



FAC3702

Question 16, Tutorial letter 103

Purpose

The purpose of this document is to support the podcast that discusses question 16 of tutorial letter 103. It is therefore recommended that you read and familiarise yourself with the information provided in question 16 before you listen to the podcast.

Question 1

Step 1 - Financial year of Perfect Paint Ltd

| 1 January 2013

—————| 31 December 2012 |

Step 2 – Read question effectively

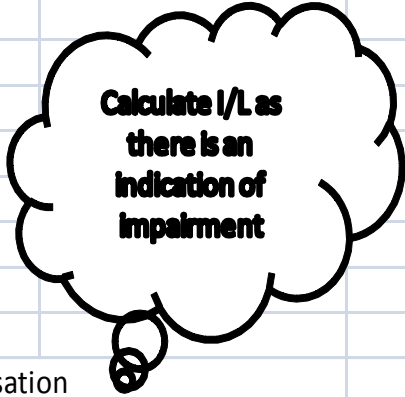
1. Read the information in the question
2. Identify the events that affect each asset

Computer software

	Casf flow hedge	Cash flow hedge					
01-Jan-12	01-Feb-12	15-Mar-12	01-Apr-12	15-Jun-12	31-Dec-12		
Non cancellable order placed Thus Firm commitment Order value = \$10 500					Year end		
	FEC taken out to hedge \$5 500		Date asset available for use		Amotisation for 9 months		
		Transaction date R11 500 customs duty paid \$5 000 paid in cash		Settlement of \$5 500 FEC Matures			
	Differences on FEC taken to cash flow hedge reserve	Differences on FEC taken to cash flow hedge reserve					
					At 15 June bal on C/F Reserve written off in profit/loss Journal 7		
		At 15 Mar bal on C/F Reserve written off against asset as per accounting policy stated in question - Journal 5					

Internally generated intangible asset - Formula

01-Feb-12	30-Apr-12	01-Oct-12	31-Dec-12
3 months Research phase	5 months Development phase	3 months Amortise asset	
		Useful life = 4 years RV = R0	
1 Researcher at R30 000 pm W&E = R8 000 pm Dep = R18 000 x 3/12	W&E = R8 000 pm Dep = R18 000 x 5/12 S&W = R40 000 pm		Amortisation Impairment of asset
			↓
			Carrying amount – Recoverable amount = IMPAIRMENT Recoverable amount = The higher of
			<ul style="list-style-type: none"> • fair value less costs to sell R355 000 and • its value in use of R352 812 calculated @ 16%



Step 3 – Answer the question

1. Start answering the question
2. Before attempting the calculations:
 - a. Draw a framework of the notes and insert information as far as possible.
Example – narrative information, You have thus earned marks before you can get into the detail of the question

DISCLOSURE

Below is an illustration of what the disclosure for the Intangible asset, impairment loss and profit before tax **MUST** look like before you attempt calculations. This information was obtained from the question

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 December 2012

Intangible Assets

	Developed Intangible asset	Purchased Intangible asset	Total
Carrying amount at the beginning of the year	-	-	
Cost	-	-	
Accumulated amortisation	-	-	
Additions		95 245	
Amortisation (included in other expenses)		(14 287)	
Impairment (included in other expenses)			
Carrying amount at the end of the year		80 958	
Cost		95245	
Accumulated amortization and impairment losses		(14 287)	

The purchased intangible asset has a carrying amount of R80 958 and a remaining useful life of 4 ¼ years at year end.

The developed intangible asset has a carrying amount of [Rvalue] and a remaining useful life of [years] at year end.

* **NOTE: The amounts for the purchased software was obtained from the journals in question 1**

Profit before tax

Profit before tax includes the following:

Income	
Foreign exchange difference (2 200 + 220)	2 420
Expenses	
Amortisation included in other expenses (14 287 + Research costs	
Depreciation (256 750 + Impairment loss, included in other expenses	

*** NOTE: The amounts included above was obtained from the journals in question 1 and the information in the question.**

Impairment loss

The intangible asset, a formula for an odourless paint was impaired during the current financial year due to the competitor having developed a similar product.

The impairment loss amounted to R

The recoverable amount of the asset is R

You need to disclose:

1. What is impaired?
2. Why it is impaired?
3. The impairment loss
4. The recoverable amount (RA) and what the recoverable amount is based on.
5. If the RA = value in use, state the pre-tax discount rate used to calculate the RA