



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]

APRIL 2024

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin 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.
3. Candidates may bring silent non-programmable calculators as well as annuity tables into the examination

This paper consists of 10 printed pages including the cover page

SECTION A: MULTIPLE CHOICE: [30 marks]

1. Basil acquired 60% of Parsley on 1 March 2019. In September 2019 Basil sold \$46,000 worth of goods to Parsley. Basil applies a 30% mark-up to all its sales. 25% of these goods were still held in inventory by Parsley at the end of the year. An extract from the draft statements of profit or loss of Basil and Parsley at 31 December 2019 is:

	Basil	Parsley
	\$	\$
Revenue	955,000	421,500
Cost of sales	(407,300)	(214,600)
Gross profit	547,700	206,900

All revenue and costs arise evenly throughout the year.

What will be shown as gross profit in the consolidated statement of profit or loss of Basil for the year ended 31 December 2019?

- A. \$717,463
- B. \$751,946
- C. \$716,667
- D. \$751,150

(2 marks)

2. Premier acquired 80% of Sanford on 1 June 20X1. Sales from Sanford to Premier throughout the year ended 30 September 2021 were consistently \$1 million per month. Sanford made a mark-up on cost of 25% on these sales. At 30 September 2021 Premier was holding \$2 million inventory that had been supplied by Sanford in the post-acquisition period.

By how much will the unrealized profit decrease the profit attributable to the non-controlling interest for the year ended 30 September 2021?

- A. \$1,000,000
- B. \$400,000
- C. \$500,000

D. \$80,000

(2 marks)

3. Hillusion acquired 80% of Skeptic on 1 July 2022. In the post-acquisition period Hillusion sold goods to Skeptic at a price of \$12 million. These goods had cost Hillusion \$9 million. During the year to 31 March 2023 Skeptic had sold \$10 million (at cost to Skeptic) of these goods for \$15 million.

How will this affect group cost of sales in the consolidated statement of profit or loss of Hillusion for the year ended 31 March 2023?

- A. Increase by \$11.5 million
- B. Increase by \$9.6 million
- C. Decrease by \$11.5 million
- D. Decrease by \$9.6 million

(2 marks)

4. Brigham has owned 70% of Dorset for many years. It also holds a \$5 million loan note from Dorset. One of Dorset's non-current assets has suffered an impairment of \$50,000 during the year. There is a balance in the revaluation surplus of Dorset of \$30,000 in respect of this asset. The impairment loss has not yet been recorded. The entity financial statements of Dorset show a profit for the year of \$1.3 million.

What is the amount attributable to the non-controlling interests in the consolidated statement of profit or loss?

- A. \$264,000
- B. \$255,000
- C. \$300,000
- D. \$348,000

(2 marks)

5. Once classified as held for sale the asset or disposal group is measured at:

- A. The lower of carrying amount and fair value less costs to sell.
- B. Cost
- C. Lower of cost and net realizable value
- D. Fair value less cost to sale.

(2 marks)

6. Immediately before classification of an asset or disposal group as held for sale, impairment is measured in accordance with the applicable IFRS. Which of the following is the appropriate accounting treatment for impairment loss?

- A. Debit income statement credit non-current asset
- B. Debit non-current asset credit income statement.

- C. Debit income statement credit revaluation reserve
- D. Debit non-current asset credit revaluation reserve (2 marks)

7. A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving the related assets or liabilities is called a :

- A. active market
- B. Fair value.
- C. Orderly transaction.
- D. Entry price. (2 marks)

8. Witch acquired 70% of the 200,000 equity shares of Wizard, its only subsidiary, on 1 April 2018 when the retained earnings of Wizard were \$450,000. The carrying amounts of Wizard's net assets at the date of acquisition were equal to their fair values apart from a building which had a carrying amount of \$600,000 and a fair value of \$850,000. The remaining useful life of the building at the acquisition date was 40 years. Witch measures non-controlling interest at fair value, based on share price. The market value of Wizard shares at the date of acquisition was \$1.75. At 31 March 2019 the retained earnings of Wizard were \$750,000. At what amount should the non-controlling interest appear in the consolidated statement of financial position of Witch at 31 March 2019?

- A. \$195,000
- B. \$193,125
- C. \$135,000
- D. \$188,750 (2 marks)

9. Cloud obtained a 60% holding in the 100,000 \$1 shares of Mist on 1 January 2018, when the retained earnings of Mist were \$850,000. Consideration comprised \$250,000 cash, \$400,000 payable on 1 January 2019 and one share in Cloud for each two shares acquired. Cloud has a cost of capital of 8% and the market value of its shares on 1 January 2018 was \$2.30. Cloud measures non-controlling interest at fair value. The fair value of the non-controlling interest at 1 January 2018 was estimated to be \$400,000.

What was the goodwill arising on acquisition?

- A. \$139,370
- B. \$169,000
- C. \$119,370
- D. \$130,370 (2 marks)

10. On 1 June 2021 Premier acquired 80% of the equity share capital of Sandford. At the date of acquisition the fair values of Sandford's net assets were equal to their carrying amounts with the exception of its property. This had a fair value of \$1.2 million below its carrying amount. The property had a remaining useful life of eight years.

What effect will any adjustment required in respect of the property have on group retained earnings at 30 September 2021?

- A. Increase \$50,000
 - B. Decrease \$50,000
 - C. Increase \$40,000
 - D. Decrease \$40,000
- (2 marks)

11. On 1 August 2017 Patronic purchased 18 million of the 24 million \$1 equity shares of Sardonic. The acquisition was through a share exchange of two shares in Patronic for every three shares in Sardonic. The market price of a share in Patronic at 1 August 2017 was \$5.75. Patronic will also pay in cash on 31 July 2019 (two years after acquisition) \$2.42 per acquired share of Sardonic. Patronic's cost of capital is 10% per annum.

What is the amount of the consideration attributable to Patronic for the acquisition of Sardonic?

- A. \$105 million
 - B. \$139.5 million
 - C. \$108.2 million
 - D. \$103.8 million
- (2 marks)

12. On 1 April 2020 Picant acquired 75% of Sander's equity shares by means of a share exchange and an additional amount payable on 1 April 2021 that was contingent upon the post-acquisition performance of Sander. At the date of acquisition Picant assessed the fair value of this contingent consideration at \$4.2 million but by 31 March 2021 it was clear that the amount to be paid would be only \$2.7 million.

How should Picant account for this \$1.5 million adjustment in its financial statements as at 31 March 2021?

- A. Debit current liabilities/Credit goodwill
 - B. Debit retained earnings/Credit current liabilities
 - C. Debit goodwill/Credit current liabilities
 - D. Debit current liabilities/Credit retained earnings
- (2 marks)

13. The following details apply to a construction contract at 31 December 2023.

	\$
Contract value	120,000
Costs to date	48,000
Estimated costs to completion	48,000
Progress billings	50,400

The contract is agreed to be 45% complete at 31 December 2023. What amount should appear in the statement of financial as at 31 December 2023 as due from customers according to IFRS 15?

- A. \$8,400
- B. \$48,000
- C. \$6,000
- D. \$50,400

(2 marks)

14. Dexon's statement of profit or loss for the year ended 31 March 2018 includes \$8 million of revenue for credit sales made on a 'sale or return' basis. At 31 March 2018 customers who had not yet paid had the right to return goods to the value of \$2.6 million. Dexon applied a mark-up on cost of 30% on all of these sales. Dexon's customers have in the past returned goods under this type of agreement.

By what amount should Dexon's profit for the year ended 31 March 20X8 be reduced in respect of this?

- A. \$2,600,000
- B. \$780,000
- C. \$600,000
- D. \$2,400,000

(2 marks)

15. New market's revenue as shown in its draft statement of profit or loss for the year ended 31 December 2019 is \$27 million. This includes:

(i) \$8 million for a consignment of goods sold on 31 December 2019 on which New market will incur ongoing service and support costs for two years after the sale. The cost of providing service and support is estimated at \$800,000 per annum. New market applies a 30% mark-up to all service costs.

(ii) \$4 million collected on behalf of Aintree. New market acts as an agent for Aintree and receives a 10% commission on all sales.

At what amount should revenue be shown in the statement of profit or loss of New market for the year ended 31 December 2019? (Ignore the time value of money.)

- A. \$22,920,000
- B. \$21,800,000
- C. \$20,520,000
- D. \$21,320,000

(2 marks)

SECTION B: [70 marks]

Question 1

DS Ltd is a South African company with the South African rand as it's functional and presentation currency. On 1 October 2021, DS Ltd formed a company, SG Inc., in the USA and took up all the issued shares. SG Inc. has the US dollar as its functional currency. The following list of balances was extracted from the records of the foreign company at 30 September 2022:

	Dr	Cr
	\$	\$
Trade and other payables		48 000
Trade receivables	83 000	
Other expenses	87 000	
Bank	44 500	
Depreciation	15 400	
Dividends (paid 30 June 2022)	40 000	
Property, plant and equipment at cost (1 October 2021)	84 000	
Accumulated depreciation – property, plant and equipment		15 400
Long-term loan (obtained 31 March 2022)		75 000
Interest on long-term loan (incurred evenly)	4 500	
Purchases	380 000	
Sales		500 000

Share capital		100 000
Closing inventory at cost	60 000	60 000
	798 400	798 400

Additional information

1. SG Inc's business is not seasonal and activities commenced immediately after incorporation.
2. Closing inventory was purchased evenly during the last three months of the financial year.
3. The long-term loan is repayable in dollars to an American bank on 30 June 2027.
4. The spot rates were as follows:

1 October 2021 R1 = \$0, 50

30 September 2022 R1 = \$0, 38

The rand weakened gradually/evenly against the dollar during the year.

5. Ignore taxation.

Required:

- a. Translate the trial balance of SG Inc. to rand. (15 marks)
- b. Discuss how the gain or loss on translation will be accounted for in the consolidated financial statements of DS Ltd. (5 marks)

Your solution must comply with the requirements of International Financial Reporting Standards

Question 2

Hersteldienste Ltd is a company that sells, repairs and installs television sets, DVD players, telecommunication systems and other electrical goods. Maintenance contracts are concluded for television sets whereby maintenance takes place for the period of the contract. The company also receives royalties under a licence for a patented aerial that is manufactured by an aerial manufacturer. The company also presents training courses to any person who wants to become a qualified repair technician.

The following transactions have occurred for the year ended 30 June 2019:

	\$
1. Repair services	76 000

2. Sales of equipment	103 000
3. Royalties received in cash	3 300

According to the agreement the annual royalties should be \$4 400 based on usage of the patent for the year ended 30 June 2019.

4. Installation fees received \$37 000

Included in this is an amount of \$150 for an installation which has not been started on 30 June 2019.

5. Sale of equipment by Hersteldienste Ltd on behalf of another firm \$67 000

Hersteldienste Ltd receives a commission of 15% on all these consignment inventory sales.

6. Maintenance contract fees received during the year \$96 000

Prepaid contract fees:

1 July 2018 \$14 000

30 June 2019 \$12 000

7. Course fees received for training of repair technicians \$9 600

The course takes place from 1 June 2019 to 31 August 2019. Course fees of \$2 400 are still outstanding at 30 June 2019 and should be collectible.

Required

Calculate the amount of revenue that should be recognized for the year ended 30 June 2019 in respect of the above transactions so as to comply with the requirements of International Financial Reporting Standards (IFRS15). (15 marks)

Question 3

A toy manufacturer leased a low-value machine on 1 January 2010 for a period of five years. The expected useful life of the machine is 11 years. The lease instalments are R400 per month for the first two years and R300 per month thereafter. The lessee has the option at the end of the lease term of extending the lease period for a further three years at R10 per month. The tax rate is 28% for the full term of the lease. You may assume that the option will be exercised. You may also assume that the company has elected to account for the lease of the low-value item in accordance with IFRS 16. The financial year end is 31 December.

Required:

- a) Explain, with reasons, how the lease payments in respect of the lease must be recognized as an expense. (8 marks)
- b) Journalize the lease transactions (cash transactions included) over the full lease period. Journal narrations are not required. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS). (7 marks)

Question 4

Blue Bull Ltd recently acquired a 40% interest in Sharks Ltd. On the same date, Blue Bull Ltd also acquired options to purchase a further 20% interest in Sharks Ltd. These options are exercisable, at the option of Blue Bull Ltd, at any time during the next three years. During the audit of Blue Bull Ltd it was mentioned that there may be a possibility that Sharks Ltd would need to be consolidated as a subsidiary in the financial statements of Blue Bull Ltd. Sharks Ltd has shown good financial performance during the year resulting in these options being in the money (fair value of the shares are greater than the current exercise price of the options). Blue Bull Ltd has the financial ability to exercise these options.

Required

Briefly discuss whether Sharks Ltd need to be consolidated as a subsidiary in the financial statements of Blue Bull Ltd. (15 marks)

END OF QUESTION PAPER