



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

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**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/Parallel) 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 annuity tables into the examination

**This paper consists of 9 printed pages including the cover page**

## SECTION A: MULTIPLE CHOICE: 30 Marks

1. On what basis may a subsidiary be excluded from consolidation?

- A. The activities of the subsidiary are dissimilar to the activities of the rest of the group.
- B. The subsidiary was acquired with the intention of reselling it after a short period of time.
- C. The subsidiary is based in a country with strict exchange controls which make it difficult for it to transfer funds to the parent.
- D. There is no basis on which a subsidiary may be excluded from consolidation. (2 marks)

2. When negative goodwill arises IFRS 3-Business combinations requires that the amounts involved in computing goodwill should first be reassessed. When the amount of the negative goodwill has been confirmed, how should it be accounted for?

- A. Charged as an expense in profit or loss
- B. Capitalized and presented under non-current assets
- C. Credited to profit or loss
- D. Shown as a deduction from non-current assets (2 marks)

3. Which of the following is the criterion for treatment of an investment as an associate?

- A. Ownership of a majority of the equity shares
- B. Ability to exercise control
- C. Existence of significant influence
- D. Exposure to variable returns from involvement with the investee (2 marks)

4. Which of the following statements are correct when preparing consolidated financial statements?

- 1. A subsidiary cannot be consolidated unless it prepares financial statements to the same reporting date as the parent.
  - 2. A subsidiary with a different reporting date may prepare additional statements up to the group reporting date for consolidation purposes.
  - 3. A subsidiary's financial statements can be included in the consolidation if the gap between the parent and subsidiary reporting dates is five months or less.
  - 4. Where a subsidiary's financial statements are drawn up to a different reporting date from those of the parent, adjustments should be made for significant transactions or events occurring between the two reporting dates.
- A. 1 only
  - B. 2 and 3

C. 2 and 4

D. 3 and 4

(2 marks)

5. IFRS 3-Business Combinations requires an acquirer to measure the assets and liabilities of the acquiree at the date of consolidation at fair value. IFRS 13 Fair Value Measurement provides guidance on how fair value should be established. Which of the following is not one of the issues to be considered according to IFRS 13 when arriving at the fair value of a non-financial asset?

A. The characteristics of the asset

B. The present value of the future cash flows that the asset is expected to generate during its remaining life

C. The principal or most advantageous market for the asset

D. The highest and best use of the asset

(2 marks)

6. A company entered into a contract on 1 January 2022 to build a factory. The contract price was \$2.8 million. At 31 December 2022 the contract was certified as 35% complete. Costs incurred during the year were \$740,000 and costs to complete are estimated at \$1.4 million. \$700,000 has been billed to the customer but not yet paid.

What amount will be shown under 'amounts due to/from customers' in respect of this contract in the statement of financial position as at 31 December 2022?

A. \$271,000 due from customers

B. \$509,000 due from customers

C. \$271,000 due to customers

D. \$509,000 due to customers

(2 marks)

7. On 1 October 2022 Pricewell entered into a contract to construct a bridge over a river. The agreed price was \$50 million and construction is expected to be completed on 30 September 2024. Costs to date are:

	\$m
Materials, labour and overheads	12
Specialist plant acquired 1 October 2022	8

The sales value of the work done at 31 March 2023 has been agreed at \$22 million and the estimated cost to complete (excluding plant depreciation) is \$10 million. The specialist plant will have no residual value at the end of the contract and should be depreciated on a monthly basis. Pricewell recognizes profits on

Uncompleted contracts on the percentage of completion basis as determined by the agreed work to date compared to the total contract price.

What is the profit to date on the contract at 31 March 2023?

- A. \$8,800,000
  - B. \$13,200,000
  - C. \$11,440,000
  - D. \$10,000,000
- (2 marks)

8. 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?

- A. \$8,400
  - B. \$48,000
  - C. \$6,000
  - D. \$50,400
- (2 marks)

9. 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 2018 be reduced in respect of this?

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

10. 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)

11. A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and?

- A. Represents a separate major line of business or geographical line of operations
- B. Is part of a single coordinated plan to dispose of a separate major line of business or geographical line of operations
- C. Is a subsidiary acquired exclusively with a view to resale
- D. All of the above

( 2 marks )

12. IFRS 5 states that in order to be classified as held for sale, an asset or disposal group should meet the following conditions except :

- A. Existence of a commitment to plan to sell by management
- B. Availability of the asset for immediate sale
- C. Existence of an active programme initiated to locate the buyer.
- D. Being a biological asset by nature

(2 Marks)

13. On 1 January 2020 Platinum entered into a finance lease agreement. The cash price of the asset was \$360,000 and the terms of the lease were a deposit of \$120,000 payable on 1 January 2020 and three further instalments of \$100,000 payable on 31 December 2020, 31 December 2021 and 31 December 2022. The rate of interest implicit in the lease is 12%.

What will be the amount of the finance charge arising from this lease which will be charged to the statement profit or loss and other comprehensive income for the year ended 31 December 2021?

- A. \$28,800
- B. \$20,256
- C. \$16,800
- D. \$14,400

(2 marks)

14. At what amount does IFRS 16 require a lessee to capitalize an asset acquired under a finance lease?

- A. Cash price of the asset
- B. Fair value of the asset
- C. Present value of minimum lease payments
- D. Lower of fair value and present value of minimum lease payments

(2 marks)

15. A market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis is called:

- A. Active market
- B. Entry market.
- C. Fair value market.
- D. Orderly transactions market

( 2 marks )

## SECTION B: 70 MARKS

### Question 1

DS Ltd is a South African company with the South African rand as its 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
	<b>798 400</b>	<b>798 400</b>

#### 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**

Consider the following items:

1. Settlement discounts granted to creditworthy customers with a record of paying within terms.
2. Revenue consisting of gross sales of goods (including VAT).
3. Sales of products in the amount of R500 000 to various customers, subject to a 60-day money-back guarantee if the customer is not satisfied with the product. It is expected that 5% of products sold will be refunded.
4. Sales of goods by a wholesaler to a distributor for sale to end customers of the wholesaler.
5. Three delivery vehicles sold to a customer and for which the customer already paid.  
Registration and licencing of the vehicles in the customer's name have been completed. Because of limited space, the customer requested that the vehicles be kept at the dealer's premises until the customer is ready to collect them.

**Required**

Briefly state, with reasons, the general prescribed accounting treatment of each of the above items so as to comply with the requirements of IFRS 15. (20 marks)

### Question 3

The following details relate to the use of a machine acquired by Byo Ltd in terms of a Lease agreement:

- Date of commencement of agreement – 1 July 2021.
- Cash price – \$150 000, which is the same as the fair value.
- Lease period – three years.
- Payments of \$72 500 are payable yearly in arrears.
- There are no guaranteed or unguaranteed residual values.
- No initial direct costs have been incurred by the lessee and the lessor.

The machine was available for use and put into use on 1 July 2021. Ownership passes to Byo Ltd at the end of the lease agreement.

The company's financial year ends on 30 June.

#### Required

- a) Calculate the interest rate implicit in the lease. (5 marks)
- b) Prepare a redemption table (amortization table) for the lease. (6 marks)
- c) Journalize all relevant transactions (cash transactions included) other than for tax, over the lease period. Journal narrations are not required. Your answer must be in compliance with the requirements of International Financial Reporting Standards (IFRS). (6 marks)
- d) Present all the relevant amounts in the financial statements of Bewer Ltd over the term of the lease agreement so as to comply with the requirements of International Financial Reporting Standards (IFRS). Notes are not required. (3 marks)

### Question 4

When should investments in subsidiaries be consolidated by a parent and when not? (15 marks)

**END OF QUESTION PAPER**