UNIVERSITY EXAMINATIONS

UNIVERSITEITSEKSAMENS

UNISA university of south africa

FAC3702

October/November 2011

DISTINCTIVE FINANCIAL REPORTING

Duration 2 Hours

100 Marks

EXAMINERS:

FIRST	MRS T BUONAGURO MR M ENGELBRECHT MR MV MOKGOBINYANE	MRS M ELS MS M EVANS
SECOND	PROF S SWART	
EXTERNAL	MS A SMIT	

Use of a non-programmable pocket calculator is permissible

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THIS PAPER CONSISTS OF SEVEN (7) PAGES.

PLEASE NOTE.

1 The paper consists of **TWO (2)** questions

2 All questions must be answered

3 All calculations must be shown

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

5 Each question attempted, **must commence on a new (separate) page**

6 **PROPOSED TIME-TABLE.** (avoid deviating from this as far as possible)

Question number	Subject	Marks	Time (minutes)
1	Property, plant and equipment, investment property, impairment of assets, non-current assets held for sale and discontinued operations	50	60
2	Intangible assets, the effects of changes in foreign exchange rates and financial instruments	50	60
	TOTAL	100	120

[TURN OVER]

QUESTION 1 (50 marks) (60 minutes)

Prop-Invest Limited 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 Limited

Property in Bedfordview, Gauteng

Prop-Invest Limited 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 Limited 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 1 (continued)

Motor vehicle

On 31 March 2011, Prop-Invest Limited 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 Limited

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**	
	01/07/2010-31/01/2011	**01/02/2011-30/06/2011**	**01/07/2010-31/01/2011**	**01/02/2011-30/06/2011**
	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

5 The South African Revenue Service allows a building allowance over 20 years on administrative buildings and a wear and tear allowance over 5 years on motor vehicles (both allowances are not proportioned for part of the year) The South African Revenue Service does not allow a building allowance on the abovementioned residential buildings

QUESTION 1 (continued)

6 The applicable income tax rate has remained unchanged at 28% for the past few years

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

	Bedfordview, Gauteng R	Struisbaai, Western Cape R
Land	-	7 000
Building	6 200	28 000

You can assume that these balances are correct.

9 All expenses paid are deductible for tax purposes

10 Assume all amounts to be material

REQUIRED·

1 Prepare a statement of comprehensive income for **only the discontinued operation** of Prop-Invest Limited for the year ended 30 June 2011, according to the requirements of only IAS 1 (AC 101) – Presentation of financial statements, IAS 12 (AC 102) – 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 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

2 Disclose the following notes to the annual financial statements of Prop-Invest Limited 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 Generally Accepted Accounting Practice

Note.

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

QUESTION 2 (50 marks) (60 minutes)

NewTV Limited is a company operating in the broadcasting industry The company has a 30 June year end

Broadcasting licence (Intangible asset)

In order for NewTV Limited 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 Limited at a cost of R1 500 000 The licence was granted for a period of 10 years BASA indicated that NewTV Limited 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 Limited due to the inappropriate content of a film that they broadcasted on television BASA revoked the broadcasting licence of NewTV Limited with effect from 30 June 2011 The licence will have no future economic benefits for NewTV Limited as NewTV Limited 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 Limited import films from the United States of America and broadcast them on South African television stations NewTV Limited 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 Limited, were entered into during the current financial year

On 1 January 2011, NewTV Limited 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 Limited 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 Limited 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 Limited 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 Limited 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 2 (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	-	

Investment in shares

On 1 January 2011, NewTV Limited bought 100 shares in a listed company, TronTV Limited at a cost of R125 per share The transaction costs to finalise the transaction amounted to R500 The shares were paid for in cash on acquisition date At year end on 30 June 2011 the market value was R140 per share The shares were purchased with a view of long term growth and not for speculative purposes The shares were designated by NewTV Limited as available for sale financial assets

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 Limited, to correctly account for the investment in shares in TronTV Limited

The journal entries should be made from acquisition date until year end on 30 June 2011 (5)

Your answer must comply with the requirements of Generally Accepted Accounting Practice

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 Prepare all the relevant **journal entries (cash transactions included)** in the accounting records of NewTV Limited, 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 Generally Accepted Accounting Practice

QUESTION 2 (continued)

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

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

3 1 Profit before tax
3 2 Intangible assets (Broadcasting licence and Films)

Your answer must comply with the requirements of Generally Accepted Accounting Practice

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