



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART II SECOND SEMESTER EXAMINATION

FINANCIAL ACCOUNTING IIB [BAC2201]

NOVEMBER 2024

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin your answer to each question on a new page.
3. Please indicate the study format (Conventional/Block) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of eight printed pages including the cover page

QUESTION 1 [30 MARKS]

1.1. Which of the following is not one of the 5 steps for recognising revenue according to IFRS 15 *Revenue from Contracts with customers*?

- A. Identify the contract
- B. Assess the likelihood of economic benefits
- C. Determine the contract price
- D. Allocate the transaction price to the performance obligations in the contract.

[2 Marks]

1.2. Dumi is an agent who works on behalf of Cebo, a famous singer. Dumi has just collected \$1 million from a promoter for ticket sales for a recent show by Cebo. Dumi earns a commission of 10% in relation to Cebo's work.

Required: What is the correct double entry for the receipt of the \$1 million?

[2 Marks]

- A. Dr Cash \$1 million
Cr Trade payables \$1 million
Dr Trade Receivables \$100,000
Cr Revenue \$100,000

- B. Dr Cash \$1 million
Cr Revenue \$1 million
Dr Cost of Sales \$900,000
Cr Trade payables \$900,000

- C. Dr Cost of Sales \$900,000
Cr Revenue \$1 million
Dr Cash \$100,000

- D. Dr Cash \$1 million
Cr Revenue \$100,000
Cr Trade payables \$900,000

1.3. A Ltd entered into a sale and repurchase agreement for its head office on 1 January 2023, selling it to a bank for \$8 million. At this date the head office had a fair value of \$12 million and a carrying amount of \$7.6 million. A Ltd will continue to use the head office for the next 2 years and has the option to buy it back for \$9.68 million, based on an effective interest rate of 10% per year over the next 2 years. Property prices are expected to increase over the next 2 years.

Required: What is the net amount to be shown in the statement of profit or loss for the year ended 31 December 2023?

- A. \$800,000 expense
- B. \$400,000 income
- C. \$400,000 expense

D. \$600,000 expense

[2 Marks]

- 1.4. An entity leases a computer, with legal title of the asset passing after two years. The entity usually depreciates computers over three years. The entity also leases a machine for seven years but legal title does not pass to the entity at the end of the agreement. The entity usually depreciates machinery over ten years.

Required: Over what period of time should the computer and machine be depreciated?

	Computer	Machine
A.	2 years	7 years
B.	2 years	10 years
C.	3 years	7 years
D.	3 years	10 years

[2 Marks]

- 1.5. IFRS 16 *Leases* permits a simplified treatment for certain assets. For which of the following leases would the simplified treatment not be permitted?

- A. Motor car with cost of \$10,000, leased for 9 months
- B. Telephone with cost of \$500, leased for 24 months
- C. Motor car with original cost of \$10,000, current fair value of \$500, leased for 24 months
- D. Desk with cost of \$750, leased for 24 months

[2 Marks]

- 1.6. According to IFRS 10 *Consolidated Financial Statements*, which of the following definitions is not included within the definition of control?

- A. Having power over the investee
- B. Having exposure, or rights, to variable returns from its investment with the investee
- C. Having the majority of shares in the investee
- D. Having the ability to use its power over the investee to affect the amount of the investor's returns.

[2 Marks]

- 1.7. Which of the following situations is unlikely to represent control over an investee?

- A. Owning 55% and being able to elect 4 of the 7 directors
- B. Owning 51 %, but the constitution requires that decisions need the unanimous consent of shareholders
- C. Having currently exercisable options which would take the shareholding of the company to 55%
- D. Owning 40% of the shares, but having the majority of voting rights within the company.

[2 Marks]

- 1.8. Which of the following is NOT a condition which must be met for the parent to be exempt from producing consolidated financial statements?

- A. The activities of the subsidiary are significantly different to the rest of the group and to consolidate them would prejudice the overall group position
- B. The ultimate parent company produces consolidated financial statements that comply with IFRS Standards and are publicly available

- C. The parent's debt or equity instruments are not traded in a public market.
- D. The parent itself is a wholly-owned subsidiary or a partially owned subsidiary whose owners do not object to the parent not producing consolidated financial statements.

[2 Marks]

- 1.9. Which of the following statements regarding consolidated financial statements is correct?
- A. For consolidation, it may be acceptable to use financial statements of the subsidiary if the year-end differs from the parent by 2 months
 - B. For consolidation, all companies within the group must have the same year-end
 - C. All companies within a group must have the same accounting policy in their individual financial statements
 - D. Only 100% subsidiaries need to be consolidated.

[2 Marks]

- 1.10. STV Ltd (STV) owns 80% of the ordinary share capital of its subsidiary TUW Ltd (TUW). At the group's year end, 28 February 2023, STV's payables include \$7 200 in respect of inventories sold by TUW. TUW's receivables include \$13 400 in respect of inventories sold to STV. Two days before the year end STV sent a payment of \$6,200 to TUW that was not recorded by the latter until two days after the year end.

Required: Which of the following adjustments would be necessary to adjust for the cash in transit?

[2 Marks]

- A. \$4 650 to be added to cash
- B. \$6 200 to be added to payables
- C. \$6 200 to be added to inventories
- D. \$6 200 to be added to cash

- 1.11. Where the purchase price of an acquisition is less than the aggregate fair value of the net assets acquired, which ONE of the following accounting treatments of the difference is required by IFRS 3 *Business Combinations*?
- A. Deduction from goodwill in the consolidated statement of financial position
 - B. Immediate recognition as a gain in the statement of changes in equity
 - C. Recognition in the statement of comprehensive income over its useful life
 - D. Immediate recognition as a gain in profit or loss.

[2 Marks]

1.12. Bread Ltd (Bread) has owned 90% of Butter Ltd (Butter) for many years. During the year, Bread sold goods to Butter for \$100,000. These goods had originally cost Bread \$80,000. Butter had not sold any of these goods by the year-end. The cost of sales figures for the two companies were as follows: Bread \$640,000; Butter \$340,000.

Required: How much should appear in the consolidated statement of profit or loss as cost of sales?

- A. \$1 000,000
- B. \$960,000
- C. \$900,000
- D. \$860,000

[2 Marks]

1.13. Brown owns 75% of Green. During 2023, Green sold goods to Brown for \$150 000 at a profit margin of 25%.

Required: How much will revenue be reduced by in the consolidated statement of profit or loss at the end of 2023 if all of the goods remain in inventory at the year end?

- A. \$150,000
- B. \$37 500
- C. \$28 126
- D. Nil

[2 Marks]

1.14. Which of the following are likely to be accounted for as an associate in the consolidated financial statements of TN?

(i) A 25% shareholding in ZT. TN can appoint a director to the board. There are 4 directors on the board in total, and none have control.

(ii) A 25% shareholding in ZU. ZU is 70% owned by a company called TU.

(iii) A 25% shareholding in ZV. TN have also got an arrangement with other shareholders allowing them access to 55% of the voting rights in TN.

- A. i only
- B. (i) and (ii)
- C. (ii) and (iii)
- D. All three.

[2 Marks]

1.15. On 1 January 2023, P Ltd purchased 30% of the shares in A Ltd for \$1 200,000. At this date, A Ltd's net assets stood at \$800,000. At 31 December 2023, A Ltd has net assets of \$1 200,000 and made a profit in the current year of \$160,000. Since acquisition, P Ltd's investment in A Ltd has been impaired by \$50,000. Of this, \$20,000 relates to the current year.

What is the share of profit of associate to be included in the consolidated statement of profit or loss for the year ended 31 December 2023?

- A. \$28,000
- B. \$42,000
- C. \$70,000
- D. \$100,000

[2 Marks]

QUESTION 2 [35 MARKS]

Purple Ltd (Purple) acquired 70% of Silver Ltd (Silver) three years ago, when Silver's retained earnings were \$430,000. The financial statements of each company for the year ended 31 March 2023 are as follows:

Statements of financial position as at 31 March 2023

	Purple	Silver
	\$'000'	\$'000'
NON-CURRENT ASSETS		
Property, plant and equipment	900	400
Investment in S Ltd at cost	700	-
Current assets	300	600
Total Assets	1 900	1 000
Share capital (\$1 ordinary shares)	200	150
Share premium	50	-
Retained earnings	1 350	700
	1 600	850
Non-Current liabilities	100	90
Current liabilities	200	60
Total Equity and Liabilities	1 900	1 000

Statements of profit or loss for the year ended 31 March 2023

	P Ltd	S Ltd
	\$'000'	\$'000'
Revenue	1 000	260
Cost of sales	<u>(750)</u>	<u>(80)</u>
Gross profit	250	180
Operating expenses	(60)	(35)
Profit from operations	<u>190</u>	<u>145</u>
Finance costs	(25)	(15)
Investment income	20	-
Profit before tax	185	130
Income tax expense	(100)	(30)
Profit for the year	85	100

Additional information:

- i. Silver had plant in its statement of financial position at the date of acquisition with a carrying amount of \$100,000 but a fair value of \$120,000. The plant had a remaining life of 10 years at acquisition. Depreciation is charged to cost of sales.
- ii. The Purple group values the non-controlling interest at fair value. The fair value of the non-controlling interest at the date of acquisition was \$250,000. Goodwill has been impaired by a total of 30% of its value at the reporting date, of which one third related to the current year.
- iii. At the start of the year Purple transferred a machine to Silver for \$15,000. The asset had a remaining useful life of 3 years at the date of transfer. It had a carrying amount of \$12,000 in the books of Purple at the date of transfer.
- iv. During the year, Silver sold some goods to Purple for \$60,000 at a mark-up of 20%. 40% of the goods remained unsold at the year end. At the year-end, Silver's books showed a receivables balance of \$6,000 as being due from Purple. This disagreed with the payables balance of \$1,000 in Purple's books due to Purple having sent an RTGS to Silver shortly before the year end which Silver had not yet received.
- v. Silver paid a dividend of \$20,000 on 1 March 2023

Required:

Prepare;

- A. The consolidated statement of financial position. **[20 Marks]**
- B. The consolidated statement of profit or loss for the year ended 31 March 2023 for the Purple Group. **[15 Marks]**

QUESTION 3 [20 MARKS]

- A. On 1 January 2023, Dumani entered into a two-year lease for a truck. The contract contains an option to extend the lease term for a further year. Dumani believes that it is reasonably certain to exercise this option. Trucks have a useful life of ten years. Lease payments are \$20,000 per year for the initial term and \$30,000 per year for the option period. All payments are due at the end of the year. To obtain the lease, Dumani incurs initial direct costs of \$6,000. The interest rate within the lease is not readily determinable. Dumani's incremental rate of borrowing is 5%.

Required:

- a. Calculate:
 - i. The initial carrying amount of the lease liability. **[2 Marks]**
 - ii. The right-of use asset. **[2 Marks]**
- b. Prepare:
 - i. Lease liability table. **[4 Marks]**
 - ii. The Statement of Profit or loss and, **[2 Marks]**
 - iii. Statement of Financial Position extracts. **[4 Marks]**

- B. On 1 April 2022 SU University acquires telephones for its senior managers under a two-year lease agreement. The terms of the lease require an initial payment of \$4,000, followed by two payments of \$16,000 each on 31 March 2023 and 31 March 2024.

Required:

- i. With reference to the relevant reporting standard, explain how the lease transaction should be accounted for. **[3 Marks]**
- ii. Show the impact of this lease arrangement on the financial statements of SU University for the year ended 31 December 2022 **[3 Marks]**

QUESTION 4 [15 MARKS]

- a. On 1 January 2023 FMC, a car manufacturer, entered into an agreement to provide Dubs, a car retailer, with cars for resale. The terms of the agreement were as follows:
- i. Dubs pays the cost of insuring and maintaining the cars.
 - ii. Dubs can display the cars in its showrooms and use them as demonstration models.
 - iii. When a car is sold to a customer, Dubs pays FMC the factory price prevailing at the time the car was originally delivered.
 - iv. All cars remaining unsold 90 days after their original delivery must be purchased by Dubs at the factory price prevailing at the time of delivery.
 - v. FMC can require Dubs to return the cars at any time within the 90-day period. In practice, this right has never been exercised.
 - vi. Dubs can return unsold cars to FMC at any time during the 90- day period, without penalty. In practice, this has never happened.

At 31 December 2023 the agreement is still in force and Dubs holds several cars which were delivered less than 90 days earlier.

Required: Explain how these cars should be treated in the financial statements of Dubs for the year ended 31 December 2023? **[9 Marks]**

- b. With reference to IFRS 13 *Fair Value Measurement*, explain the following:
- a. Principal market **[2 Marks]**
 - b. The highest and best use **[2 Marks]**
 - c. Fair value **[2 Marks]**

END OF EXAMINATION PAPER