

SCHOOL OF ACCOUNTING SCIENCES

DEPARTMENT OF FINANCIAL ACCOUNTING

TUTORIAL LETTER 202/2009 FOR ACN304W

Dear Student

SUGGESTED SOLUTIONS IN RESPECT OF ASSIGNMENT 01/2009 AND ASSIGNMENT 02/2009

Enclosed please find:

ANNEXURE A: May 2009 examination: preparation and exam approach.

ANNEXURE B: Suggested solution 01/2009 (solution to multiple choice questions)

ANNEXURE C: Suggested solution 02/2009 (solution to multiple choice questions)

It is in your own interest to work through the suggested solution in conjunction with the assignment and your own answer.

<p>All the tutorial letters are available on the internet. Tutorial letters that include the solutions to assignment questions will be available on the internet on the due date of the assignment. Documents on the internet can be accessed via the UNISA website, after registering as a myUnisa user (previously SOL user). Documents are in Acrobat Reader 6 format. Access can be obtained as follows:</p>
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| <ol style="list-style-type: none"> 1. Enter your user id and password. 2. Select the relevant course code (eg: ACN304W) 3. Select the option "materials" 4. Click on "official study material". 5. A table with all the study material will appear. 6. Select the relevant tutorial letter and click on it to open the file.
(Tutorial letter will appear as follows: 202_2009_3_e.pdf) |
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You will notice in our suggested solutions dealing with consolidated 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.

Yours faithfully

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LECTURERS: ACCOUNTING III (ACN304W)

ANNEXURE A**MAY 2009 EXAMINATION: PREPARATION AND EXAM APPROACH**

The following matters regarding the May 2009 examination paper deserve your attention:

1. RELATIVE IMPORTANCE OF CERTAIN TOPICS IN THE STUDY MATERIAL

There are no topics in the study material that are more important than others and no discussion will be conducted in this regard.

You will be examined on all study material as per the indicated sections in the prescribed books and all tutorial letters. It is **not** sufficient to only work through your assignments because all the principles are not tested in there.

Please ensure that you have received the following study material:

1. Tutorial letter 101/2009
2. Tutorial letter 102/2009
3. Tutorial letter 103/2009
4. Tutorial letter 104/2009
5. Tutorial letter 105/2009
6. Tutorial letter 106/2009
7. Tutorial letter 107/2009
8. Tutorial letter 108/2009
9. Tutorial letter 201/2009
10. Tutorial letter 202/2009

If you do not receive all of the study material, please contact DESPATCH at telephone number (012) 429-4104.

2. CHOICE OF CORRECT PAPER: ACN304W

It is your responsibility to ensure that you receive the correct paper in the examination. If you are handed the wrong paper, you must immediately request the invigilator to hand you the correct paper.

3. FORMAT OF THE EXAMINATION PAPER

The examination paper for May 2009 consists of **THREE (3)** questions and the duration is 2 hours.

4. SUPPLEMENTARY EXAMINATIONS

Supplementary examinations will be conducted in October 2009 for students who failed the May 2009 examination paper. To qualify for a supplementary examination you must obtain at least 45% - 49% as your final year mark for this module.

ANNEXURE B**Important:**

For calculation purposes, only the analysis **or** journals need to be prepared. Marks are only allocated for one of these methods and **not** both. Marks for calculations are only given if the calculated amount is taken into consideration in the required part of the question. **Please note that journals may be asked separately as part of a question in the examination.** Theory may also be examined.

SUGGESTED SOLUTION - 01/20.9

Each question counts 1 mark.

	R
1. The correct answer is (3).	
Non- controlling interest	
At acquisition	
Retained earnings (107 500 x 20%)	21 500
Share capital (100 000 x 20%)	20 000
Since acquisition	
Retained earning (321 000 – 107 500) x 20%	42 700
Current year	
Profit for the year (124 000 x 20%)	24 800
Intragroup sale of inventories (70 000 x $\frac{25}{125}$ x 0,72) x 20%	(2 016)
Dividends paid (50 000 x 20%)	(10 000)
	<u>96 984</u>
2. The correct answer is (1)	R
Long term borrowings	
Gems Limited	300 000
Aqua Limited	250 000
	<u>550 000</u>
Less: Intragroup loan	<u>(250 000)</u>
	<u>300 000</u>
3. The correct answer is (1)	R
Goodwill	
Retained earnings (107 500 x 80%)	86 000
Share capital (100 000 x 80%)	80 000
	<u>166 000</u>
Investment @ cost (225 000 – (25 800 – 4 200))	<u>(195 000)</u>
	(29 000)
Impairment (given)	5 000
Goodwill	<u>24 000</u>

ANNEXURE B (continued)

	R
4. The correct answer is (3)	
Cost of sales	
Venue Limited	937 500
Action Limited	825 000
	<hr/> 1 762 500
Less: Intragroup sales	(450 000)
Add: Intragroup profit on closing inventory (450 000 x 40% x $\frac{20}{100}$)	36 000
Less: Intragroup profit on opening inventory (410 000 x 45% x $\frac{20}{100}$)	(36 900)
	<hr/> <hr/> 1 311 600
5. The correct answer is (3)	
Inventory	
Venue Limited	562 500
Action Limited	495 000
	<hr/> 1 057 500
Less: Intragroup profit on closing inventory (450 000 x 40% x $\frac{20}{100}$)	(36 000)
	<hr/> <hr/> 1 021 500
6. The correct answer is (1)	
Carrying amount of vehicles	
Power Limited	550 000
Energy Limited	620 000
	<hr/> 1 170 000
Unrealised profit on sale of vehicle (calculation 1)	(93 000)
Add: Excess depreciation – write back (93 000 x $\frac{3}{12}$ x 20%)	4 650
	<hr/> <hr/> 1 081 650
Calculation 1	
	R
Original purchase on 1 January 20.6	260 000
Less: Depreciation 1 Jan 20.6 – 31 Dec 20.6 ($260\,000 \times \frac{20}{100}$)	(52 000)
1 Jan 20.7 – 31 Dec 20.7 ($260\,000 \times \frac{20}{100}$)	(52 000)
1 Jan 20.8 – 31 Sept 20.8 ($260\,000 \times \frac{20}{100} \times \frac{9}{12}$)	(39 000)
	<hr/> 117 000
Carrying value of vehicle on 1 Oct 20.8	117 000
Less: Selling price	(210 000)
Excess profit on sale of vehicle	<hr/> <hr/> (93 000)
7. The correct answer is (3)	
Deferred tax	
Deferred tax asset on intragroup profit on sale of machinery (50 000 x 0,28)	14 000
Deferred tax liability on intragroup depreciation of machinery (50 000 x $\frac{6}{12}$ x $\frac{1}{5}$ x 0,28)	(1 400)
Deferred tax asset on intragroup inventory (24 000 x 50% x 0,28)	3 360
	<hr/> <hr/> 15 960

ANNEXURE B (continued)

	R
8. The correct answer is (4)	
Goodwill	
Share capital (100 000 x 80%)	80 000
Retained earning (212 000 x 80%)	169 600
Revaluation of land (220 000 – 200 000) x 80%	16 000
Deferred tax on revaluation of land (16 000 x 28% x 50%)	(2 240)
Revaluation of factory building (550 000 – 400 000) x 80%	120 000
Deferred tax on revaluation of factory buildings (120 000 x 28%)	<u>(33 600)</u>
	349 760
Investment in Play Limited	<u>(360 000)</u>
	<u>(10 240)</u>
	R
9. The correct answer is (1)	
Fixed property	<u>R325 000</u>
	R
10. The correct answer is (4)	
Inventories	
Matrix Limited	650 000
Fundi Limited	<u>725 000</u>
	1 375 000
Less: Intragroup closing inventory ((182 500 x $\frac{20}{100}$) – 12 500)	<u>(24 000)</u>
	<u>1 351 000</u>

Note: The net realisable value of inventories of R170 000 is more than the original cost to the group (182 500 x $\frac{80}{100}$ = 146 000) therefore an additional adjustment is required in respect of the elimination of the unrealized profit. Refer to page 173 / 174 of Group Statements (Vol. 1).

Take note: 170 000 – 146 000 = 24 000

ANNEXURE C**SUGGESTED SOLUTION 02/2009**

	R
1. The correct answer is (2)	
Goodwill	
Euro Limited	
Share capital (100 000 x 80%)	80 000
Retained earnings (120 000 x 80%)	96 000
	<u>176 000</u>
Investment in Euro Limited (160 000 – 17 200 – 2 800)	(140 000)
Gain on bargain purchase	<u><u>36 000</u></u>
Greco Limited	R
Share capital (50 000 x 25%)	12 500
Retained earning (35 000 x 25%)	8 750
	<u>21 250</u>
Investment in Greco Limited	43 000
	<u>21 750</u>
Impairment	(5 000)
	<u><u>16 750</u></u>
2. The correct answer is (4)	
Other expenses	R
Hellenic Limited	121 608
Euro Limited	35 300
Greco Limited (12 500 x 25%)	3 125
	<u>160 033</u>
Intragroup interest paid (200 000 x 10% x $\frac{6}{12}$ x 25%)	(2 500)
	<u>157 533</u>
Impairment of goodwill	5 000
	<u><u>162 533</u></u>
3. The correct answer is (4)	
Other income	R
Hellenic Limited	25 000
Euro Limited	35 000
Greco Limited	-
	<u>60 000</u>
Less: Interest received (200 000 x 10% x $\frac{6}{12}$ x 25%)	(2 500)
	<u><u>57 500</u></u>
4. The correct answer is (2)	
Opening retained earnings	R
Hellenic Limited	220 000
Euro Limited (310 000 – 120 000) x 80%	152 000
Greco Limited (100 800 – 35 000) x 25%	16 450
	<u>388 450</u>
Add: Gain on bargain purchase (refer to 1)	36 000
	<u><u>424 450</u></u>

ANNEXURE C (continue)

	R
5. The correct answer is (2)	
Non-controlling interest	
Euro Limited	
Profit after tax (106 800 + 35 000 – 35 300 – 29 820) x 20%	<u>15 336</u>
6. The correct answer is (3)	R
Dividends paid	
Hellenic Limited	30 000
Euro Limited – non-controlling interest (20 000 x 20%)	<u>4 000</u>
	<u>34 000</u>
7. The correct answer is (2)	R
Long term borrowings	
Hellenic Limited	120 000
Greco Limited	<u>200 000</u>
	320 000
Less: Intragroup loan	<u>(200 000)</u>
	<u>120 000</u>
8. The correct answer is (2)	R
Inventories	
Hellenic Limited	74 708
Euro Limited	62 500
Greco Limited (65 800 X 25%)	<u>16 450</u>
	153 658
Less: Intragroup closing inventory (50 000 x $\frac{25}{125}$)	<u>(10 000)</u>
	<u>143 658</u>
9. The correct answer is (2)	R
Income tax expense	
Hellenic Limited	63 950
Euro Limited	29 820
Greco Limited (28 924 x 25%)	<u>7 231</u>
	101 001
Less: Tax on Intragroup inventory (50 000 x $\frac{25}{125}$ x 28%)	<u>(2 800)</u>
	<u>98 201</u>
10. The correct answer is (3)	R
Non-controlling interest	
Euro Limited	
Profit after tax (106 800 + 35 000 – 35 300 – 29 820) x 20%	15 336
Less: Intragroup inventories (50 000 x $\frac{25}{125}$ x 20%)	(2 000)
Add: Tax on Intragroup inventories (50 000 x $\frac{25}{125}$ x 20% x 28%)	560
	<u>13 896</u>