	118 000	22 005[2]
Total					33 380

1. 61 000 x 66,6% x 28%
2. 118 000 x 66,6% x 28%

No capital allowance – property is not a commercial property and the residential property allowance according to s13 (sex) does not apply.

QUESTION 3 SUGGESTED SOLUTION (continued)

PROP-INVEST LTD

NOTESE FOR THE YEAR ENDED 30 JUNE 2011

2.1. Property, plant and equipment

	Land	Building	Vehicle	Total
	R	R	R	R
Carrying amount at the beginning of the year	300 000	687 143	-	987 143
Cost	300 000	700 000	-	1 000 000
Accumulated depreciation (calc 2)	-	(12 857)	-	(12 857)
Additions (calc 4)	-	-	150 000	150 000
Depreciation (calc 2)	-	(18 045)	(8 167)	(26 212)
Impairment loss through profit or loss (included in other expenses)(calc 4)	-	-	(21 833)	(21 833)
Revaluation (calc 2)	100 000	30 902	-	130 902
Carrying amount at the end of the year	400 000	700 000	120 000	1 220 000
Gross carrying amount	400 000	718 045	150 000	1 268 045
Accumulated depreciation and impairment losses	-	(18 045)	(30 000)	(48 045)

An impairment loss of R21 833 was recognised on the motor vehicle due to the fact that the motor vehicle manufacturer received a lot of negative publicity in the media. The recoverable amount of the motor vehicle was determined as the fair value less cost to sell.

The valuation was performed on 30 June 2011. The fair values were determined by an independent sworn appraiser.

The carrying amount if the land and buildings were carried at cost minus accumulated depreciation would have amounted to R970 000 (land: R300 000; building: R670 000)

2.2. Investment property

	Land	Building	Total
	R	R	R
Carrying amount at the beginning of the year	1 050 000	1 900 000	2 950 000
Fair value adjustment (calc 3)	6 000	10 000	16 000
Transfer to non-current asset held for sale	(1 056 000)	(1 910 000)	(2 966 000)
Carrying amount at the end of the year	-	-	-

The valuation was performed on 31 January 2011. The fair values were determined by an independent sworn appraiser.

2.3. Non-current asset held for sale

The board of directors decided to sell the Struisbaai property since the property investment did not meet expectations. A formal plan of disposal was approved and publicly announced on 31 January 2011. On 30 June 2011 the sales plan was at a stage of completion where no realistic possibility of withdrawal existed. Management expects that a binding sales agreement will be concluded by 30 September 2011. The property will be sold for cash.

Non-current asset held for sale consist of the following:

	R
Investment property – Struisbaai	2 979 000

QUESTION 3 SUGGESTED SOLUTION (continued)

Calculation 2 – Bedfordview property

Land:	**Carrying amount R**	**Historical carrying amount R**	**Revaluation R**
Cost 30 September 2009	300 000	300 000	-
Revaluation 30 June 2011 (calc1)	100 000	-	100 000
Carrying amount 30 June 2011	400 000	300 000	100 000

1. 400 000 – 300 000 = 100 000

Calculation 2 – Bedfordview property

Building:	**Carrying amount R**	**Historical carrying amount R**	**Revaluation R**
Cost 30 September 2009	700 000	700 000	-
Depreciation 30 June 2010 (calc 1)	(12 857)	(12 857)	-
Carrying amount 30 June 2010	687 143	687 143	-
Revaluation 1 July 2010 (calc 2)	30 902	-	30 902
	718 045	687 143	30 902
Depreciation 30 June 2011 (calc 3 – 5)	(18 045)	(17 143)	(902)
Carrying amount 30 June 2011	700 000	670 000	30 000

1. [[(700 000 – 100 000) / 35] x 9/12] = 12 857
2. [((700 000 – 100 000) / 399 x 411) + 100 000] = 718 045; 718 045 – 687 143 = 30 902
   OR: ((700 000 – 100 000) / 399) x 12 = 18 045; 700 000 + 18 045 = 718 045;
   718 045 – 687 143 = 30 902

   Total useful life in months = 35 x 12 = 420;
   Remaining useful life in months at 1 July 2010 = 420 – 9 = 411;
   Remaining useful life in months at 30 June 2011 = 411 – 12 = 399

3. 718 045 – 700 000 = 18 045 **OR** (718 045 – 100 000) / 411 x 12 = 18 045
4. (700 000 – 100 000) / 35 = 17 143 **OR** (687 143 – 100 000) / 411 x 12 = 17 143
5. 30 902 / 411 x 12 = 902

QUESTION 3 SUGGESTED SOLUTION (continued)

Calculation 3 – Struisbaai property

Land:

	Carrying amount R	Historical carrying amount R	Fair value adjust-ment R
Cost 28 February 2010	1 000 000	1 000 000	-
Fair value adjustment 30 June 2010 (calc 1)	50 000	-	50 000
Carrying amount 30 June 2010	1 050 000	1 000 000	50 000
Fair value adjustment 31 January 2011 (calc 2)	6 000	-	6 000
Transfer to NCAHFS*	1 056 000	1 000 000	56 000
Fair value adjustment 30 June 2011 (calc 3)	5 000	-	5 000
Carrying amount 30 June 2011	1 061 000	1 000 000	61 000

1. 1 050 000 – 1 000 000 = 50 000
2. 1 056 000 – 1 050 000 = 6 000
3. 1 061 000 – 1 056 000 = 5 000

* Non-current assets held for sale

Calculation 3 – Struisbaai property

Building:

	Carrying amount R	Historical carrying amount R	Fair value adjust-ment R
Cost 28 February 2010	1 800 000	1 800 000	-
Fair value adjustment 30 June 2010 (calc 1)	100 000	-	100 000
Carrying amount 30 June 2010	1 900 000	1 800 000	100 000
Fair value adjustment 31 January 2011 (calc 2)	10 000	-	10 000
Transfer to NCAHFS*	1 910 000	1 800 000	110 000
Fair value adjustment 30 June 2011 (calc 3)	8 000	-	8 000
Carrying amount 30 June 2011	1 918 000	1 800 000	118 000

1. 1 900 000 – 1 800 000 = 100 000
2. 1 910 000 – 1 900 000 = 10 000
3. 1 918 000 – 1 910 000 = 8 000

* No-current assets held for sale

Calculation 4 – Motor vehicle

	Carrying amount R	Historical carrying amount R
Cost 31 March 2011	150 000	150 000
Depreciation 30 June 2011 (calc 1)	(8 167)	(8 167)
Impairment loss 30 June 2011 (calc 2)	(21 833)	(21 833)
Carrying amount 30 June 2011	120 000	120 000

1. (150 000 – 10 000) / 120 000 x 7 000 = 8 167
2. (150 000 – 8 167) – 120 000 = 21 833

QUESTION 3 SUGGESTED SOLUTION (continued)

LECTURER'S COMMENT

For all the capital gains tax calculations use 28% x 66,6% to ensure that rounding does not affect your answer. Do not round the CGT rate

In the instances where the deferred tax calculation or note was not required, only the applicable calculations are included, not the entire table.

QUESTION 4 (45 marks) (54 minutes)

NewTV Ltd is a company operating in the broadcasting industry. The company has a 30 June year-end.

Broadcasting licence (Intangible asset)

In order for NewTV Ltd to broadcast films in South Africa, they require a broadcasting licence. On 1 September 2003 the Broadcasting Authority of South Africa (BASA) granted a public broadcasting licence to NewTV Ltd at a cost of R1 500 000. The licence was granted for a period of 10 years. BASA indicated that NewTV Ltd would receive an amount equal to 10% of the original cost of the licence when it is revoked or renewed. The licence was available for use, as intended by management, on acquisition date.

On 1 June 2011, BASA issued a final warning to NewTV Ltd due to the inappropriate content of a film that they broadcasted on television. BASA revoked the broadcasting licence of NewTV Ltd with effect from 30 June 2011. The licence will have no future economic benefits for NewTV Ltd as NewTV Ltd can no longer broadcast any films after this date. They would have to reapply for a new licence in order to broadcast any films in future.

Films (Intangible asset)

NewTV Ltd import films from the United States of America and broadcast them on South African television stations. NewTV Ltd is not a retailer of films, but is the exclusive broadcaster of them in South Africa. The following transactions, which have not yet been recorded in the accounting records of NewTV Ltd, were entered into during the current financial year:

On 1 January 2011, NewTV Ltd placed a non-cancellable order for a new batch of films from the American supplier, MegaMovie for an amount of $50 000. On 1 February 2011, the order was confirmed in writing and a deposit equal to 10% of the purchase price was paid immediately. The remainder of the purchase price is payable as follows:

- $20 000 is payable on 1 June 2011, on date of delivery of the films; and
- $25 000 is payable on 1 September 2011 as final settlement.

Upon delivery on 1 June 2011, all risks and rewards associated with the films were transferred to NewTV Ltd and the films were immediately available for use as intended by management. It is expected that these films will have a useful life of 2 years.

At year-end on 30 June 2011, there was no indication of impairment in relation to the films as a result of the broadcasting licence having been revoked.

In order to hedge themselves against fluctuations in exchange rates, NewTV Ltd entered into the following forward exchange contracts (FEC) with Zippo Bank:

- On 1 February 2011, a 4 month FEC to cover the first instalment of $20 000; and
- On 1 June 2011, a new FEC for the outstanding liability of $25 000, expiring on 1 September 2011.

On 1 February 2011, NewTV Ltd designated the forward exchange contracts as the hedging instruments and any firm commitment or foreign currency creditor that arises as a result of the transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. NewTV Ltd decided to apply fair value hedge accounting to the FEC's as a hedge of the exposure to changes in fair value of the recognised asset/liability.

QUESTION 4 (continued)

The following exchange rates are applicable:

Date	Spot Rate $1 = R	Forward rate for FEC $1 = R	Period
1 January 2011	7,45	-	
1 February 2011	7,30	7,40	4 month FEC
1 June 2011	7,33	7,36	3 month FEC
30 June 2011	7,34	7,38	2 month 1 day FEC
1 September 2011	7,41	-	

Additional information:

1. It is the accounting policy of the company to account for intangible assets using the cost model.

2. Amortisation of intangible assets is provided for according to the straight-line method over their estimated useful lives.

3. Consider all amounts to be material.

REQUIRED

1. Prepare all the relevant **journal entries (cash transactions included)** in the accounting records of NewTV Ltd, to correctly account for the batch of films purchased (including amortisation), the hedged item, the hedging instrument, the firm commitment and foreign currency creditor.

   The journal entries should be made from order date until year-end on 30 June 2011. (25½)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- **No** abbreviations for general ledger accounts can be used.
- Journal narrations are **not** required.
- Show the **date** of each journal entry.
- Show all calculations.
- Round all amounts to the nearest Rand.

2. Using your answer in (1) above, disclose the following notes to the annual financial statements of NewTV Ltd for the year ended 30 June 2011: (19½)

2.1 Profit before tax
2.2Intangible assets (Broadcasting licence and Films)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- Accounting policy notes are **not** required.
- Show all calculations.
- Round all amounts to the nearest Rand.
- A total column for the intangible assets note is **not** required.

QUESTION 4 SUGGESTED SOLUTION

1. JOURNAL ENTRIES

	Debit R	Credit R
1 January 2011– No entry		
1 February 2011		
Deposit / Prepayment (SFP)	36 500	
Bank [(50 000 x 10%) x 7,30]		36 500
1 June 2011		
Fair value loss (P/L)	1 400	
FEC Liability (SFP) [20 000 x (7,40 – 7,33)]		1 400
Firm commitment asset (SFP)	800	
Fair value gain (P/L) [20 000 x (7,40 – 7,36)]		800
Films/ Intangible asset [(45 000 x 7,33) + (5 000 x 7,30)]	366 350	
Foreign Creditor (45 000 x 7,33)		329 850
Deposit		36 500
Films/ Intangible asset (SFP)	800	
Firm commitment asset (SFP)		800
Foreign Creditor / Trade payables (20 000 x 7,33)	146 600	
FEC liability [20 000 x (7,40 – 7,33)]	1 400	
Bank (20 000 x 7,40)		148 000
30 June 2011 (Year-end)		
Foreign exchange loss / Foreign exchange difference (P/L)	250	
Foreign creditor / Trade payable [25 000 x (7,34 – 7,33)]		250
FEC asset	500	
Fair value gain (P/L) [25 000 x (7,36 – 7,38)]		500
Amortisation	15 298	
Accumulated amortisation [(366 350 + 800) / 2) x 1/12]		15 298

QUESTION 4 SUGGESTED SOLUTION (continued)

NEWTV LTD

NOTES FOR THE YEAR ENDED 30 JUNE 2011

1. Profit before tax

Profit before tax includes the following:

	R
Income:	
Fair value gain (800 + 500)	1 300
Expenses:	
Amortisation (calc 3) (calc 4) (15 298 + 135 000)	150 298
Loss on derecognition of intangible asset (calc 5)	292 500
Fair value loss	1 400
Foreign exchange difference (loss)	250

2. Intangible assets

	Purchased		
	Film	Broadcasting licence	Total
	R	R	R
Carrying amount at beginning of year	-	577 500	577 500
Cost	-	1 500 000	1 500 000
Accumulated amortisation (calc 1)	-	(922 500)	(922 500)
Additions (calc 2)	367 150	-	367 150
Amortisation (included in other expenses) (calc 3) (calc 4)	(15 298)	(135 000)	(150 298)
Derecognition	-	(442 500)	(442 500)
Carrying amount at end of year	351 852	-	351 852
Cost	367 150	-	367 150
Accumulated amortisation	(15 298)	-	(15 298)

The film has a carrying amount of R351 852 and a remaining useful life of 23 months at year-end.

Calculations:

1. (1 500 000 – 150 000(1 500 000 x 10%)) x [(6 x 12) + 10] / (10 x 12) = 922 500
2. [(45 000 x 7,33) + (5 000 x 7,30)] + [20 000 x (7,40 – 7,36)] = 366 350 + 800 = 367 150
3. 367 150 / 2 x 1/12 = 15 298
4. (1500 000 – 150 000) / 10 = 135 000
5. Calculation of loss on derecognition of broadcasting licence:

	R
Carrying amount at beginning	577 500
Amortisation for the year	(135 000)
Carrying amount of asset on date revoked	442 500
Derecognition of intangible asset	(442 500)
Amount received from BASA (10% x 1 500 000)	150 000
Net loss upon derecognition of licence (442 500 – 150 000)	292 500

QUESTION 5 (60 marks) (72 minutes)

ChocoCoffee Ltd is a company situated on the North Coast of Kwazulu Natal. The company has a 31 December year-end.

The following details are available regarding certain assets of the company:

Roasting machine

On 1 November 2010, ChocoCoffee Ltd placed an order for a coffee bean roasting machine from an Italian company for €3 000. The invoice amount is payable on 30 June 2011. The order was shipped free on board (FOB) on 1 December 2010 and the machine was available for use, as intended by management, on 1 January 2011. The machine was brought into use on 1 January 2011.

On 1 November 2010, ChocoCoffee Ltd took out a forward exchange contract (FEC) for the same amount as the purchase price of the roasting machine, to counter the exchange rate fluctuations. The FEC will expire on 30 June 2011. ChocoCoffee Ltd chose to apply cash flow hedge accounting and on 1 November 2010, designated the FEC as the hedging instrument and any foreign currency creditor that arises as a result of this transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. From transaction date the hedge is used as a hedge against variability in fair value.

The useful life of the machine was estimated to be 10 years with a residual value of R5 000. The residual value and remaining useful life of the machine remained unchanged.

The following dates and exchange rates are applicable:

Date	Spot rate €1 = R	Forward rate for FEC €1 = R	FEC period
1 November 2010	10,21	10,30	8 months
1 December 2010	10,03	10,15	7 months
31 December 2010	10,36	10,42	6 months
30 June 2011	10,29		

Processing plant

ChocoCoffee Ltd owns a processing plant used for the roasting, grinding and packaging of the coffee beans. The property was purchased on 30 September 2010 for R3 000 000 (land: R1 000 000; building: R2 000 000). The property was available for use, as intended by management, on acquisition date and was also brought into use on this date. A residual value of R500 000 was allocated to the building. The useful life of the building was estimated to be 25 years.

On 31 December 2011, the property was revalued for the first time. The net replacement value of this property was determined to be R3 550 000 (land: R1 250 000; building: R2 300 000). The residual value and remaining useful life of the property remained unchanged. No decision has been made by the company to sell this property.

QUESTION 5 (continued)

Administration building

ChocoCoffee Ltd bought this property on 1 February 2011 for R1 400 000 (land: R500 000; building: R900 000) for its own administrative purposes. The property was available for use, as intended by management, on acquisition date and was also brought into use on this date. On 1 February 2011, it was determined that the building had an estimated useful life of 30 years, with no residual value. The estimated useful life and residual value remained unchanged.

During October 2011, ChocoCoffee Ltd was approached by another company about the possibility of leasing this specific property from ChocoCoffee Ltd. After discussions, the board of directors of ChocoCoffee Ltd changed their original intention regarding the building and vacated the building on 31 October 2011. The building was ready to be leased out from 1 November 2011. A 6 (six) year operating lease contract, effective from 1 November 2011, was concluded. ChocoCoffee Ltd will, in future, rent offices for its own administrative purposes.

The respective net replacement values and fair values of this administration building were as follows:

	31 October 2011	**31 December 2011**
	R	**R**
Land	530 000	540 000
Building	920 000	935 000

Office block

ChocoCoffee Ltd owns an office block which is leased out to Read First Ltd for their administrative purposes. The property was purchased on 1 March 2011 for R1 600 000 (land: R600 000; building: R1 000 000).

The fair value of this property on 31 December 2011 was determined to be R2 050 000 (land: R700 000; building: R1 350 000).

Additional information:

1. It is the accounting policy of the company to account for property, plant and equipment using the revaluation model on the net replacement value basis. The roasting machine will be revalued for the first time during the 2012 financial year.

2. It is the accounting policy of the company to account for investment property according to the fair value model. The carrying amount of the investment property will be recovered through sale.

3. It is the accounting policy of the company to provide for depreciation according to the straight-line method over the assets' estimated useful lives. Depreciation for the year is calculated on the most recent revalued amounts.

4. All the net replacement values and fair values of the assets were determined by Mr Reddy, an independent sworn appraiser, on the net replacement value basis. Mr Reddy has recent experience in the location and category of the property being valued. The net replacement values and the fair values were determined with reference to current market prices on an arm's length basis of similar properties in the same area.

QUESTION 5 (continued)

5. The South African Revenue Service allows the following capital allowances:
   - An annual allowance of 5% on the processing plant according to section 13(1) of the Income Tax Act, on the straight-line method, not proportioned for part of the year.
   - A tax allowance on machinery in terms of section 11(e) of the Income Tax Act, on the straight-line method over 6 years, proportioned for a part of the year.
   - There is no capital allowance granted on the administration buildings.

6. The applicable income tax rate has remained unchanged at 28% for the past few years. 66,6% of all capital gains are taxable.

7. Deferred tax is provided for on all temporary differences using the statement of financial position approach. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised. There are no other items causing temporary or exempt differences except those identified in the question.

8. Assume all amounts to be material.

REQUIRED

1. Prepare all the relevant **journal entries (cash transactions included)** in the accounting records of ChocoCoffee Ltd, to correctly account for the roasting machine purchased, the hedged item, the hedging instrument and foreign currency creditor. (20)

Prepare only the journal entries relevant to the following dates:

- 1 December 2010
- 31 December 2010
- 30 June 2011

Your answer must comply with the requirements of International Financial Reporting Standard.

Note:

- **Ignore all tax implications.**
- **No journal entry for depreciation is required.**
- **No** abbreviations for general ledger accounts can be used.
- Journal narrations are **not** required.
- Show the **date** of each journal entry.
- Show all calculations.
- Round all amounts to the nearest Rand.

QUESTION 5 (continued)

2. Using the information in the above journals, as well as all the other information given, disclose the roasting machine as well as all the other property, plant and equipment in the notes to the annual financial statements of ChocoCoffee Ltd for the year ended 31 December 2011, according to the requirements of **only** IAS 16 – Property, Plant and Equipment. (24½)

Note:

- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Round all amounts to the nearest Rand.

3. Calculate the deferred tax balance in the statement of financial position of ChocoCoffee Ltd as at 31 December 2011, **using the statement of financial position approach.** Your answer must comply with the requirements of IAS 12 – Income Taxes. (15½)

Note:

- Show all calculations.
- Round all calculations to the nearest Rand.

QUESTION 5 SUGGESTED SOLUTION

1. **JOURNAL ENTRIES**

		Debit R	Credit R
	1 November 2010		
	Order date – No journal entry		
	1 December 2010		
	Transaction date		
J1	Machine	30 090	
	Creditor		30 090
	(3 000 x 10,03)		
J2	Cash flow hedge reserve (OCI)	450	
	FEC liability		450
	[3 000 x (10,30 – 10,15)]		
J3	Machine	450	
	Cash flow hedge reserve (OCI)		450
	31 December 2010		
	Year-end		
J4	Foreign exchange difference / loss (P/L)	990	
	Creditor		990
	[3 000 x (10,36 – 10,03)]		
J5	FEC asset	360	
	FEC liability	450	
	Fair value gain (P/L) [3 000 x (10,42 – 10,15)]		810
	OR (Alternative for J5)		
J6	FEC asset	810	
	Fair value gain (P/L) [3 000 x (10,42 – 10,15)]		810
	30 June 2011		
	Settlement date		
J7	Creditor	210	
	Foreign exchange difference / profit (P/L)		210
	[3 000 x (10,36 – 10,29)]		

QUESTION 5 SUGGESTED SOLUTION (continued)

		Debit R	Credit R
J8	Fair value loss (P/L)	390	
	FEC asset		360
	FEC liability		30
	[3 000 x (10,42 – 10,29)]		
	OR (Alternative for J8)		
J9	Fair value loss (P/L)	390	
	FEC liability		390
	[3 000 x (10,42 – 10,29)]		
	(If you journalised J5 and J8)		
J10	FEC liability (reversing J8)	30	
	Creditor (3 000 x 10,29)	30 870	
	Bank (3 000 x 10,30)		30 900
	(If you journalised J6 and J9)		
J11	FEC liability (450 + 390) (reversing J2 + J9)	840	
	Creditor (3 000 x 10,29)	30 870	
	Bank (3 000 x 10,30)		30 900
	FEC asset (reversing J6)		810

CHOCOCOFFEE LTD

NOTES FOR THE YEAR ENDED 31 DECEMBER 2011

2. Property, plant and equipment

	Land R	Building R	Machine R	Total R
Carrying amount at the beginning of year	1 000 000	1 985 000	30 540	3 015 540
Cost	1 000 000	2 000 000	30 540	3 030 540
Accumulated depreciation (calc 1.2)	-	(15 000)	-	(15 000)
Additions (calc 2.1 + calc 2.2)	500 000	900 000	-	1 400 000
Revaluations (calc 1.1 + 1.2 + 2.1 + 2.2)	280 000	433 289	-	713 289
Depreciation (calc 1.2 + 2.2 + 4)	-	(98 289)	(2 554)	(100 843)
Transfer to Investment property (calc 2.1 + 2.2)	(530 000)	(920 000)	-	(1 450 000)
Carrying amount at the end of the year	1 250 000	2 300 000	27 986	3 577 986
Gross carrying amount	1 250 000	2 375 789	30 540	3 656 329
Accumulated depreciation	-	(75 789)	(2 554)	(78 343)

Valuations were performed on 31 December 2011 by an independent sworn appraiser.

The carrying amount of land and buildings if it was carried at cost minus accumulated depreciation would have amounted to R2 950 000 (land: R1 000 000; building: R1 925 000).

QUESTION 5 SUGGESTED SOLUTION (continued)

3. Calculation of deferred tax

	Carrying amount R	Tax base R	Exempt difference R	Temporary difference R	Tax rate	Deferred tax liability R
Processing plant – Land (calc 1.1)	1 250 000	-	1 000 000	250 000	28% x 66,6%	46 620
Processing plant – Building (calc 1.2)	2 300 000	1 800 000	-	500 000	28%	140 000
Administration property – Land (calc 2.1)	540 000	-	500 000	40 000	28% x 66,6%	7 459
Administration property – Building (calc 2.2)	935 000	-	900 000	35 000	28% x 66,6%	6 527
Office block – Land (calc 3.1)	700 000	-	600 000	100 000	28% x 66,6%	18 648
Office block – Building (calc 3.2)	1 350 000	-	1 000 000	350 000	28% x 66,6%	65 268
Roasting machine (calc 4)	27 986	25 075	-	2 911	28%	815
Total deferred tax liability						285 337

Calculation 1 - Processing plant

1.1. Land	Total carrying amount R	Historical carrying amount R	Reval-uation R	Exempt difference (*) R	Temporary difference R	Deferred tax asset / (liability) R
Cost 30 September 2010	1 000 000	1 000 000	-	1 000 000		
Revaluation (calc 1.1.1)	250 000	-	250 000	-		
Carrying amount 31 December 2011 (calc 1.1.2)	1 250 000	1 000 000	250 000	1 000 000	250 000	(46 620)

1.1.1 1 250 000 – 1 000 000 = 250 000

1.1.2 (1 250 000 – 1 000 000) x 28% x 66,6% = 46 620

* - No capital allowance is allowed.

QUESTION 5 SUGGESTED SOLUTION (continued)

1.2. Building

	Total carrying amount R	Historical carrying amount R	Reval-uation R	Tax base R	Tempo-rary differ-ence R	Deferred tax asset / (liability)@ 28% R
Cost 30 September 2010	2 000 000	2 000 000	-	2 000 000		
Depreciation / Tax allowance 31 December 2010 (calc 1.2.1 – 1.2.2)	(15 000)	(15 000)	-	(100 000)		
Carrying amount 31 December 2010	1 985 000	1 985 000	-	1 900 000	85 000	(23 800)
Revaluation 1 January 2011 (calc 1.2.3)	390 789	-	390 789	-		
Depreciation / Tax allowance 31 December 2011 (calc 1.2.4 – 1.2.6 + calc 1.2.2)	(75 789)	(60 000)	(15 789)	(100 000)		
Carrying amount 31 December 2011 (calc 1.2.7)	2 300 000	1 925 000	375 000	1 800 000	500 000	(140 000)

1.2.1. [(2 000 000 – 500 000) / 25] x 3/12 = 15 000

1.2.2. 2 000 000 x 5% = 100 000

1.2.3. [(((2 300 000 – 500 000) / 285) x 297) + 500 000] = 2 375 789; 2 375 789 – 1 985 000 = 390 789
(25 years x 12 months = 300 months; 300 months – 3 months already passed = 297 months at the beginning of the financial year. 297 – 12 months = 285 months at the end of the financial year

1.2.4. 2 300 000 – 2 375 789 = 75 789 **OR** [(2 375 789 – 500 000) / 297 x 12] = 75 789

1.2.5. [(2 000 000 – 500 000) / 25] = 60 000

1.2.6. 390 789 / 297 x 12 = 15 789

1.2.7. (2 300 000 – 1 800 000) x 28% = 140 000

Calculation 2 – Administration building

2.1. Land

	Total carrying amount R	Histo-rical carrying amount R	Reval-uation/ Fair value adj. R	Exempt diffe-rence (*) R	Tempo-rary difference R	Deferred tax asset / (liability) R
Cost 1 February 2011	500 000	500 000	-	500 000		
Revaluation (calc 2.1.1) 1 November 2011	30 000	-	30 000	-		
Transfer to investment property	530 000	500 000	30 000	500 000		
Fair value adjustment (calc 2.1.2)	10 000	-	10 000	-		
Carrying amount 31 December 2011 (calc 2.1.3)	540 000	500 000	40 000	500 000	40 000	(7 459)

QUESTION 5 SUGGESTED SOLUTION (continued)

2.1.1. 530 000 – 500 000 = 30 000
2.1.2. 540 000 – 530 000 = 10 000
2.1.3. (540 000 – 500 000) x 28% x 66,6% = 7 459
* No capital allowance is allowed.

2.2. Building

	Total carrying amount R	Historical carrying amount R	Reval-uation/ Fair value adjustment R	Exempt difference (*) R	Tempo-rary differ-ence R	Deferred tax asset / (liability) R
Cost 1 February 2011	900 000	900 000	-	900 000		
Depreciation 1 November 2011 (calc 2.2.1)	(22 500)	(22 500)	-	(22 500)		
	877 500	877 500	-	877 500		
Revaluation (calc 2.2.2) 1 November 2011	42 500	-	42 500	22 500		
Transfer to investment property	920 000	877 500	42 500	900 000	20 000	(5 600)
Rate reduction (calc 2.2.3)						1 870
Fair value adjustment (calc 2.2.4)	15 000	-	15 000	-		
Carrying amount 31 December 2011 (calc 2.2.5)	935 000	877 500	57 500	900 000	35 000	(6 527)

2.2.1. 900 000 / 30 x 9/12 = 22 500
2.2.2. 920 000 – 877 500 = 42 500
2.2.3. (920 000 – 900 000) x 28% = 5 600; 5 600 x 66,6% = 3 730, 5 600 – 3 730 = 1 870
2.2.4. 935 000 – 920 000 = 15 000
2.2.5. (935 000 – 900 000) x 28% x 66,6% = 6 527

Calculation 3 – Office block

3.1. Land	Total carrying amount R	Historical carrying amount R	Fair value adjust-ment. R	Exempt difference (*) R	Temporary difference R	Deferred tax asset / (liability) R
Cost 1 March 2011	600 000	600 000	-	600 000		
Fair value adjust-ment (calc 3.1.1)	100 000	-	100 000	-		
Carrying amount 31 December 2011 (calc 3.1.2)	700 000	600 000	100 000	600 000	100 000	(18 648)

QUESTION 5 SUGGESTED SOLUTION (continued)

3.1.1. 700 000 – 600 000 = 100 000
3.1.2. (700 000 – 600 000) x 66,6% x 28% = 18 648
* - No capital allowance is allowed.

3.2. Building

	Total carrying amount R	Historical carrying amount R	Fair value adjust-ment. R	Exempt difference (*) R	Tempo-rary diffe-rence R	Deferred tax asset / (liability) R
Cost 1 March 2011	1 000 000	1 000 000	-	1 000 000		
Fair value adjustment (calc 3.2.1)	350 000	-	350 000	-		
Carrying amount 31 December 2011 (calc 3.2.2)	1 350 000	1 000 000	350 000	1 000 000	350 000	(65 268)

3.2.1. 1 350 000 – 1 000 000 = 350 000
3.2.2. (1 350 000 – 1 000 000) x 28% x 66,6% = 65 268

* - No capital allowance is allowed.

Calculation 4 – Machinery

	Total carrying amount R	Tax base R	Tempo-rary difference R	Deferred tax asset / (liability) @ 28% R
Cost 1 December 2010	30 540	30 090		
Depreciation / Tax allowance 31 December 2011 (calc 4.1.1 – 4.1.2)	(2 554)	(5 015)		
Carrying amount 31 December 2011 (calc 4.1.3)	27 986	25 075	2 911	(815)

4.1.1. 30 090 + 450 = 30 540; (30 540 – 5 000) / 10 = 2 554
4.1.2. 30 090 / 6 = 5 015
4.1.3. (27 986 – 25 075) x 28% = 815

LECTURER'S COMMENT

For all the capital gains tax calculations use 28% x 66,6% to ensure that rounding does not affect your answer. Do not round the CGT rate.

QUESTION 6 (40 marks) (48 minutes)

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS

PART A (29 marks) (35 minutes)

Koikoi Ltd is a company that manufactures batteries for motor vehicles. The company has a 31 December year-end.

The following details regarding certain assets of the company are available:

Purchased patent – Waya Waya

On 1 January 2005, the company acquired a battery patent, called Waya Waya, for R2 800 000. This patent will ensure that the company manufacture more reliable batteries. On acquisition of the Waya Waya patent, Koikoi Ltd also incurred consulting and legal fees amounting to R47 000 and R23 000 respectively. These capital expenditures were paid in cash on acquisition date of the patent. The patent's useful life was determined to be 10 years and no residual value was allocated to the patent. The patent was available for use, as intended by management, on acquisition date.

However, during the 2011 financial year, numerous customers complained about defective batteries. After internal investigations, it was discovered that there is a defect present in some batches of batteries already sold to customers. As a result, Koikoi Ltd had to recall the defective batteries already sold and had to replace them, free of charge, with new ones. Sales of these batteries started to decrease significantly due to the customer dissatisfaction and management had to assess the impact thereof on the value of the patent.

On 31 December 2011, the fair value of the patent was estimated to be only R850 000. Legal and other administration fees to sell the patent was estimated to amount to R60 000. Expected future net cash inflows to be derived from the use of the patent was estimated to amount to R320 000 for the year ended 31 December 2012. The future net cash inflows will increase with 10% annually until 31 December 2014.

Internally generated patent - Setlopo

After the complications with the Waya Waya battery patent, Koikoi Ltd decided to develop its own product and registered the patent as the Setlopo patent. Research and development of the Setlopo patent commenced on 1 February 2011.

After completion of the research phase on 31 March 2011, the project manager and the chief financial officer of Koikoi Ltd determined that all the criteria for the recognition of an intangible asset were satisfied. On 1 August 2011, the development of the Setlopo patent was completed and it was available for use, as intended by management, on this date.

The following costs directly relating to the Setlopo patent were evenly incurred during the research and development phase:

	R
Salaries	700 000
Consumables	100 000
General overheads	80 000

On 1 February 2011, a specialised machine was purchased at a cost of R2 000 000 from Tloung Ltd. Koikoi Ltd paid R1 100 000 in cash immediately and the outstanding balance was settled on 30 November 2011. Tloung Ltd's normal credit terms for these machines are 2 months. Management intends to use the machine for the next 5 years, initially for the purpose of the development of the Setlopo patent, thereafter for commercial production of the batteries.

QUESTION 6 (continued)

Management estimated the residual value of this machine to amount to R300 000. The machine was available for use, as intended by management, on 1 February 2011.

The Setlopo patent's useful life was estimated to be 15 years. A residual value of Rnil was allocated to the patent.

On 31 December 2011, management decided to sell the Setlopo patent as it was not generating income as initially anticipated. The sale is expected to be completed by 29 February 2012 for cash. All of the criteria as set out in IFRS 5 for classifying an asset as held for sale was met on 31 December 2011. The fair value less cost to sell of the Setlopo patent on 31 December 2011 was determined to be R400 000.

Additional information:

1. It is the accounting policy of the company to account for intangible assets according to the cost model.
2. It is the accounting policy of the company to provide for amortisation according to the straight-line method over the assets' estimated useful lives.
3. A pre-tax discount rate of 15% is considered to be appropriate.
4. Assume all amounts to be material.

REQUIRED

1. Calculate the impairment loss (if any) for the Waya Waya patent in the books of Koikoi Ltd for the year ended 31 December 2011, according to the requirements of IAS 36 – *Impairment of Assets* and IAS 38 – *Intangible Assets*. (10)

Note:
- Show all data input into your financial calculator.
- Show all calculations.
- Round all amounts to the nearest Rand.

2. Using your answer in (1) above, disclose the impairment loss note in the notes to the annual financial statements of Koikoi Ltd for the year ended 31 December 2011, according to the requirements of **only** IAS 36 – *Impairment of Assets*. (2½)

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Ignore any VAT and tax implications.

3. Calculate the total cost of the Setlopo patent to be capitalized in the statement of financial position of Koikoi Ltd as at 31 December 2011, according to the requirements of IAS 38 – *Intangible Assets*. (6½)

Note:
- Show all data input into your financial calculator.
- Show all calculations.
- Round all amounts to the nearest Rand.

QUESTION 6 (continued)

4. Using your answer in (3) above, disclose **only** the Setlopo patent in the notes to the annual financial statements of Koikoi Ltd for the year ended 31 December 2011, according to the requirements of **only** IAS 38 – *Intangible Assets*. (6)

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Ignore any VAT and tax implications.

5. Disclose the "non-current assets held for sale" note to the annual financial statements of Koikoi Ltd for the year ended 31 December 2011, according to the requirements of IFRS 5 – *Non-current assets held for sale and discontinued operations*. (4)

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Ignore any VAT and tax implications.

PART B (11 marks) (13 minutes)

On 2 January 2011, Mkana Ltd issued 1 000 convertible bonds at R1 500 per bond, resulting in total proceeds of R1 500 000. These bonds are convertible into 150 ordinary shares at the option of the holder, at any time until maturity on 31 December 2013. Interest is payable annually in arrears at a nominal interest rate of 7%. When the bonds were issued, the prevailing market interest rate for similar debt without a conversion option was 9%.

REQUIRED

Prepare the **journal entries (cash transactions included)** to account for the above bonds in the accounting records of Mkana Ltd for the year ended 31 December 2011. (11)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:
- **No** abbreviations for general ledger accounts can be used.
- Journal narrations are **not** required.
- Show the **date** of each journal entry.
- Show all calculations.
- Show all data input into your financial calculator.
- Round all amounts to the nearest Rand.

QUESTION 6 PART A SUGGESTED SOLUTION

1. Calculation of impairment loss on Waya Waya patent

	R
Cost 1 January 2005 (2 800 000 + 47 000 + 23 000)	2 870 000
Accumulated amortisation (2 870 000 / 10 x 6)	(1 722 000)
Carrying amount 31 December 2010	1 148 000
Amortisation (2 870 000 / 10)	(287 000)
Carrying amount before impairment test	861 000

Alternative for carrying amount before impairment test:	
Cost 1 January 2005 (2 800 000 + 47 000 + 23 000)	2 870 000
Accumulated amortisation 31 December 2011 (2 870 000 / 10 x 7)	(2 009 000)
Carrying amount before impairment test (2 870 000 – 2 009 000)	861 000

Carrying amount before impairment test		861 000
Recoverable amount (higher of fair value less cost to sell and value in use)		(799 014)
Fair value less cost to sell (850 000 – 60 000)	790 000	
Value in use: (using HP10Bii financial calculator)	799 014	

CF_0 = 0
CF_1 = R320 000
CF_2 = R352 000 (320 0000 + 10%)
CF_3 = R387 200 (352 000 + 10%)
i = 15%
Comp NPV = R799 014

Impairment loss (861 000 – 799 014)	61 986

KOIKOI LTD

NOTES FOR THE YEAR ENDED 31 DECEMBER 2011

2. Impairment loss

The Waya Waya battery patent was impaired during the year due to customer dissatisfaction about the product. This is due to the fact that certain batches of the batteries had to be recalled from customers due to defects discovered. The impairment loss amounted to R61 986. The recoverable amount is based on value in use and is determined using a pre tax discount rate of 15%. The impairment loss was included in profit/loss in the statement of profit or loss and other comprehensive income, in the other expenses line item.

3. Total cost of the Setlopo patent

Research costs – to be expensed

		R
Salaries	R116 667[1] x 2	233 333
Consumables	R16 667[2] x 2	33 333
Depreciation	(R1 914 859[3] – R300 000) / 5 x 2/12	53 829
		320 495

QUESTION 6 PART A SUGGESTED SOLUTION (continued)

Development costs – to be capitalised

		R
Salaries	R116 667[1] x 4	466 667
Consumables	R16 667[2] x 4	66 667
Depreciation	(R1 894 863[3] – R300 000) / 5 x 4/12	106 324
		639 658

Calculations
1. 700 000 / 6 = 116 667
2. 100 000 / 6 = 16 667
3. FV = R900 000
   i = 15%/12
   n = 10
   Comp PV = R794 863

Therefore cost = R1 100 000 + R794 863 = R1 894 863

Research phase = 1 February 2011 – 31 March 2011 = 2 months
Development phase = 1 April 2011 – 1 August 2011 = 4 months

KOIKOI LTD

NOTES FOR THE YEAR ENDED 31 DECEMBER 2011

4. Intangible asset – Setlopo patent

	Patent: Internally generated R
Carrying amount at the beginning of the year	-
Cost	-
Accumulated amortisation	-
Additions (3 above)	639 658
Amortisation (included in other expenses) (639 658 / 15 x 5 / 12)	(17 768)
Transferred to Non-current asset held for sale	(621 890)
Carrying amount at the end of the year	-
Cost	-
Accumulated amortisation	-

KOIKOI LTD

NOTES FOR THE YEAR ENDED 31 DECEMBER 2011

5. Non-current asset held for sale

On 31 December 2011, Koikoi Ltd decided to dispose of the Setlopo patent, as the patent was not generating income as initially anticipated. It is expected that the sale of the patent will take place on 28 February 2012 and the sale will be for cash.

Patent	R400 000

An impairment loss of R221 890 was recognised upon initial classification of the patent as non-current asset held for sale. The impairment loss was included in the profit or loss section of the statement of profit or loss and other comprehensive income, in the other expenses line item.

QUESTION 6 PART A SUGGESTED SOLUTION (continued)

Calculation: Impairment loss on non-current asset held for sale

	R
Patent	621 890
Impairment loss (621 890 – 400 000)	(221 890)
Carrying amount 31 December 2011	400 000

QUESTION 6 PART B SUGGESTED SOLUTION

	R
Present value of the principal (PV)	1 158 275
(R1 500 000 payable at the end of three years)	
FV = 1 500 000	
i = 9%	
n = 3	
PMT = 0	
Present value of the interest (PV)	265 786
(R105 000 payable annually in arrears for three years)	
FV = 0	
PMT = 105 000 (1 500 000 x 7%)	
n = 3	
i = 9%	

OR:
FV = 1 500 000
i = 9%
N = 3
PMT = 105 000 (1 500 000 x 7%)
Comp PV = 1 424 061

Total liability component	1 424 061
Equity component (balancing figure)	75 939
Proceeds on bond issue	1 500 000

Journal entries

	Debit R	Credit R
2 January 2011		
Bank	1 500 000	
Equity component of convertible bond (balancing)		75 939
Liability component of convertible bond		1 424 061
Initial recognition of convertible bond		
31 December 2011		
Finance cost (1 424 061 x 9%)	128 165	
Liability component of convertible bond (balancing)		23 165
Bank (1 500 000 x 7%)		105 000
Recognition of finance cost, interest paid and discount of liability to fair value		

QUESTION 7 (54 marks) (65 minutes)

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS

PART A (39 marks) (47 minutes)

Logo Logic Ltd is a printing company situated in Pretoria, Gauteng. The financial year-end of the company is 30 June. Details of the company's assets are as follows:

Manufacturing building

Logo Logic Ltd purchased a manufacturing building on 1 October 2010 for R5 400 000 (Land: R1 500 000; Building: R3 900 000) where the design and printing of logos take place. The building has a useful life of 30 years and a residual value of R450 000. The building was available for use, as intended by management, on acquisition date.

Office building

Logo Logic Ltd owns an office building which is used as their administrative headquarters. The property was purchased on 1 July 2011 for R2 850 000 (Land: R400 000; Building: R2 450 000). The building has a useful life of 25 years and no residual value. The building was available for use, as intended by management, on acquisition date.

During the 2012 financial year, the directors of the company decided to move their administrative headquarters to the manufacturing building, as there was sufficient vacant space available for this purpose and to increase profitability. On 1 May 2012, Logo Logic Ltd evacuated the office building and relocated its administrative headquarters to the manufacturing building. Subsequently, on 1 May 2012 a lease contract was signed with Blue Bell Ltd to rent the office building for a 10 year period, effective from 1 July 2012.

Additional information

1. During the current financial year, the directors of Logo Logic Ltd decided to revalue land and buildings for the first time. The accounting policy of Logo Logic Ltd to account for owner-occupied land and buildings was thus changed during the current financial year from the cost model to the revaluation model. Owner-occupied land and buildings will be valued using the net replacement value basis. On revaluation of the asset, the accumulated depreciation is eliminated against the gross carrying amount of the asset.

2. It is the accounting policy of Logo Logic Ltd to account for investment property using the fair value model. The carrying amount of the investment property will be recovered through sale.

3. Depreciation on land and buildings are provided for according to the straight-line method over their estimated useful lives. Depreciation is calculated on the most recent revalued amounts.

4. The properties were revalued by Mr Mabula, an independent sworn appraiser, who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property being valued. Values were determined on the net replacement value basis with reference to current market evidence. The remaining useful life of the buildings remained unchanged throughout.

QUESTION 7 (continued)

The values applicable to the properties are as follows:

Manufacturing building:

	Land	**Buildings**
	R	**R**
Net replacement value on 30 June 2012	1 700 000	4 150 000
Residual value on 30 June 2012	-	550 000

Office building:

	Land	**Buildings**
	R	**R**
Fair value on 1 May 2012	480 000	2 600 000
Fair value on 30 June 2012	490 000	2 650 000

5. It is company policy to realise any revaluation surplus on the sale of the underlying assets.

6. The South African normal tax rate is 28%. 66,6% of capital gains are taxable.

7. The South African Revenue Service allows the following capital allowances:
   - An annual building allowance of 5% on the manufacturing building according to section 13(1) of the Income Tax Act, on the straight-line method, not proportioned for part of the year.
   - No tax allowance on office buildings.

8. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no temporary differences other than those evident from the question. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised.

9. Assume all amounts are material.

REQUIRED

Based on the information provided above, disclose the following notes to the annual financial statements of Logo Logic Ltd for the year ended 30 June 2012:

1. Property, plant and equipment (A total column is **not** required) (26½)
2. Deferred tax (12½)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Round all amounts to the nearest Rand.

QUESTION 7 (continued)

PART B (15 marks) (18 minutes)

Popmusic Ltd is a company situated in Johannesburg, Gauteng that specialises in the distribution of music in South Africa. The company has a 30 June year-end.

On 1 May 2009 Popmusic Ltd bought the rights to be the sole distributor of Rohonna's music in South Africa. Rohonna is a world famous artist from the United States of America. Popmusic Ltd bought the distribution rights to her music for a period of 15 years for an amount of R780 000. A residual value of Rnil was allocated to the distribution rights. The rights were available for use, as intended by management, on acquisition date.

During the 2011 financial year, Rohonna was involved in a major scandal in the United States of America which resulted in a significant decrease in the demand for her music in South Africa. On 30 June 2011, the fair value less costs to sell of the distribution rights was estimated at R550 000 and the value in use was determined to be R500 000.

During the 2012 financial year, Rohonna's management team initiated a worldwide image makeover project and invested a lot of time and money in improving her public image. The campaign was very successful in South Africa and subsequently the demand for Rohonna's music increased. On 30 June 2012, the fair value less costs to sell of the distribution rights was estimated at R650 000 and the value in use was determined to be R620 000.

The useful life and residual value of the distribution rights remained unchanged throughout this period.

Additional information

1. It is the accounting policy of Popmusic Ltd to account for intangible assets using the cost model.

2. Amortisation is provided for according to the straight-line method over the expected useful life of the assets.

3. Assume all amounts are material.

REQUIRED

Based on the information provided above, disclose the following notes to the annual financial statements of Popmusic Ltd for the year ended 30 June 2012:

1. Intangible assets (13)
2. Impairment of assets (2)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Round all amounts to the nearest Rand.

QUESTION 7 PART A SUGGESTED SOLUTION

LOGO LOGIC LTD

NOTES FOR THE YEAR-ENDED 30 JUNE 2012

1. Property, plant and equipment

	Land R	Buildings R	Total R
Carrying amount at the beginning of the year	1 500 000	3 813 750	5 313 750
Cost	1 500 000	3 900 000	5 400 000
Accumulated depreciation	-	(86 250)	(86 250)
Additions	400 000	2 450 000	2 850 000
Revaluations (Land – calc 1 + 3) (Building – calc 2 + 4)	280 000	695 351	975 351
Depreciation (Building – calc 2 + 4)	-	(209 101)	(209 101)
Transfer to Investment property	(480 000)	(2 600 000)	(3 080 000)
Carrying amount at the end of the year	1 700 000	4 150 000	5 850 000
Gross carrying amount	1 700 000	4 277 434	5 977 434
Accumulated depreciation	-	(127 434)	(127 434)

Valuations were performed on 30 June 2012 by an independent sworn appraiser.

The carrying amount of the land and buildings, if it was carried at cost minus accumulated depreciation would have amounted to R5 202 169 (land: R1 500 000; building: R3 702 169).

2. Deferred tax

	R
Land: [(1 700 000 – 1 500 000) x 28% x 66,6%] + [(490 000 – 400 000) x 28% x 66,6%]	(54 079)
Building: [(4 150 000 – 3 510 000) x 28%] + [(2 650 000 – 2 450 000) x 28% 66,6%]	(216 496)
Deferred tax liability	(270 575)

Calculation 1 - Land

	Carrying amount R	Histo-rical carrying amount R	Reva-luation R	Exempt difference R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 October 2010	1 500 000	1 500 000	-	1 500 000		
Revaluation surplus (calc 1.1)	200 000	-	200 000	-		
Carrying amount 30 June 2012 (calc 1.2)	1 700 000	1 500 000	200 000	1 500 000	200 000	(37 296)

1.1. 1 700 000 – 1 500 000 = 200 000
1.2. (1 700 000 – 1 500 000) x 66,6% x 28% = 37 296

QUESTION 7 PART A SUGGESTED SOLUTION (continued)

Calculation 2 Building

	Carrying amount R	Historical carrying amount R	Revaluation R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 October 2010	3 900 000	3 900 000	-	3 900 000		
Accumulated depreciation (calc 2.1) / tax allowance (calc 2.2)	(86 250)	(86 250)	-	(195 000)		
Carrying amount 30 June 2011	3 813 750	3 813 750	-	3 705 000	108 750	(30 450)
Revaluation surplus (calc 2.3)	463 684	-	463 684	-		
Depreciation (calc 2.4 - 2.6) / tax allowance (calc 2.2)	(127 434)	(111 581)	(15 852)	(195 000)		
Carrying amount 30 June 2012 (calc 2.7)	4 150 000	3 702 169	447 831	3 510 000	640 000	(179 200)

2.1. (3 900 000 – 450 0000) / (30 x 12 = 360) x 9 = 86 250 **OR**
(3 900 000 – 450 000) / 30 x 9/12 = 86 250
2.2. 3 900 000 x 5% = 195 000
2.3. [(4 150 000 - 550 000) / 339 x 351] + 550 000 = 4 277 434 - 3 813 750 = 463 684 **OR**
[(4 150 000 - 550 000) / 28.25 x 29.25] + 550 000 = 4 277 434 - 3 813 750 = 463 684
360 – 9 = 351; 351 – 12 = 339
2.4. (4 277 434 - 550 000) / 351 x 12 = 127 434 **OR** 4 277 434 – 4 150 000 = 127 434
2.5. (3 813 750 - 550 000) / 351 x 12 = 111 581
2.6. 463 684 / 351 x 12 = 15 852
2.7. (4 150 000 – 3 570 000) x 28% = 179 200

Alternative for calculation of 2.3 and 2.4

Depreciation calculation: (4 150 000 – 550 000) / 339 x 12 = 127 434

Revaluation calculation: 4 150 000 + 127 434 = 4 277 434; 4 277 434 – 3 813 750 = 463 684

QUESTION 7 PART A SUGGESTED SOLUTION (continued)

Calculation 3 - Land

	Carrying amount R	Historical carrying amount R	Revaluation/ Fair value adj R	Exempt difference R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 July 2011	400 000	400 000	-	400 000		
Revaluation 1 May 2012 (calc 3.1)	80 000	-	80 000	-		
Carrying amount 1 May 2012	480 000	400 000	80 000	400 000		
Fair value adjustment 30 June 2012 (calc 3.2)	10 000	-	10 000	-		
Carrying amount 30 June 2012 (calc 3.3)	490 000	400 000	90 000	400 000	90 000	(16 783)

3.1. 480 000 - 400 000 = 80 000
3.2. 490 000 - 480 000 = 10 000
3.3. (490 000 – 400 000) x 66,6% x 28% = 16 783

Calculation 4 - Building

	Carrying amount R	Historical carrying amount R	Revaluation/ Fair value adj R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) R
Cost 1 July 2011	2 450 000	2 450 000	-	2 450 000		
Depreciation (calc 4.1)	(81 667)	(81 667)				
Carrying amount 1 May 2012	2 368 333	2 368 333	-	2 450 000		
Revaluation 1 May 2012 (calc 4.2)	231 667	-	231 667			
Carrying amount 1 May 2012	2 600 000	2 368 333	231 667	2 450 000	150 000	
Fair value adjustment 30 June 2012 (calc 4.3)	50 000	-	50 000	-		
Carrying amount 30 June 2012 (calc 4.4)	2 650 000	2 368 333	281 667	2 450 000	200 000	(37 296)

4.1. 2 450 000 / 300 x 10 = 81 667 **OR** 2 450 000 / 25 x 10/12 = 81 667
4.2. 2 600 000 – (2 450 000 – 81 667) = 231 667
4.3. 2 650 000 – 2 600 000 = 50 000
4.4. (2 650 000 – 2 450 000) x 66,6% x 28% = 37 296

QUESTION 7 PART B SUGGESTED SOLUTION

POPMUSIC LTD

NOTES FOR THE YEAR-ENDED 30 JUNE 2012

1. Intangible assets

	Purchased Distribution right R
Carrying amount at beginning of the year	550 000
Cost	780 000
Accumulated amortisation and impairment losses (112 667 + 117 333)	(230 000)
Amortisation included in other expenses	(42 857)
Reversal of impairment loss included in other income	108 190
Carrying amount at end of the year	615 333
Cost	780 000
Accumulated amortisation (230 000 + 42 857 – 108 190)	(164 667)

The intangible asset has a remaining useful life of 142 months (11,8 years or 11 years and 10 months) and a carrying amount of R 615 333 at year-end.

2. Impairment loss reversal

The previous impairment of the distribution rights has been reversed due to the successful marketing campaign by Rohonna's managers, increasing the demand for her music in South Africa. The reversal of the impairment loss amounted to R108 190. The recoverable amount is the fair value less costs to sell. The reversal was limited to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Calculation:

Intangible assets

	Historical R	**After Impairment R**
Cost	780 000	780 000
Accumulated amortisation [780 000 / (15 x 12 = 180) x 26]	(112 667)	(112 667)
Carrying amount 30 June 2011	667 333	667 333
Impairment (667 333 – 550 000)		(117 333)
Fair value less cost to sell: R550 000		
Value in use: R500 000		
Carrying amount 30 June 2012	667 333	550 000
Current year amortisation (780 000 / 180 x 12); [550 000 / (180 – 26 =154) x 12]	(52 000)	(42 857)
Carrying amount after current year amortisation	615 333	507 143
Reversal of impairment [(667 333 – 52 000) – 507 143]		108 190
Carrying amount 30 June 2012	615 333	615 333

QUESTION 8 (40 marks) (48 minutes)

Gelato Ltd is an ice-cream manufacturer with retail outlets situated in Johannesburg and Pretoria respectively. The financial year-end of the company is 30 June.

The following information relates to the assets of the company:

Machinery

On 1 April 2011, Gelato Ltd ordered a new automated ice cream mixing machine from Italy. The machine was invoiced on 30 April 2011 for an amount of €8 000 and was shipped free on board (FOB) on 31 May 2011. The machine arrived at Durban harbour on 30 June 2011 and was transported on 1 July 2011 to Johannesburg, at a cost of R15 000. The transport costs were paid, in cash, to the driver upon arrival at the destination. The invoice from the Italian supplier is payable on 31 August 2011, 90 days from shipment date. This is considered to be normal payment terms for goods shipped internationally.

On 1 June 2011, Gelato Ltd took out a forward exchange contract (FEC), for €8 000, to counter the exchange rate fluctuations. The FEC will expire on 31 August 2011.

Gelato Ltd decided to apply hedge accounting, and on 1 June 2011, designated the FEC as the hedging instrument and the foreign currency creditor that arises as a result of this transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. Gelato Ltd decided to apply fair value hedge accounting to the FEC as a hedge of the exposure to changes in the fair value of the recognised asset/liability.

The following exchange rates are applicable:

Date	Spot rate €1 = R	Forward rate for FEC €1 = R	FEC period
1 April 2011	7,30	-	
30 April 2011	7,35	-	
31 May 2011	7,42	-	
1 June 2011	7,44	7,50	3 month
30 June 2011	7,45	7,48	2 month
31 July 2011	7,49	-	
31 August 2011	7,52	-	

On 31 July 2011, the machine was in the required location and condition for use as intended by management. The machine is depreciated according to the number of mixing hours in operation. It is expected that the machine has a useful life of 36 500 mixing hours. During the 2012 financial year, the machine was in operation for 5 000 mixing hours. The machine has no residual value.

Pretoria Outlet

Gelato Ltd's retail outlet in Pretoria opened during January 2010. Initially the outlet was situated in a very busy shopping centre. However, during the current financial year, the centre's anchor tenant relocated to another centre resulting in a significant decrease in sales of the outlet to an unacceptable level. As a result of this, the directors of Gelato Ltd approved a detailed formal plan of disposal for the outlet on 31 March 2012. All other requirements for classification of the disposal group as held for sale were also met on this date. The fair value less costs to sell of the disposal group on date of classification as held for sale was R100 000. At year-end the fair value less costs to sell was R95 000. Management expects that a binding sales agreement for all the assets will be concluded by 1 January 2013, and the assets will be sold for cash.

Details of the Pretoria outlet's assets are as follows:

	Carrying amount 31 March 2012	**Recoverable amount 31 March 2012**
	R	**R**
Inventory	8 000	Not applicable
Delivery vehicles	33 000	35 000
Furniture and fittings	64 000	64 000

The inventory consists of sugar cones, serviettes, plastic cups and spoons. Inventory with a cost price of R2 000 was sold during the period from 1 April 2012 to 30 June 2012. The net realisable value of the inventory on 30 June 2012, is R3 000. No inventory was purchased during the 2012 financial year.

The related income and expenditure of the Pretoria outlet is as follows:

	1 July 2011 to 31 March 2012	**1 April 2012 to 30 June 2012**
	R	**R**
Revenue	25 000	6 000
Cost of sales	12 000	?
Other expenses (including depreciation)	22 000	12 000

Additional information

1. Inventory is accounted for at the lower of cost price or net realisable value. The South African Revenue Service will allow a write down to net realisable value as a tax deduction.

2. The South African normal tax rate is 28%. 66,6% of capital gains are taxable.

3. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There was no difference between the carrying amount and the tax base of the individual assets prior to classification thereof as held for sale. There are no temporary differences other than those evident from the question. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised.

4. Assume all amounts are material.

QUESTION 8 (continued)

REQUIRED

1. Prepare all the **relevant journal entries (cash transactions included)** in the accounting records of Gelato Ltd for **both** the years ended 30 June 2011 and 30 June 2012, to correctly account for the machinery purchased (including depreciation), the hedged item, the hedging instrument and the foreign currency creditor. (20½)

   Journals relevant to the following dates should be prepared:
   - 31 May 2011
   - 30 June 2011
   - 1 July 2011
   - 31 August 2011
   - 30 June 2012

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - **No** abbreviations for general ledger accounts can be used.
   - Journal narrations are **not** required.
   - Indicate the date on which the journal entry is made.
   - Show all calculations.
   - Round all amounts to the nearest Rand.

2. Prepare the statement of profit or loss and other comprehensive income of Gelato Ltd for the year ended 30 June 2012, **relating only to the discontinued operation**. (11)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - **Ignore** the statement of profit or loss and other comprehensive income for the continued operation.
   - Ignore comparative information.
   - Show all calculations.
   - Round all amounts to the nearest Rand.

3. Based on the given information, disclose the “Disposal group” note to the annual financial statements of Gelato Ltd for the year ended 30 June 2012. (8½)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Accounting policy notes are not required.
   - Ignore comparative information.
   - Show all calculations.
   - Round all amounts to the nearest Rand.

QUESTION 8 SUGGESTED SOLUTION

			Debit R	Credit R
	30 April 2011			
	No entry			
	31 May 2011			
J1	Machine		59 360	
	Foreign creditor			59 360
	(8 000 x 7,42)			
	30 June 2011			
J2	Foreign exchange difference/loss(P/L)		240	
	Foreign creditor			240
	[8 000 x (7,45 – 7,42)]			
J3	Fair value loss (P/L)		160	
	FEC liability			160
	[8 000 x (7,50 – 7,48)]			
	1 July 2011			
J4	Machine		15 000	
	Bank			15 000
	31 August 2011			
J5	Foreign exchange difference/loss (P/L)		560	
	Foreign creditor			560
	[8 000 x (7,52 – 7,45)]			
J6	FEC Liability (reverse J3)	**OR alternative J7 / J9**	160	
	Fair value gain (P/L)			160
OR:				
J7	FEC Liability (reverse J3)	**Alternative for J6**	160	
	FEC Asset (balancing)		160	
	Fair value gain (P/L)			320
	[8 000 x (7,52 – 7,48)]			
J8	Foreign creditor (8 000 x 7,52)	**If you journalised J7, alternative for J10**	60 160	
	Bank (8 000 x 7,50)			60 000
	FEC Asset			160

QUESTION 8 SUGGESTED SOLUTION (continued)

OR:			Debit R	Credit R
J9	FEC asset	**Alternative for J6**	320	
	Fair value gain (P/L)			320
	[8 000 x (7,52 – 7,48)]			
J10	Foreign creditor (8 000 x 7,52)	**If you journalised J9, alternative for J8**	60 160	
	FEC Liability (reverse J3)		160	
	Bank (8 000 x 7,50)			60 000
	FEC Asset (reverse J10)			320
	30 June 2012			
J11	Depreciation		10 186	
	Accumulated depreciation			10 186
	(59 360 + 15 000) / 36 500 x 5 000			

GELATO LTD

2. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

Discontinued operation	**R**
Revenue (25 000 + 6 000)	31 000
Cost of Sales (12 000 + 2 000 + 3 000)	(17 000)
Gross Profit	14 000
Other expenses (22 000 + 12 000)	(34 000)
Loss before tax	(20 000)
Income tax benefit [(20 000) x 28%]	5 600
Loss after tax	(14 400)
Loss after tax with remeasurement of disposal group	(3 600)
Loss with remeasurement of disposal group to fair value less cost to sell	(5 000)
Income tax benefit (5 000 x 28%)	1 400
Loss for the year from discontinued operations	**(18 000)**

QUESTION 8 SUGGESTED SOLUTION (continued)

GELATO LTD

NOTES FOR THE YEAR ENDED 30 JUNE 2011

3. DISPOSAL GROUP

A decision to dispose of the assets was taken and the directors of the company approved a formal detailed disposal plan for the assets of the Pretoria Ice cream outlet. On 31 March 2012 all the requirements for classification as held for sale were met. It is expected that the plan for the sale of the assets will be completed by 1 January 2013 for cash.

The disposal group under discussion comprises:

ASSETS	**R**
Furniture and fittings	60 701
Delivery vehicle	31 299
Inventory (given)	3 000
	95 000

An impairment loss of R5 000 was recognised upon initial classification of the disposal group as held for sale. The impairment loss was included under loss after tax on remeasurement on the face of the statement of profit or loss and other comprehensive income.

CALCULATIONS

Calculation of disposal group value on initial classification:

	Carrying amount 31 March 2012 (given)	**IFRS 5 Impairment loss allocated**	**Carrying amount after Impairment**	**Carrying amount 30 June 2012**
	R	**R**	**R**	**R**
Inventory	8 000	-	8 000	3 000
Furniture & Fittings	64 000	(3 299)	60 701	60 701
Delivery vehicle	33 000	(1 701)	31 299	31 299
	105 000	(5 000)	100 000	95 000

Furniture and Fittings:
Carrying amount on 31 March 2012 = R64 000 (given)

Recoverable amount upon initial recognition = R64 000, thus no impairment.

Delivery vehicle:
Carrying amount on 31 March 2012 = R33 000 (given)

Recoverable amount upon initial recognition = R35 000, thus no impairment.

Calculation of IFRS 5 impairment loss:
Carrying amount of disposal group R105 000 (8 000 + 64 000 + 33 000)
Fair value less cost to sell R100 000
Impairment loss R5 000

Allocation of impairment loss:
Assets under IFRS 5: (64 000 + 33 000 = 97 000)
5 000 x 64 000/97 000 = R3 299
5 000 x 33 000/97 000 = R1 701

QUESTION 8 SUGGESTED SOLUTION (continued)

Carrying amount of assets after allocation of impairment loss:
Furniture and Fittings 64 000 – 3 299 = R60 701
Delivery vehicle 33 000 – 1 701 = R31 299
Total = R92 000

Subsequent measurement:
Inventory:
R8 000 – R2 000 = R6 000

Net realisable value at 30 June 2012 = R3 000.

Write down to Net realisable value at year-end = R3 000 (6 000 – 3 000). Included in cost of sales.

QUESTION 9 (51 marks) (61 minutes)

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS

PART A (41 marks) (49 minutes)

Ngu-X Ltd is a company that produces mathematical digital video disks (DVD's) for high school students. The company has a 31 March year-end. The following information relates to the assets of the company:

Property - Johannesburg

On 1 October 2008 the company purchased a manufacturing property for R8 000 000 (Land: R2 300 000; Building: R5 700 000). The residual value of the building on acquisition date was estimated to be R5 000 000. The property was available for use, as intended by management, on the acquisition date. The building is expected to have a useful life of 20 years. Both the residual value and useful life of the building remained unchanged throughout the period.

The property was revalued for the first time on 31 March 2011. On this date the net replacement value of the property was determined to be R8 800 000 (Land: R2 400 000; Building: R6 400 000).

On 1 February 2012 the directors of the company decided to relocate their manufacturing operations to Port Elizabeth and therefore vacated this manufacturing building. They decided that the property should subsequently be leased out to suitable tenants. New tenants occupied the building on 28 February 2012.

The respective fair values of the property were as follows:

Date	Land	Building
	R	R
1 February 2012	2 450 000	6 500 000
31 March 2012	2 600 000	6 750 000

Property - Port Elizabeth

As a result of the decision to relocate its manufacturing operations to Port Elizabeth, Ngu-X Ltd acquired a manufacturing property in Port Elizabeth on 1 February 2012 for R9 000 000 (Land: R2 000 000; Building: R7 000 000). The property was available for use, as intended by management, on acquisition date. On acquisition date the residual value of the building was estimated to be R4 500 000. The estimated useful life of the building was determined to be 25 years. Both the residual value and useful life of the building remained unchanged throughout the period. No revaluation of this property was performed in the current financial year as the property will only be revalued every two years.

DVD recording machine

The directors decided to sell the company's existing DVD recording machine because the relocation costs to move the existing machinery to Port Elizabeth were too expensive. All the requirements for classification of the asset as held for sale were met on 30 November 2011. A binding sales agreement regarding the machine was concluded on this date and management expects the cash sale to be completed on 10 April 2012.

The recording machine was originally acquired on 1 March 2009 for R1 800 000 and was available for use, as intended by management, on acquisition date. On acquisition date the useful life of the machine was determined to be 700 000 units and the residual value R300 000.

QUESTION 9 (continued)

From acquisition date until 31 March 2011 the machine produced 65 000 units. During the current financial year until 30 November 2011, the machine had produced 80 000 units. The machine's fair value less costs to sell on 30 November 2011 was determined to be R1 500 000 and remained unchanged on 31 March 2012.

Additional information

1. The following accounting policies apply to the assets of Ngu-X Ltd:
   - Owner-occupied land and buildings are accounted for using the revaluation model. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset (net replacement value basis). It is the policy of the company to realise any revaluation surplus upon disposal of the underlying asset.
   - Machinery is accounted for using the cost model.
   - Investment property is accounted for using the fair value model. The carrying amount of the investment property will be recovered through sale.
   - Depreciation on buildings is provided for according to the straight-line method over the estimated useful lives of the buildings. Depreciation on machinery is provided for according to the units of production method. Depreciation for the year is calculated on the most recent revalued amounts.

2. All the net replacement values and fair values of the properties were determined by Prof Charac, an independent sworn appraiser, who holds a recognised and relevant professional qualification. Prof Charac has recent experience in the location and category of the properties being valued. The net replacement values and the fair values were determined with reference to current market prices on an arm's length basis of similar properties in the same area.

3. The South African Revenue Service allows the following capital allowances:
   - An annual building allowance of 5% on the manufacturing building according to section 13(1) of the Income Tax Act, on a straight-line method, not apportioned for a part of the year.
   - A tax allowance on the machinery over 6 years according section 11(e) of the Income Tax Act on the straight-line method, apportioned for part of the year.

4. The SA normal tax rate is 28%. 66,6% of capital gains are taxable.

5. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no other items causing temporary or exempt differences except those identified in the question. The company will have sufficient profit in future against which any unused tax losses can be utilised.

6. Assume all amounts are material.

REQUIRED

1. Prepare **only** the following notes to the annual financial statements of Ngu-X Ltd for the year ended 31 March 2012:

   1.1. Property, plant and equipment. (A total column is **not** required.)
   1.2. Non-current assets held for sale (26½)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

QUESTION 9 (continued)

Note:

- Accounting policy notes are **not** required.
- Show all calculations.
- Round all calculations to the nearest rand.
- Ignore comparative information.
- Ignore any VAT implications.

2. Calculate the deferred tax balance in the statement of financial position of Ngu-X Ltd on 31 March 2012, **using the statement of financial position approach**. (14½)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:

   - Show all calculations.
   - Round all calculations to the nearest Rand.

PART B (10 marks) (12 minutes)

On 30 November 2011 Bedazzle Ltd acquired 600 shares in Innovation Ltd from a broker at a price of R9 per share and associated transaction costs amounted to R600. Bedazzle Ltd will settle their account with the broker, in cash, on 31 January 2012. The broker charges an interest rate of 10% per annum on all outstanding amounts. At year-end on 31 March 2012, the market value of Innovation Ltd's shares amounted to R11 per share. The shares are held for trading and are not held within a business model with the objective to hold the shares in order to collect contractual cash flows.

REQUIRED

Prepare the **journal entries (cash transactions included)** to account for the above transactions in the accounting records of Bedazzle Ltd for the year ended 31 March 2012. (10)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- Indicate the date on which the journal entry is made.
- **No** abbreviations for general ledger accounts can be used.
- Journal narrations are **not** required.
- Show all calculations.
- Round all calculations to the nearest Rand.

QUESTION 9 PART A SUGGESTED SOLUTION

NGU-X LTD

NOTES FOR THE YEAR ENDED 31 MARCH 2012

1. Property, plant and equipment

	Land R	Buildings R	Machinery R	Total R
Carrying amount at the beginning of the year	2 400 000	6 400 000	1 660 714	10 460 714
Gross carrying amount	2 400 000	6 480 000	1 800 000	10 680 000
Accumulated depreciation	-	(80 000)	(139 286)	(219 286)
Additions	2 000 000	7 000 000	-	9 000 000
Revaluations	50 000	166 667	-	216 667
Depreciation	-	(83 333)	(171 429)	(254 762)
Transfer to non-current assets held for sale	-	-	(1 489 286)	(1 489 286)
Transfer to investment property	(2 450 000)	(6 500 000)	-	(8 950 000)
Carrying amount at the beginning of the year	**2 000 000**	**6 983 333**	**-**	**8 983 333**
Gross carrying amount	2 000 000	7 000 0000	-	9 000 000
Accumulated depreciation	-	(16 667)	-	(16 667)

Land and buildings was valued on 1 February 2012 by an independent sworn appraiser.

3. Non-current asset held for sale

A decision to dispose of the DVD recording machine was taken after approval of a detailed formal disposal plan. The plan regarding the sale of the machine was at a stage of completion on 30 November 2011 where no realistic possibility of withdrawal existed. It is expected that the sale will be completed by 10 April 2012. The sale will be made for cash.

	R
Machinery	1 489 286

4. Deferred Tax

	Carrying amount R	Tax base R	Exempt difference R	Temporary difference R	Tax rate R	Deferred tax liability R
Land – Johannesburg property	2 600 000	-	2 300 000	300 000	28% x 66,6%	55 944
Building – Johannesburg property	6 750 000	4 560 000	-	2 190 000		515 004
Above base cost[1]	1 050 000	-		1 050 000	28% x 66,6%	195 804
Below base cost[2]	5 700 000	4 560 000		1 140 000	28%	319 200
Building – Port Elizabeth property	6 983 333	6 650 000	-	333 333	28%	93 333
Recording machine	1 489 285	875 000	-	614 285	28%	172 000
Total deferred tax liability						836 281

QUESTION 9 PART A SUGGESTED SOLUTION (continued)

Calculations:

Johannesburg - Land

	Carrying amount R	Historical carrying amount R	Revaluations/ Fair value adjustment R	Exempt difference R	Temporary difference R	Deferred tax asset/ (liability) 28% x 66,6% R
Cost 01 October 2008	2 300 000	2 300 000	-	2 300 000		
Accumulated depreciation	-	-				
Carrying amount 31 March 2010	2 300 000	2 300 000	-	2 300 000	-	-
Revaluation	100 000	-	100 000	-		
Carrying amount 31 March 2011	2 400 000	2 300 000	100 000	2 300 000	100 000	(18 648)
Revaluation (calc 1)	50 000	-	50 000	-		
Transfer to investment property 1 February 2012	2 450 000	2 300 000	150 000	2 300 000		
Fair value adjustment (calc 2)	150 000	-	150 000	-		
Carrying amount 31 March 2012	2 600 000	2 300 000	300 000	2 300 000	300 000	(55 944)

1. 2 450 000 – 2 400 000 = 50 000
2. 2 600 000 – 2 450 000 = 150 000

QUESTION 9 PART A SUGGESTED SOLUTION (continued)

Johannesburg - Building

	Carrying amount R	Historical carrying amount R	Revaluations/ Fair value adjustment R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) 28% x 66,6% R
Cost 01 October 2008	5 700 000	5 700 000	-	5 700 000		
Accumulated depreciation (calc 1) / Tax allowance (calc 2)	(52 500)	(52 500)	-	(570 000)		
Carrying amount 31 March 2010	5 647 500	5 647 500	-	5 130 000	517 500	(144 900)
Revaluation (calc 3)	832 500	-	832 500			
Depreciation (calc 4, 5, 6) / Tax allowance (calc 7)	(80 000)	(35 000)	(45 000)	(285 000)		
Carrying amount 31 March 2011	6 400 000	5 612 500	787 500	4 845 000	1 555 000	(435 400)
Depreciation (calc 8, 9) / Tax allowance (calc 7)	(66 667)	(29 167)	(37 500)	(285 000)		
Revaluation (calc 10)	166 667	-	166 667	-		
Transfer to Investment property 1 February 2012	6 500 000	5 583 333	916 667	4 560 000	1 940 000	543 200
Deferred tax adjustment (calc 11)						(74 816)
Fair value adjustment (calc 12)	250 000	-	250 000	-		
Carrying amount 31 March 2012 (calc 13)	6 750 000	5 583 333	1 066 667	4 560 000	2 190 000	(515 004)

1. (5 700 000 - 5 000 000) / 240 x 18 = 52 500
   (5 700 000 - 5 000 000) / 20 x 1,5 = 52 500
2. (5 700 000 x 5%) x 2 = 570 000
3. [((6 400 000 - 5 000 000) / 210 x 222) + 5 000 000] = 6 480 000; 6 480 000 - 5 647 500 = 832 500
   20 x 12 = 240 months; 240 - 18 months already passed = 222; 222 - 12 months in current year = 210 months
   [((6 400 000 - 5 000 000) / 17,5 x 18,5) + 5 000 000] = 6 480 000; 6 480 000 - 5 647 500 = 832 500
4. [(5 647 500 + 832 500) - 5 000 000] / 222 x 12 = 80 000 **OR** 6 480 000 - 6 400 000 = 80 000
5. (5 700 000 - 5 000 000) / 240 X 12 = 35 000
6. (832 500 / 222 x 12 = 45 000
7. (5 700 000 x 5%) = 285 000
8. (6 400 000 - 5 000 000) / 210 x 10 = 66 667
   (6 400 000 - 5 000 000) / 17,5 x 10/12 = 66 667
   832 500 / 222 x 10 = 37 500
9. (5 700 000 - 5 000 000) / 240 x 10 = 29 617
10. 6 500 000 - (6 400 000 - 66 667) = 166 667

QUESTION 9 PART A SUGGESTED SOLUTION (continued)

11. (6 500 000 - 5 700 000) x 28% x 66,6% = 149 184
    (5 700 000 - 4 560 000) x 28% = 319 200
    149 184 + 319 200 = 468 384
    (6 500 000 - 4 560 000) x 28% = 543 200
    543 200 - 468 384 = 74 816
12. 6 750 000 - 6 500 000 = 250 000
13. (6 750 000 - 5 700 000) x 28% x 66,6% = 195 804 + 319 200 (calc 11) = 515 004

Port Elizabeth – Building

	Carrying amount R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) @ 28% R
Cost 01 February 2012	7 000 000	7 000 000		
Depreciation (calc 1) / Tax allowance (calc 2)	(16 667)	(350 000)		
Carrying amount 31 March 2012	6 983 333	6 650 000	333 333	(93 333)

1. [(7 000 000 - 4 500 000 / 25) x 2 / 12] = 16 667
2. (7 000 000 / 20) = 350 000

Machinery

	Carrying amount R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) @ 28% R
Cost 01 March 2009	1 800 000	1 800 000		
Accumulated depreciation (calc 1) / Tax allowance (calc 2)	(139 286)	(625 000)		
Carrying amount 31 March 2011	1 660 714	1 175 000	485 714	(136 000)
Depreciation (calc 3) / Tax allowance (calc 4)	(171 429)	(300 000)		
Carrying amount 31 March 2012	1 489 285	875 000	614 285	(172 000)

1. (1 800 000 - 300 000) / 700 000 x 65 000 = 139 286
2. (1 800 000 / 6 x 1/12) + (1 800 000 / 6 x 2) = 625 000
3. (1 800 000 - 300 000) / 700 000) x 80 000 = 171 429
4. 1 800 000 / 6 = 300 000
5. Fair value less cost to sell = R1 500 000
   Carrying amount = R1 489 285
   Thus, no impairment loss

QUESTION 9 PART B SUGGESTED SOLUTION (continued)

		Debit R	Credit R
	30 November 2011		
J1	Transaction cost	600	
	Investment in shares (600 x 9)	5 400	
	Creditor		6 000
	31 January 2012		
J2	Finance charges (6 000 x 10% x 2/12)	100	
	Creditor		100
J3	Creditor (6 000 + 100)	6 100	
	Bank		6 100
	Alternative for J2 & J3		
	Finance charges (6 000 x 10% x 2/12)	100	
	Creditor	6 000	
	Bank		6 100
J4	**31 March 2012**		
	Investment in shares [600 x (11 - 9)] or [(600 x 11) – 5 400]	1 200	
	Fair value adjustment (Profit/loss)		1 200

QUESTION 10 (49 marks) (59 minutes)

Perfect Paint Ltd is a paint manufacturing company with a 31 December year-end.

Computer software

Perfect Paint Ltd purchased the latest computer software for mixing paint from the United States of America (USA). Details of the transaction are as follows:

Perfect Paint Ltd placed a non-cancellable order with the American supplier on 1 January 2012. The invoice price amounted to $10 500, payable as follows: $5 000 on shipment date and the balance of $5 500 on 15 June 2012. The order was shipped free on board (FOB) on 15 March 2012. On that date an amount of R11 500 was paid, in cash, to the South African Revenue Service for customs and excise duty. On 1 April 2012 the software was installed and available for use, as intended by management.

Perfect Paint Ltd decided to take out a forward exchange contract (FEC) to hedge the $5 500 installment payable on 15 June 2012. The FEC was entered into on 15 February 2012, for a four (4) month period expiring on 15 June 2012.

Perfect Paint Ltd decided to apply hedge accounting and on 15 February 2012, designated the FEC as the hedging instrument and the firm commitment and foreign currency creditor that arises as a result of the transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be effective at all times during the period. Perfect Paint Ltd accounts for the hedge of foreign currency risk using cash flow hedge accounting.

The following exchange rates are applicable to the transaction:

Date	**Spot rate $1 = R**	**FEC Rate $1 = R**	**Period**
1 January 2012	7,68	-	-
15 February 2012	7,72	7,75	4 Months
15 March 2012	7,74	7,30	3 Months
15 June 2012	7,70	-	-

The software is expected to have an estimated useful life of 5 years. A residual value of Rnil was allocated to the software. Amortisation is accounted for in accordance with the straight-line method over the estimated useful life of the software.

Internally generated formula

During the 2012 financial year, Perfect Paint Ltd embarked on a research and development project to develop a formula for an odourless paint. Research commenced on 1 February 2012. One researcher was employed full-time at a salary of R30 000 per month, to determine the feasibility of the project. This researcher was the only salaried employee working on the project and was employed until production commenced.

On 1 May 2012 management was presented with sufficient information to indicate that all the criteria for recognition of an internally generated intangible asset were met. The development phase of the odourless paint commenced on 1 May 2012 and was completed on 1 October 2012. Production of the paint commenced immediately thereafter.

QUESTION 10 (continued)

The following directly attributable costs were incurred evenly throughout the research and development phase:

Water, electricity and services	R8 000 per month

Depreciation on machinery used for the research and development of the formula, amounted to R18 000 for the year. Depreciation on property, plant and equipment for the year (excluding the machinery above) amounted to R256 750.

The following directly attributable personnel costs (excluding the abovementioned researcher) were incurred evenly only during the development phase:

Salaries and wages	R40 000 per month

The formula has an estimated useful life of 4 years. No residual value was allocated to the formula. Amortisation is accounted for in accordance with the straight-line method over the estimated useful life of the formula.

On 31 December 2012 there were indications that the formula could be impaired due to a similar product developed by a competitor. At that date, based on market research and using a pre tax discount rate of 16% per annum, the value in use of the formula was estimated to be R352 812. On 31 December 2012 the fair value less costs to sell of the formula was estimated to be R355 000.

Additional information

1. It is the accounting policy of the company to account for intangible assets using the cost model.
2. Assume all amounts are material.

REQUIRED

1. Prepare all the relevant **journal entries (cash transactions included)** in the accounting records of Perfect Paint Ltd, to correctly account for the computer software purchased (including amortisation), the hedged item and the hedging instrument.

   Only journal entries relevant to the following dates should be prepared:
   - 15 March 2012
   - 15 June 2012
   - 31 December 2012 (22½)

   Your answer must comply with the requirements of International Financial Reporting Standards (FRS).

   Note:
   - Show the **date** of each journal entry.
   - **No** abbreviations for general ledger accounts can be used.
   - **No** journal narrations are required.
   - Show all calculations.
   - Round all amounts to the nearest Rand.

QUESTION 10 (continued)

2. Disclose the following notes to the annual financial statements of Perfect Paint Ltd for the year ended 31 December 2012:

   2.1 Intangible assets (Computer software and internally generated formula)
   2.2 Profit before tax
   2.3 Impairment loss (26½)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Accounting policy notes are **not** required.
   - Ignore comparative information.
   - Show all calculations.
   - Round all calculations to the nearest Rand.
   - A total column for the intangible assets note is **not** required.

QUESTION 10 SUGGESTED SOLUTION

		Debit R	Credit R
	1 January 2012 – No entry		
	15 March 2012		
J1	Intangible asset – computer software (10 500 x 7,74)	81 270	
	Foreign creditor / Foreign supplier (10 500 x 7,74)		81 270
J2	Foreign creditor / Foreign supplier	38 700	
	Bank (5 000 x 7,74)		38 700
	Alternative for J1 & J2		
	Intangible asset – computer software (10 500 x 7,74)	81 270	
	Foreign creditor / Foreign supplier (5 500 x 7,74)		42 570
	Bank (5 000 x 7,74)		38 700
J3	Intangible asset – computer software	11 500	
	Bank		11 500
J4	Cash flow hedge reserve (OCI)	2 475	
	FEC liability (SFP)		2 475
	[(7,75 – 7,30) x 5 500]		
	15 June 2012		
J5	Foreign creditor / Foreign supplier	220	
	Foreign exchange difference / Foreign exchange gain (P/L)		220
	[(7,70 – 7,74) x 5 500]		
J6	FEC Liability (SFP)	2 200	
	Cash flow hedge reserve account (OCI)		2 200
	[(7,70 – 7,30) x 5 500)]		
	Cash flow hedge reserve account (OCI)	2 200	
	Fair value gain		2 200
J7	Foreign creditor / Foreign supplier (5 500 x 7,70)	42 350	
	FEC liability (2 475 – 2 200)	275	
	Bank (5 500 x 7,75)		42 625
	Alternative for J7 (If student wrote Alternative for J6)		
	Foreign creditor / Foreign supplier (5 500 x 7,70)	42 350	
	FEC liability	2 475	
	FEC asset		2 200
	Bank (5 500 x 7,75)		42 625
	31 December 2012		
J8	Amortisation [(81 270 + 11 500) / 5 x 9/12]	13 916	
	Accumulated amortisation		13 916
J9	Reclassification adjustment (2 475 / 5 x 9/12)	371	
	Cash flow hedge reserve		371

QUESTION 10 SUGGESTED SOLUTION

PERFECT PAINT LTD

NOTES FOR THE YEAR ENDED 31 DECEMBER 2012

2.1 Intangible Assets

	Internally developed R	**Purchased R**
Carrying amount at beginning of year	-	-
Cost	-	-
Accumulated amortisation	-	-
Additions (calc 1)	397 500	95 245
Impairment loss, included in other expenses (calc 3)	(17 656)	-
Amortisation, included in other expenses (calc 2) (J8)	(24 844)	(13 916)
Carrying amount at end of year	355 000	81 329
Cost	397 500	95 245
Accumulated amortisation and impairment losses	(42 500)	(13 916)

Perfect Paint Ltd acquired a software licence during the current year. The software licence has a remaining useful life of 4¼ years and a carrying amount of R81 329 at year-end. The company developed an odourless paint formula during the year. The formula has a remaining useful life of 3¾ years and a carrying amount of R355 000 at year-end.

2.2 Profit before tax

Profit before tax includes the following:

	R
Income	
Foreign exchange difference	2 200
Fair value gain	220
Expenses	
Amortisation, included in other expenses (13 916 + 24 844)	38 760
Research costs (calc 1)	118 500
Depreciation (18 000 – 12 000 + 256 750)	262 750
Impairment loss, included in other expenses	17 656
Reclassification adjustment	371

2.3. Impairment loss

The intangible asset, a formula for an odourless paint was impaired during the current financial year due to a competitor having developed a similar product. The impairment loss amounted to R17 656. The recoverable amount of the asset is based on the fair value less cost to sell.

QUESTION 10 SUGGESTED SOLUTION (continued)

CALCULATIONS

1. Internally developed intangible assets

	Research costs R 1 Feb 2012 – 30 Apr 2012 3 months	**Development costs R 1 May 2012 – 1 Oct 2012 5 months**	**Total R**
Salary – Researcher 30 000 x 3 = 90 000; 30 000 x 5 = 150 000	90 000	150 000	240 000
Water & electricity 8 000 x 3 = 24 000; 8 000 x 5 = 40 000	24 000	40 000	64 000
Depreciation 18 000 / 12 x 3 = 4 500; 18 000 / 12 x 5 = 7 500	4 500	7 500	12 000
Salaries & Wages 40 000 x 5 = 200 000	-	200 000	200 000
	118 500	397 500	516 000

2. Amortisation – Internally generated intangible asset
   397 500 / 4 x 3/12 = 24 844
3. Impairment loss
3.1. Carrying amount of the formula
   397 500 – 24 844 = 372 656
3.2. Recoverable amount of the formula = 355 000
   Higher of:
   Value in use R352 812
   Fair value less costs to sell R355 000
   3.3. Impairment loss = 372 656 – 355 000 = 17 656

QUESTION 11 (50 marks)(60 minutes)

Farmcor Limited is a manufacturing company of insecticides, situated in the Limpopo province. The company has a 28 February year-end.

The following details are available regarding the assets of the company:

Insecticide manufacturing machine

On 1 September 2011, Farmcor Limited placed a cancellable order, which is highly probable, for a new insecticide manufacturing machine at a British supplier for £35 000 and paid 10% of the purchase price as a refundable deposit on this date. The outstanding amount is payable on 31 May 2012. The machine was shipped free on board (FOB) on 1 October 2011 and was available for use, as intended by management, on 1 December 2011.

On 1 September 2011, Farmcor Limited took out a forward exchange contract (FEC) for the outstanding amount due on the insecticide manufacturing machine, to counter any exchange rate fluctuations. The FEC will expire on 31 May 2012. Farmcor Limited chose to apply cash flow hedge accounting and on 1 September 2011, designated the FEC as the hedging instrument and any highly probable forecast transaction or foreign currency creditor that arises as a result of this transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. From transaction date, all the relevant hedging documentation reflects that the hedge is used as a hedge against variability in fair value.

On 1 December 2011, the useful life of the machine was estimated to be 15 years with a residual value of R25 000. The residual value and remaining useful life of the machine remained unchanged throughout.

The following dates and exchange rates are applicable:

Date	**Spot rate** **£1 = R**	**Forward rate for FEC** **£1 = R**	**FEC period**
1 September 2011	12,35	14,78	9 months
1 October 2011	12,55	15,02	8 months
28 February 2012	13,67	15,07	3 months
31 May 2012	14,05	-	-

Purchased intangible asset – PestAway patent

On 1 May 2011, Farmcor Limited acquired an insecticide patent, called PestAway, for R795 000. This innovative patent positioned the company at the forefront of the insecticide market worldwide. On 1 May 2011, the patent's useful life was determined to be 10 years and no residual value was allocated to the patent. The patent was available for use, as intended by management, on acquisition date.

Over the past two years, the company decided to focus more on organic markets and on 30 November 2012, management decided to sell the PestAway patent. The sale is expected to be completed by 31 May 2013 for cash. All the criteria as set out in IFRS 5 for classifying an asset as held for sale, were met on 30 November 2012. The fair value less costs to sell of the PestAway patent on 30 November 2012 was determined to be R500 000, which remained unchanged at year-end.

QUESTION 11 (continued)

Internally generated intangible asset – Organopest patent

On 1 March 2012, the company commenced with research on a new patent for organic insecticides as part of their latest business strategy to enter the organic market. The research phase was completed on 30 September 2012. On this date the Chief Financial Officer of Farmcor Limited determined that all the criteria for the recognition of an internally generated intangible asset were satisfied. On 1 October 2012, the development of the Organopest patent commenced. The development was still in progress at year-end.

The following costs were evenly incurred during the research and development phase of the Organopest patent:

- The total salaries for the developers, full-time involved in both the research and development phase, amounted to R76 000 per month.
- General administration expenses for the 2013 financial year amounted to R215 000.
- Water and electricity directly attributable to patent research and development for the 2013 financial year amounted to R387 000.

Farmcor Limited also used the new insecticide manufacturing machine, that was purchased during the 2011 financial year, in the development phase of the Organopest patent for the period from 1 November 2012 until 31 January 2013.

You can assume that the carrying amount of the Organopest patent exceeds its recoverable amount on 28 February 2013.

Convertible bonds

In order to finance the development of the Organopest patent, Farmcor Limited decided to issue convertible bonds to the public. On 15 April 2012, the company issued 2 500 automatically convertible bonds at R750 per bond, amounting to total proceeds of R1 875 000. Each bond is automatically converted into 100 ordinary shares on maturity on 15 April 2016. Interest is payable annually in arrears at a nominal interest rate of 8.5% per annum. When the bonds were issued, the prevailing market interest rate for similar debt, without the conversion option, was 10% per annum.

Additional information

1. It is the accounting policy of the company to account for intangible assets according to the cost model and to provide amortisation on intangible assets according to the straight-line method over the assets' estimated useful lives.

2. It is the accounting policy of the company to account for property, plant and equipment according to the cost model and provide for depreciation on plant and equipment according to the straight-line method over the assets' estimated useful lives.

3. Assume all amounts to be material.

QUESTION 11 (continued)

REQUIRED

1. Prepare all the relevant journal entries **(including all cash transactions but excluding depreciation)** in the accounting records of Farmcor Limited, to correctly account for the insecticide manufacturing machine purchased, the hedged items and the hedging instrument. (26)

   Journals relevant to **only** the following dates should be prepared:
   - 1 September 2011
   - 1 October 2011
   - 28 February 2012
   - 31 May 2012

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - **Ignore** all tax implications.
   - **No** abbreviations for general ledger accounts can be used.
   - Journal narrations are **not** required.
   - Show the **date** of each journal entry.
   - Show all calculations.
   - Round all amounts to the nearest Rand.

2. Disclose the following notes to the annual financial statements of Farmcor Limited for the year ended 28 February 2013:

   1. Intangible assets (A total column is **not** required.) (13)
   2. Non-current assets held for sale (4)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Accounting policy notes are **not** required.
   - Ignore comparative information.
   - Ignore any VAT and tax implications.

3. Prepare the journal entries **(cash transactions included)** to account for **only** the issue of the bonds on 15 April 2012 and the conversion of the bonds on 15 April 2016, in the accounting records of Farmcor Limited. (7)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - **No** abbreviations for general ledger accounts can be used.
   - Journal narrations are **not** required.
   - Show the **date** of the journal entry.
   - Show all calculations.
   - Show all data input into your financial calculator, where applicable.
   - Round all amounts to the nearest Rand.

QUESTION 11 SUGGESTED SOLUTION

1. Journal entries

		Debit R	Credit R
	1 September 2011 (Deposit payment date)		
J1	Deposits paid / Prepayment	43 225	
	Bank		43 225
	[(35 000 x 10%) x 12,35]		
	1 October 2011 (Transaction date)		
J2	Machine [43 225 + (35 000 x 90% x 12,55)]	438 550	
	Creditor [(35 000 x 90%) x 12,55]		395 325
	Deposit paid		43 225
OR	Machine	395 325	
	Creditor / Supplier / Foreign creditor / Foreign supplier		395 325
	(35 000 x 90% x 12,55)		
	Machinery	43 225	
	Deposit paid		43 225
J3	FEC Asset (SFP)	7 560	
	Cash flow hedge reserve (OCI)		7 560
	[31 500 x (15,02 – 14,78)]		
J4	Cash flow hedge reserve (OCI)	7 560	
	Machine		7 560
	28 February 2012 (Year-end)		
J5	Foreign exchange difference / loss (P/L)	35 280	
	Creditor / Supplier / Foreign creditor / Foreign supplier		35 280
	[31 500 x (13,67 – 12,55)]		
J6	FEC Asset (SFP)	1 575	
	Fair value gain (P/L)		1 575
	[31 500 (15,07 – 15,02)]		
J7	**31 May 2012 (Settlement date)**		
	Foreign exchange difference / loss (P/L)	11 970	
	Creditor / Supplier / Foreign creditor / Foreign supplier		11 970
	[31 500 x (14,05 – 13,67)]		

QUESTION 11 SUGGESTED SOLUTION (continued)

		Debit R	Credit R
J8	Fair value loss (P/L)	32 130	
	FEC liability (SFP)[31 500 X (15,07 – 14,05)]		32 130
J9	Creditor (31 500 x 14,05)	442 575	
	FEC liability (SFP) (reverse J8)	32 130	
	FEC asset (SFP) (7 560 + 1 575) (reverse J3 & J6)		9 135
	Bank (31 500 x 14,78)		465 570

		Debit R	Credit R
Alt J8	Fair value loss(P/L)	32 130	
	FEC Liability (SFP)		22 995
	FEC Asset (SFP) (7 560 + 1 575) (reverse J3 & J6)		9 135
	[31 500 X (15,07 – 14,05)]		
Alt J9	Creditor (31 500 x 14,05)	442 575	
	FEC liability (SFP)	22 995	
	Bank (31 500 x 14,78)		465 570

FARMCOR LIMITED

NOTES FOR THE YEAR ENDED 28 FEBRUARY 2013

2.1 Intangible assets

	Other Patent R	Internally generated Patent R	Total R
Carrying amount at the beginning of the year	728 750	-	728 750
Cost	795 000	-	795 000
Accumulated amortisation (calc 1)	(66 250)	-	(66 250)
Additions – internally generated(calc 4)		548 017	548 017
Amortisation (calc 2)	(59 625)	-	(59 625)
Transfer to non-current assets held for sale	(669 125)	-	(669 125)
Carrying amount at the end of the year	-	548 017	548 017
Cost	-	548 017	548 017
Accumulated amortisation	-	-	-

The internally generated intangible asset is a patent for organic insecticide and is still in the development phase and has a carrying amount of R548 017 at year-end. The asset is not yet available for use.

QUESTION 11 SUGGESTED SOLUTION (continued)

Calculations

1. 795 000 / 120 x 10 = 66 250
2. 795 000 / 120 x 9 = 59 625
3. Internally generated intangible asset

	Research 1 March – 30 Sept 2013	Development 1 Oct – 28 Feb 2013
	R	R
Depreciation [(438 550 – 7 560 – 25 000) / 15 x 3/12]	-	6 767
General overheads	-	-
Salaries (76 000 x 5)	532 000	380 000
Water and electricity (387 000 / 12 x 5)	225 750	161 250
Total	757 750	548 017

2.2 Non-current assets held for sale

On 30 November 2012 management decided to sell the PestAway patent, as the company decided to focus more on the organic market. It is expected that the sale of the patent will take place on 31 May 2013 for cash.

	R
PestAway patent	500 000

An impairment loss of R169 125 was recognised upon initial classification of the patent as held for sale. The impairment loss was recognised in the profit and loss section on the face of the statement of profit and loss and other comprehensive income, in the other expenses line item.
[Impairment loss calculation: (669 125 – 500 000)]

3 JOURNAL ENTRIES

	R
Present value of the principal (no lump sum will be payable)	Nil
Present value of the interest (R159 375 annually in arrears)	505 197

FV = 0
Pmt = R159 375 (2 500 x 750 x 8,5%)
n = 4
i = 10%
PV = 505 197

Total liability component	505 197
Equity compotent (balancing figure)	1 369 803
Proceeds of bonds issue	1 875 000

QUESTION 11 SUGGESTED SOLUTION (continued)

Journal entries	Debit R	Credit R
15 April 2012		
Bank	1 875 000	
Equity component of convertible bond		1 369 803
Liability component of convertible bond		505 197
15 April 2016		
Equity component of convertible bond	1 369 803	
Share capital		1 369 803

QUESTION 12 (50 marks)(60 minutes)

Disco Limited is a distribution company situated in Johannesburg, South Africa. The financial year-end of the company is 28 February. Details of the company's assets are as follows:

Office park

Disco Limited purchased an office park on 1 September 2009 for R8 000 000 (Land: R2 000 000; Buildings: R6 000 000). The office park consists of 4 buildings which can be sold as separate assets. The various departments of Disco Limited occupy all four buildings. The four buildings were available for use, as intended by management, on acquisition date. The four buildings have a useful life of 30 years and a total residual value of R1 000 000.

The following information relating to the four buildings on 1 March 2012, **which you must assume to be correct,** is available:

	Building			Land
	Cost R	Accumulated depreciation R	Residual value R	Cost R
Buildings 1 – 3	4 500 000	312 500	750 000	1 500 000
Building 4	1 500 000	104 167	250 000	500 000
Total	6 000 000	416 667	1 000 000	2 000 000

On 1 March 2012, Disco Limited decided to relocate their Human Resources department from building 4 to building 3, due to significant staff retrenchments in the company. The relocation took place on 1 March 2012 and Disco Limited subsequently decided to rent out the vacant building 4 to a tenant. On 1 May 2012 a lease for R50 000 per month, effective from 1 June 2012, was signed for building 4, provided that Disco Limited will do certain structural changes to the offices inside. The improvements to building 4 were done at a cost of R200 000 and were completed on 31 May 2012, a day before the new tenant occupied the building.

During the current financial year, the directors of Disco Limited decided to revalue property for the first time. The properties were revalued by Mr Wood, an independent sworn appraiser, who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the property being valued. Values were determined with reference to current market evidence. The remaining useful life and residual value of the buildings remained unchanged throughout the period.

The net replacement values / fair values as determined by Mr Wood, are as follows:

Buildings 1 – 3 (total value)

Date of valuation	Land R	Buildings R	Total value R
28 February 2013	1 800 000	4 600 000	6 400 000

Building 4

Date of valuation	Land R	Buildings R	Total value R
1 March 2012	550 000	1 450 000	2 000 000
28 February 2013	610 000	1 700 000	2 310 000

On revaluation, accumulated depreciation is eliminated against the gross carrying amount of the asset (net replacement value basis). Depreciation is calculated on the most recent revalued amounts. Depreciation on buildings is provided for in accordance with the straight-line method over their estimated useful lives. It is company policy to realise any revaluation surplus on the sale of the underlying assets.

Investment property is accounted for using the fair value model. The carrying amount of the investment property will be recovered through sale.

Delivery vehicles

On 1 March 2012, Disco Limited had a fleet of ten delivery vehicles. The total cost and the accumulated depreciation of all ten vehicles on 1 March 2012, amounted to R3 000 000 and R1 000 000 respectively.

On 31 December 2012, one of the delivery vehicles was involved in an accident. On this date the carrying amount of this vehicle amounted to R150 000. On 28 February 2013, after the delivery vehicle had been repaired, the panelbeaters informed Disco Limited that the delivery vehicle will, in future, only be able to carry two thirds of the load that it originally used to carry before the accident. It is expected that the vehicle will generate cash flows of R45 000 per year for the next 3 years. A pre-tax discount rate of 10% per annum is considered appropriate. On 28 February 2013, the fair value less costs of disposal of this vehicle amounted to R110 000. The estimated useful life of this vehicle remained unchanged as initially estimated.

The delivery vehicles (including the accident vehicle) each has an estimated useful life of 150 000 kilometres and they each travelled an average distance of 28 000 kilometres during the current financial year.

It is the accounting policy of Disco Limited to account for vehicles according to the cost model and provide depreciation on vehicles according to the units of production method.

Additional information

1. The South African normal tax rate is 28%. 66,6% of all capital gains are taxable.

2. The South African Revenue Service allows an annual building allowance of 5% on the office buildings, as well as the improvements, according to section 13quin of the Income Tax Act, on a straight-line method, not apportioned for a part of the year.

3. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no temporary differences other than those evident from the question. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised.

4. Assume that land and buildings are categorised as separate asset classes.

5. Assume all amounts to be material.

QUESTION 12 (continued)

REQUIRED

Based on the above information, disclose the following notes to the annual financial statements of Disco Limited for the year ended 28 February 2013:

1. Property, plant and equipment (A total column is **not** required.) (33)
2. Deferred tax (**Only** for the office park.) (17)

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:
- Accounting policy notes are **not** required.
- Ignore comparative information.
- Show all calculations.
- Show all data input into your financial calculator, where applicable.
- Round all amounts to the nearest Rand.

QUESTION 12 SUGGESTED SOLUTION

DISCO LIMITED

NOTES FOR THE YEAR ENDED 28 FEBRUARY 2013

1.1. Property, plant and equipment

	Land R	Buildings R	Vehicles R	Total R
Carrying amount at the beginning of the year	2 000 000	5 583 333	2 000 000	9 583 333
Cost	2 000 000	6 000 000	3 000 000	11 000 000
Accumulated depreciation (calc 2.1 + 4.1)	-	(416 667)	(1 000 000)	(1 416 667)
Revaluations (Land – calc 1.2 + 3.1) (Building – calc 2.3 + 4.3)	350 000	611 950	-	961 950
Impairment loss (included in other expenses)	-	-	(38 092)	(38 092)
Depreciation (Building – calc 2.4) (Vehicle calc 5.1)	-	(145 283)	(560 000)	(705 283)
Transfer to Investment property	(550 000)	(1 450 000)	-	(2 000 000)
Carrying amount at the end of the year	1 800 000	4 600 000	1 401 908	7 801 908
Cost / Gross carrying amount	1 800 000	4 745 283	3 000 000	9 545 283
Accumulated depreciation and impairment	-	(145 283)	(1 598 092)	(1 743 375)

Valuations were performed on 28 February 2013 by an independent sworn appraiser.

The carrying amount of the land and buildings, if it was carried at cost minus accumulated depreciation would have amounted to R5 562 500 (land: R1 500 000; building: R4 062 500).

2. Deferred tax

	R
Land	
Property 1 – 3 [(1 800 000 – 1 500 000) x 66,6% x 28%]	(55 944)
Property 4 [(610 000 – 500 000) x 66,6% x 28%]	(20 513)
Building	
Property 1 – 3 [(4 600 000 – 3 600 000) x 28%]	(280 000)
Property 4 [(1 700 000 – 1 390 000) x 28%]	(86 800)
Deferred tax liability	(443 257)

QUESTION 12 SUGGESTED SOLUTION (continued)

CALCULATIONS:

OFFICE PARK – BUILDINGS 1 – 3

Calculation 1 - Land

	Carrying amount R	Historical carrying amount R	Revaluation R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) @ 66,6% x 28% R
Cost 1 September 2009 (calc 1.1)	1 500 000	1 500 000	-	1 500 000		
Revaluation surplus (calc 1.2)	300 000	-	300 000	-		
Carrying amount 28 February 2013	1 800 000	1 500 000	300 000	1 500 000	300 000	(55 944)

1.1. 2 000 000 / 4 x 3 = 1 500 000

1.2. 1 800 000 – 1 500 000 = 300 000

QUESTION 12 SUGGESTED SOLUTION (continued)

Calculation 2 - Building

	Carrying amount R	Historical carrying amount R	Reva-luation R	Tax base R	Tempo-rary difference R	Deferred tax asset/ (liability) @28% R
Cost 1 September 2009	4 500 000	4 500 000	-	4 500 000		
Accumulated depreciation (calc 2.1) / building allowance (calc 2.2)	(312 500)	(312 500)	-	(675 000)		
Carrying amount 28 February 2012	4 187 500	4 187 500	-	3 825 000	362 500	(101 500)
Revaluation surplus (calc 2.3)	557 783	-	557 783	-		
Depreciation (calc 2.4 - 2.6) / building allowance (calc 2.7)	(145 283)	(125 000)	(20 283)	(225 000)		
Carrying amount 30 June 2013	4 600 000	4 062 500	537 500	3 600 000	1 000 000	(280 000)

1 September 2009 to 28 February 2010 = 6 months

1 March 2012 to 28 February 2012 = 24 months

2.1. Given

2.2. 4 500 000 x 5% x 3 = 675 000

2.3. [(4 600 000 - 750 000) / 318 x 330] + 750 000 = 4 745 283 – 4 187 500 = 557 783
360 – 30 = 330; 330 – 12 = 318

2.4. (4 745 283 - 750 000) / 330 x 12 = 145 283 **OR** 4 745 283 – 4 600 000 = 145 283

2.5. (4 500 000 – 750 000) / 30 = 125 000 **OR** (4 187 500 - 750 000) / 330 x 12 = 125 000

2.6. 557 783 / 330 x 12 = 20 283 **OR** 145 283 – 125 000 = 20 283

2.7. 4 500 000 x 5% = 225 000

<u>OFFICE PARK – BUILDING 4</u>

Calculation 3 – Land

	Carrying amount R	Historical carrying amount R	Reva-luation/ Fair value adjust-ment R	Tax base R	Tempo-rary differ-rence R	Deferred tax asset/ (liability) @66,6% x 28% R
Cost 1 September 2009	500 000	500 000	-	500 000		
Revaluation 1 March 2012 (calc 3.1)	50 000	-	50 000	-		
Carrying amount 1 March 2012	550 000	500 000	50 000	500 000	50 000	(9 324)
Fair value adjustment (calc 3.2)	60 000	-	60 000	-		
Carrying amount 28 February 2013	610 000	500 000	110 000	500 000	110 000	(20 513)

QUESTION 12 SUGGESTED SOLUTION (continued)

3.1. 550 000 - 500 000 = 50 000

3.2. 610 000 - 550 000 = 60 000

Calculation 4 – Building

	Carrying amount R	Historical carrying amount R	Revaluation/ Fair value adjustment R	Tax base R	Temporary difference R	Deferred tax asset/ (liability) @28% R
Cost 1 September 2009	1 500 000	1 500 000	-	1 500 000		
Accumulated depreciation (calc 4.1) / building allowance (calc 4.2)	(104 167)	(104 167)		(225 000)		
Carrying amount 1 March 2012	1 395 833	1 395 833	-	1 275 000	120 833	(33 833)
Revaluation 1 March 2012 (calc 4.3)	54 167	-	54 167	-		
Carrying amount 1 March 2012	1 450 000	1 395 833	54 167	1 275 000		
Improvements 31 May 2012	200 000	200 000		200 000		
Carrying amount after improvements	1 650 000	1 595 833	54 167	1 475 000		
Fair value adjustment 28 February 2013 (calc 4.4)	50 000	-	50 000	-		
Building allowance (calc 4.5)	-	-		(85 000)		
Carrying amount 30 June 2012	1 700 000	1 595 833	104 167	1 390 000	310 000	(86 800)*

4.1. Given

4.2. 1 500 000 x 5% x 3 = 225 000 **OR** 675 000 / 3 = 225 000

4.3. 1 450 000 – 1 395 833 = 54 167

4.4. 1 700 000 – 1 450 000 – 200 000 = 50 000

4.5. (1 500 000 + 200 000) x 5% = 85 000

QUESTION 12 SUGGESTED SOLUTION (continued)

Calculation 5: Vehicles

5.1 Depreciation:	**R**
Fleet: 3 000 000 / 150 000 x 28 000 =	560 000

5.2 Impairment:	**R**
Carrying amount 28 February 2013 (given at 31 December 2012 and no further kilometres)	150 000
Value in use: i = 10% n = 3 PMT = 45 000 PV = R111 908	111 908
Fair value less cost to sell:	110 000
Recoverable amount is therefore	111 908
Impairment loss (R150 000 – R111 908)	38 092

Closing balance:

5.3. Accumulated depreciation and impairment:

1 000 000 + 560 000 + 38 092 = 1 598 092

QUESTION 13 (46 marks) (55 minutes)

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS

PART A (36½ marks) (44 minutes)

Healthzone Ltd is a beverage manufacturing company in Mpumalanga, South Africa. The company's financial year-end is 28 February. The following information relates to the assets of the company:

Purchased intangible asset – Pumpup licence

In order to expand its business, Healthzone Ltd negotiated with an European company to acquire a licence to manufacture and sell their energy drink, called Pumpup. The transaction was concluded on 1 June 2013 at a cost of 40 000 Euro's (€). The amount is payable in two instalments of €10 000 and €30 000, on 30 September 2013 and 31 December 2013, respectively. The licence to manufacture and sell Pumpup will be for a period of 15 years, effective from 1 June 2013. The licence was available for use, as intended by management, on 1 June 2013. The licence has an estimated residual value of Rnil.

In order to hedge against the fluctuations in changes in foreign exchange rates, Healthzone Ltd entered into a forward exchange contract (FEC) on 30 September 2013 for the remaining balance of €30 000, owed to the European company. The cover was taken out for a period of 3 months.

The following dates and exchange rates are applicable to the transaction:

Date	**Spot rate**	**Forward rate for FEC**
	€1 = R	**€1 = R**
1 June 2013	10,89	-
30 September 2013	10,82	10,67 (3 months)
31 December 2013	10,86	-

Healthzone Ltd decided to apply hedge accounting and on 30 September 2013 designated the FEC as the hedging instrument and the foreign currency creditor that arose as a result of this transaction, as the hedged item. The hedge complied with all the requirements for hedge accounting and the hedge was considered to be highly effective at all times during the period. Healthzone Ltd accounts for the hedge as a fair value hedge.

With the increased popularity of energy drinks in South Africa, more competitors of similar energy drinks entered the market, resulting in a significant decrease in the turnover of Healthzone Ltd. On 28 February 2014, Healthzone Ltd determined the value in use of the Pumpup licence to be R300 000, calculated at a pre-tax discount rate of 12% per annum. On 28 February 2014, the fair value less costs to sell of the licence amounted to R207 000. On this date, the remaining useful life and the residual value of the licence remained unchanged.

Internally generated intangible asset – Vitamin enriched water formula

During the 2014 financial year, Healthzone Ltd embarked on a research and development project to develop a new vitamin enriched water formula.

Research commenced on 1 August 2013. After completion of the research phase on 31 October 2013, the project manager and the chief financial officer of Healthzone Ltd determined that all the criteria for the recognition of an intangible asset were satisfied. On 28 February 2014, the development of the formula was completed and ready for use, as intended by management. The formula has an estimated useful life of 10 years. No residual value was allocated to the formula.

QUESTION 13 (continued)

Two full-time researchers were employed for the total duration of the research and development phase of the formula. A third researcher joined the project on 1 October 2013 and was allocated to this project until the development thereof was completed. A researcher earns a monthly salary of R35 000.

The following costs, directly relating to the formula, were evenly incurred during the research and development phase:

	R
Water and electricity	350 000
General administrative and training expenses	120 000

Additional information

1. It is the accounting policy of Healthzone Ltd to account for intangible assets according to the cost model. Amortisation is provided for, using the straight-line method over the estimated useful lives of the assets.

2. Assume all amounts to be material.

REQUIRED

1. Prepare all the relevant journal entries **(cash transactions included)** in the accounting records of Healthzone Ltd to correctly account for the licence, the hedged item and the hedging instrument. (15)

   Only journal entries relevant to the following dates should be prepared:
   - 1 June 2013
   - 30 September 2013
   - 31 December 2013

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - **No journal entry in respect of amortisation is required.**
   - **No** abbreviations for general ledger accounts may be used.
   - Journal narrations are **not** required.
   - Show the **date** of each journal entry.
   - Show all calculations.
   - Round all amounts to the nearest Rand.
   - Ignore any tax implications.

2. Disclose the following notes to the annual financial statements of Healthzone Ltd for the year ended 28 February 2014:

   2.1 Profit before tax (10)
   2.2 Intangible assets (A total column is **not** required) (9½)
   2.3 Impairment loss (2)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Show all calculations.
   - Accounting policy notes are **not** required.
   - Round all amounts to the nearest Rand.
   - Ignore comparative figures.

QUESTION 13 (continued)

PART B (9½ marks) (11 minutes)

On 1 March 2013, Investasure Ltd issued 4 900 automatically convertible debentures in an attempt to obtain additional funds for the business. The debentures were issued at par with a face value of R550 per debenture. Interest is payable annually in arrears at a nominal interest rate of 6,5% per annum. After a 4 year term, each debenture will automatically be converted to 600 ordinary shares at R1 each. When these debentures were issued, the prevailing market interest rate for similar debt without a conversion option was 7,5% per annum.

REQUIRED

Prepare all journal entries **(cash transactions included)** to record the above transactions in the accounting records of Investasure Ltd for the year ended 28 February 2014. (9½)

Only journal entries relevant to the following dates should be prepared:

- 1 March 2013
- 28 February 2014

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- **Indicate the date on which the journal entry is made.**
- **No** abbreviations for general ledger accounts may be used.
- Journal narrations are **not** required.
- **Show all the data input into your financial calculator.**
- Show all calculations.
- Round all amounts to the nearest Rand.
- Ignore any tax implications.

QUESTION 13 SUGGESTED SOLUTION

PART A
Journal entries

			Debit R	Credit R
	1 June 2013			
J1	License / Intangible asset		435 600	
	Accounts Payable / Creditor / Trade payables			435 600
	Recording of foreign creditor			
	(40 000 x 10,89)			
	30 September 2013			
J2	Accounts Payable		2 800	
	Foreign exchange difference / profit			2 800
	Revaluing the creditor			
	[40 000 x (10,82 – 10,89)]			
J3	Accounts Payable		700	
	Foreign exchange difference / profit	**Alternative for J2**		700
	Revaluing the creditor			
	[10 000 x (10,82 – 10,89)]			
J4	Accounts payable *(10 000 x 10,82)*		108 200	
	Bank *(10 000 x 10,82)*			108 200
	Payment of the first installment			
	Accounts payable	**Combined journal replacing J2 & J4**	111 000	
	Bank (10 000 x 10,82)			108 200
	Foreign exchange difference / profit [40 000 x (10,82 – 10,89)			2 800
	Revaluing the creditor and payment of first installment			
	Accounts payable	**Combined journal replacing J3 & J4**	108 900	
	Bank *(10 000 x 10,82)*			108 200
	Foreign exchange difference / profit *[10 000 x (10,82 – 10,89)]*			700
	Revaluing the creditor and payment of first installment			

QUESTION 13 SUGGESTED SOLUTION (continued)

			Debit R	Credit R
J5	**31 December 2013**			
	Foreign exchange difference / loss		1 200	
	Accounts payable	**If student wrote J2**		1 200
	Revaluing the creditor			
	[(30 000 x (10,86 -10,82)]			
J6	Accounts payable	**Alternative for J5 if student wrote J3**	900	
	Foreign exchange *difference* / profit			900
	Revaluing the creditor			
	[(30 000 x (10,89 -10,86)]			
J7	FEC asset		5 700	
	Fair value gain (P/L)			5 700
	Revaluing FEC			
	[(30 000 x (10,86 – 10,67)]			
J8	Accounts payable (30 000 x 10,86)		325 800	
	FEC asset (reversing J7)			5 700
	Bank (30 000 x 10,67)			320 100
	Settlement of creditor and FEC contract			

HEALTHZONE LIMITED

NOTES FOR THE YEAR ENDED 28 FEBRUARY 2014

1. Profit before tax

Included in profit before tax are the following:

	R
Income:	
Foreign exchange difference / profit (2 800 (J2) – 1 200 (J5)) **OR:** (700 (J3) + 900 (J6))	1 600
Fair value gain	5 700
Expenses:	
Amortisation (435 600 / 15 x 9/12)	21 780
Impairment loss (calc 1)	113 820
Research expense (calc 2)	395 000

QUESTION 13 SUGGESTED SOLUTION (continued)

2. Intangible Assets

	Purchased intangible assset Licences R	Internally generated Intangible asset Formula R
Carrying amount at beginning of the year	-	-
Cost	-	-
Accumulated amortisation	-	-
Additions – purchased (from J1)	435 600	-
Additions – capitalisation of development costs (calc 2)	-	620 000
Amortisation included in other expenses	(21 780)	-
Impairment loss included in other expenses (calc 1)	(113 820)	-
Carrying amount at end of year	300 000	620 000
Cost	435 600	-
Accumulated amortisation and impairment	(135 600)	-

The licence has a carrying amount of R300 000 and remaining useful life of 171 months (14 years and 3 months) at year-end.

The formula has a carrying amount of R620 000 and a remaining useful life of 10 years at year-end.

The impairment loss is included in the other expenses line item in the statement of profit or loss and other comprehensive income.

3. Impairment loss

An impairment loss of R113 820 was recognised on the licence. This was due to the decrease in sales due to increase of competitors. The recoverable amount was based on the value in use calculated by using a pre-tax discount rate of 12%.

Calculations

1.Impairment loss calculation

	R
Cost	435 600
Amortisation	(21 780)
Carrying amount at end of year	413 820
Recoverable amount	(300 000)
Impairment loss	113 820

2. Research and development cost

	Research phase 1 Aug 2013 – 31 Oct 2013 3 months	R	Development phase 1 Nov 2013 – 28 Feb 2014 4 months	R
Water and electricity	350 000 / 7 x 3	150 000	350 000 / 7 x 4	200 000
Salaries	(35 000 x 3 x 2) + 35 000	245 000	35 000 x 3 x 4	420 000
		395 000		620 000

QUESTION 13 SUGGESTED SOLUTION (continued)

PART B

Present value of interest 586 718

PMT =interest payable = 6,5% x 2 695 000 = 175 175

FV = 0

n = 4 years

i = 7,5%

		Debit R	Credit R
1 March 2013			
J1	Bank (4 900 x 550)	2 695 000	
	Liability component of convertible debenture		586 718
	Equity component of convertible debenture		2 108 282
	Recognition of convertible debentures		
28 February 2014			
J2	Finance cost (586 718 x 7,5%)	44 004	
	Liability component of convertible debenture	131 171	
	Bank (2 695 000 x 6,5%)		175 175
	Recognition of finance cost, interest paid and partial redemption		

QUESTION 14 (54 marks)(65 minutes)

Khona Ltd is a manufacturing company based in Polokwane, South Africa. The company's financial year-end is 31 October. The following information relates to the assets of the company:

Manufacturing property - Polokwane

Khona Ltd operates from a building that the company purchased on 1 July 2010 for R9 000 000 (Land: R2 000 000; Building: R7 000 000). The property was available for use, as intended by management, on acquisition date. The building has an estimated useful life of 40 years with a residual value of R3 000 000.

After an independent sworn appraiser performed a valuation of the property as at 31 October 2013, he provided the management of Khona Ltd with the following gross replacement values for this property:

	R
Land	2 050 000
Building	7 100 000

The residual value and remaining useful life of the building remained unchanged throughout the period.

Administration property – Cape Town

On 1 February 2012, Khona Ltd purchased the administration property at a cost of R8 200 000 (Land: R1 900 000; Building: R6 300 000). The property was available for use, as intended by management, on acquisition date. The building has an estimated useful life of 30 years and a residual value of R5 000 000.

On 31 January 2013, the directors of Khona Ltd decided to relocate the head office from Cape Town to Pretoria. On 28 February 2013, the company vacated the administration property and relocated to Pretoria. The property was subsequently leased out and the new tenants took occupation on 1 March 2013.

After an independent sworn appraiser performed valuations of this property, he provided the management of Khona Ltd with the fair values for this property as at the following dates:

	28 February 2013	31 October 2013
	R	R
Land	1 960 000	2 100 000
Building	6 400 000	6 480 000

The residual value and remaining useful life of the building remained unchanged since the date of purchase.

Machinery

Khona Ltd purchased a machine which was immediately available for use, as intended by management, on 1 September 2010 for R2 400 000. The machine has an estimated useful life of 650 000 units, with a residual value of R250 000.

However, due to the fact that the machine did not meet its expected production capacity, the directors decided to dispose of it. A detailed formal disposal plan was publicly announced and on 30 April 2013 the disposal was at a stage of completion where no realistic possibility of withdrawal existed. A binding sales agreement for the machine was concluded and management expects the sale to be completed on 20 December 2013. The machine will be sold for cash.

QUESTION 14 (continued)

From acquisition date until 31 October 2012, the machine had produced a total of 185 000 units. During the current financial year until 30 April 2013, the machine had produced 70 000 units. On 30 April 2013 the machine's fair value less costs to sell, was determined to be R1 200 000.

On 31 October 2013, the fair value less costs to sell of the machine increased to R1 300 000 due to an unprecedented demand for this type of machinery.

Additional information

1. It is the accounting policy of Khona Ltd to account for owner-occupied land and buildings using the revaluation model and to account for machinery using the cost model. On revaluation, the accumulated depreciation is eliminated against the gross carrying amount of the asset. It is the policy of the company to realise any revaluation surplus upon disposal of the underlying asset.

2. It is the accounting policy of Khona Ltd to account for investment property using the fair value model. The carrying amount of the investment property will be recovered through sale.

3. Depreciation on buildings is provided for according to the straight-line method over the estimated useful lives of the assets and is calculated on the most recent revalued amount. Depreciation on machinery is provided for according to the units of production method.

4. All the gross replacement values and fair values of the properties were determined by an independent sworn appraiser. The values provided were determined with reference to current market prices of similar properties in the same location and condition.

5. The South African normal tax rate is 28% and 66,6% of capital gains are taxable.

6. The South African Revenue Services allows the following capital allowances:
   - An annual building allowance of 5% on manufacturing buildings according to section 13(1) of the Income Tax Act, on a straight-line method, not apportioned for a part of the year.
   - A tax allowance on machinery, according to section 12C of the Income Tax Act, allowing a 40% deduction in the first year of use, with a 20% deduction per year in the following three years.
   - No tax allowance on administration buildings.

7. Deferred tax is provided for on all temporary differences using the statement of financial position approach. There are no other temporary or exempt differences except those mentioned in the question. The company will have sufficient taxable profit in future against which any unused tax losses can be utilised.

8. Assume that land and buildings are regarded as separate classes of assets and that all amounts are material.

QUESTION 14 (continued)

REQUIRED

1. Disclose the following notes to the annual financial statements of Khona Ltd for the year ended 31 October 2013:

   1.1. Property, plant and equipment. (A total column is **not** required.) (30)
   1.2. Investment property (5)
   1.3. Non-current assets held for sale (5)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Accounting policy notes are **not** required.
   - Show all calculations.
   - Round all amounts to the nearest Rand.
   - Ignore comparative information.
   - Ignore any VAT implications.

2. Calculate the deferred tax balance to be included in the statement of financial position of Khona Ltd on 31 October 2013, using **only** the statement of financial position approach. Indicate if the balance is a deferred tax asset or a deferred tax liability. (14)

   Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

   Note:
   - Show all calculations.
   - Round all amounts to the nearest Rand.

QUESTION 14 SUGGESTED SOLUTION

KHONA LTD

NOTES FOR THE YEAR ENDED 31 OCTOBER 2013

1.1. Property plant and equipment

	Land R	Buildings R	Machinery R	Total R
Carrying amount at beginning of year	3 900 000	13 034 167	1 788 077	18 722 244
Cost (Land: 2 000 000 + 1 900 000) (Building: 7 000 000 + 6 300 000)	3 900 000	13 300 000	2 400 000	19 600 000
Accumulated depreciation (Building: 32 500 (calc 4.1) + 233 333 (calc 2.1))	-	(265 833)	(611 923)	(877 756)
Revaluation (Land: 50 000 (calc 1.1) + 60 000 (calc 3.1)) (Building: 94 166 (calc 2.4) + 146 944 (calc 4.5))	110 000	241 110	-	351 110
Depreciation (Building: 102 500 (calc 2.5) + 14 444 (calc 4.3))	-	(116 944)	(231 538)	(348 482)
Transfer to Investment property	(1 960 000)	(6 400 000)	-	(8 360 000)
Transfer to Non-current asset held for sale	-	-	(1 556 539)	(1 556 539)
Carrying amount at end of year	2 050 000	6 758 333	-	8 808 333
Cost / gross carrying amount	2 050 000	6 860 833	-	8 910 833
Accumulated depreciation	-	(102 500)	-	(102 500)

Land and buildings were revalued on 31 October 2013 by an independent sworn appraiser.

If the land and buildings had been carried under the cost model (cost less accumulated depreciation), the carrying amount on 31 October 2013 of land would have been R2 000 000 and buildings R6 666 667 (Total R8 666 667).

1.2. Investment Property

	Land R	Buildings R	Total R
Carrying amount at beginning of year	-	-	-
Transfer from property, plant and equipment	1 960 000	6 400 000	8 360 000
Fair value adjustment (calc 3.3, calc 4.6)	140 000	80 000	220 000
Carrying amount at end of year	2 100 000	6 480 000	8 580 000

Investment property was valued on 31 October 2013 by an independent sworn appraiser.

QUESTION 14 SUGGESTED SOLUTION

1.3. Non-Current Asset held for Sale

A decision to dispose of the machine was taken after approval of a detailed formal disposal plan due to the fact that the machine did not meet its expected production capacity. The plan regarding the sale of the machine was at a stage of completion on 30 April 2013 where no realistic possibility of withdrawal existed. It is expected that the disposal will be completed by 20 December 2013. The machine will be sold for cash.

	R
Machinery	1 300 000

An impairment loss of R356 539 was recognised on initial classification of machinery as held for sale and this amount was included in other expenses in the statement of profit or loss and other comprehensive income.

A reversal of impairment loss of R100 000 was recognised on subsequent measurement of machinery as held for sale and this amount was included in other income in the statement of profit or loss and other comprehensive income.

OR: A total impairment loss of R256 539 (R356 539 – R100 000) was recognised on classification and subsequent measurement of machinery to non-current asset held for sale. The amount was included in other expenses in the statement of profit or loss and other comprehensive income.

2. Calculation of deferred tax balance at year-end:

	R
Manufacturing property – land [(2 050 000 – 2 000 000 exempt difference) x 28% x 66,6%]	9 324
Administrative property – land [(2 100 000 – 1 900 000 exempt difference) x 28% x 66,6%]	37 296
Manufacturing property – building [(6 758 333 – 5 600 000) x 28%]	324 333
Administrative property – building [(6 480 000 – 6 300 000 exempt difference) x 28% x 66,6%]	33 566
Machine [(1 300 000 – 0) x 28%]	364 000
Deferred tax liability at end of the year	768 519

CALCULATIONS

Calculation 1 - Manufacturing property - land

	Carrying amount R	Historical carrying amount R	Revaluations R	Tax base R	Exempt difference R	Temporary difference R	Deferred tax asset / (liability) R
Cost 1 July 2010	2 000 000	2 000 000	-	-	2 000 000		
Revaluation (calc 1)	50 000	-	50 000	-	-		
Carrying amount 31 October 2013	2 050 000	2 000 000	50 000	-	2 000 000	50 000	(9 324)

1.1. 2 050 000 – 2 000 000 = 50 000
1.2. [2 050 000 – 2 000 000 (exempt)] x 28% x 66,6% = 9 324

QUESTION 14 SUGGESTED SOLUTION (continued)

Calculation 2 - Manufacturing property - building

	Carrying amount R	Historical carrying amount R	Reval-uations R	Tax base R	Tempo-rary difference R	Deferred tax asset / (liability) R
Cost 1 July 2010	7 000 000	7 000 000	-	7 000 000		
Accumulated depreciation (calc 1) / Tax allowance (calc 2 x 3 years)	(233 333)	(233 333)	-	(1 050 000)		
Carrying amount 31 October 2012 (calc 3)	6 766 667	6 766 667	-	5 950 000	816 667	(228 667)
Revaluation (calc 4)	94 166	-	94 166			
Depreciation (calc 5 - 7) / Tax allowance (calc 2)	(102 500)	(100 000)	(2 500)	(350 000)		
Carrying amount 31 October 2013 (calc 8)	6 758 333	6 666 667	91 666	5 600 000	1 158 333	(324 333)

2.1. [(7 000 000 - 3 000 000) / 480] x 28 = 233 333 [40 year x 12 months = 480 months]
2.2. (7 000 000 x 5%) = 350 000
2.3. [(6 766 667 – 5 950 000) x 28%] = 228 667
2.4. [(7 100 000 – 3 000 000) / 480 x 452] + 3 000 000 = 6 860 833; 6 860 833 – 6 766 667 = 94 166 [480 total number of months – 28 months in previous financial periods = 452 remaining useful life]
2.5. [(6 766 667 + 94 166) - 3 000 000] / 452 x 12 = 102 500
2.6. (7 000 000 - 3 000 000) / 480 x 12 = 100 000
2.7. 94 166 / 452 x 12 = 2 500
2.8. (6 758 333 – 5 600 000) x 28% = 324 333

Calculation 3 - Administrative property - land

	Carrying amount R	Historical carrying amount R	Reval-uations/ Fair value adjust-ment R	Tax base R	Exempt difference R	Tempo-rary differ-rence R	Deferred tax asset / (liability) R
Cost 1 February 2012	1 900 000	1 900 000	-	-	1 900 000		
Revaluation (calc 1)	60 000	-	60 000	-			
Carrying amount 28 February 2013 (calc 2)	1 960 000	1 900 000	60 000	-	1 900 000	60 000	(11 189)
Fair value adjustment (calc 3)	140 000	-	140 000	-			
Carrying amount 31 October 2013 (calc 4)	2 100 000	1 900 000	200 000	-	1 900 000	200 000	(37 296)

QUESTION 14 SUGGESTED SOLUTION (continued)

3.1. 1 960 000 – 1 900 000 = 60 000
3.2. [1 960 000 – 1 900 000 (exempt)] x 28% x 66,6% = 11 189
3.3. 2 100 000 – 1 960 000 = 140 000
3.4. [2 100 000 – 1 900 000 (exempt)] x 28% x 66,6% = 37 296

Calculation 4 - Administrative property - building

	Carrying amount R	Historical carrying amount R	Revaluations / Fair value adjustment R	Tax base R	Exempt difference R	Temporary difference R	Deferred tax asset / (liability) R
Cost 1 February 2012	6 300 000	6 300 000	-	-	6 300 000		
Accumulated depreciation (calc 1)	(32 500)	(32 500)	-				
Carrying amount 31 October 2012 (calc 2)	6 267 500	6 267 500	-	-	6 300 000	282 500	(9 100)
Depreciation (calc 3)	(14 444)	(14 444)					
Carrying amount 28 February 2013 (calc 4)	6 253 056	6 253 056	-	-	6 300 000	583 056	(13 144)
Revaluation (calc 5)	146 944	-	146 944				
Fair value adjustment (calc 6)	80 000	-	80 000				
Carrying amount 31 October 2013 (calc 7)	6 480 000	6 253 056	226 944	-	6 300 000	810 000	(33 566)

4.1. [(6 300 000 - 5 000 000) / 360] x 9 = 32 500
4.2. [(6 267 500 – 6 300 000 (exempt)] x 28% = 9 100
4.3. [(6 300 000 – 5 000 000) / 360] x 4 = 14 444
4.4. [(6 253 056 – 6 300 000 (exempt)] x 28% = 13 144
4.5. 6 400 000 – 6 253 056 = 146 944
4.6. (6 400 000 - 6 480 000) = 80 000
4.7. [6 480 000 – 6 300 000 (exempt)] x 28% x 66,6% = 33 566

QUESTION 14 SUGGESTED SOLUTION (continued)

Calculation 5 - Machinery

	Carrying amount R	Tax base R	Temporary difference R	Deferred tax asset / (liability) R
Cost 1 September 2010	2 400 000	2 400 000		
Accumulated depreciation (calc 1) / Tax allowance (calc 2)	(611 923)	(1 920 000))		
Carrying amount 31 October 2012 (calc 3)	1 788 077	480 000	(1 308 077)	(366 262)
Depreciation (calc 4) / Tax allowance (calc 5)	(231 538)	(480 000)		
Impairment loss (calc 6)	(356 539)	-		
Reversal of impairment loss (calc 7)	100 000			
Carrying amount 31 October 2013 (calc 8)	1 300 000	-	(1 300 000)	(364 000)

5.1. (2 400 000 - 250 000) / 650 000) x 185 000 = 611 923

5.2. (2 400 000 x 40%) + (2 400 000 x 20% x 2) = 1 920 000

5.3. (1 788 077 – 480 000) x 28% = 366 262

5.4. (2 400 000 - 250 000) / 650 000) x 70 000 = 231 538

5.5. 2 400 000 x 20% = 480 000

5.6. 1 788 077 – 231 538 = 1 556 539; 1 556 539 – 1 200 000 = 356 539

5.7. 1 300 000 – 1 200 000 = 100 000

5.8. (1 300 000 – 0) x 28%= 364 000

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