UNIVERSITY OF SWAZILAND

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

MAY 2018

DEGREE/YEAR OF STUDY:		BACHELOR OF COMMMERCE YEAR IV/ IDE LEVEL V & VII
TITLE OF PAPER	:	ADVANCED FINANCIAL ACCOUNTING II
COURSE CODE	:	AC 427/ IDE AC 427/504 (M) MAY 2018
TOTAL MARKS	:	100 MARKS
TIME ALLOWED	:	THREE (3) HOURS
INSTRUCTIONS	1	There are **four (4)** questions. Answer all.
	2	Begin the solution to each question on a new page.
	3	The marks awarded for each question are indicated at the end of the question.
	4	Show all your workings.
	5	Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.

NOTE: You are reminded that in assessing your work, account will be taken of accuracy of language together with the layout and presentation of your final answer.

SPECIAL REQUIREMENTS: CALCULATOR

This paper is not to be opened until permission has been granted by the invigilator

QUESTION 1

The following information was taken from the records of A Ltd on 01 January 2017.

	E
Computer equipment - Carrying amount	12,000
Vehicles - Carrying amount	65,000
Vehicles - Accumulated depreciation	32,000
Furniture and Equipment - Carrying amount	34,000
Furniture and Equipment - Accumulated depreciation	14,000
Machinery and plant - Carrying amount	300,000
Land and buildings	100,000
Land	100,000
Buildings	-

Additional information:

1. The following rates of depreciation are applicable:

Computer equipment	33.33%	Straight-line
Vehicles	25%	Reducing balance
Furniture and equipment	15%	Reducing balance
Machinery and plant	20%	Straight-line
Buildings	2%	Straight-line

2. Computer equipment was purchased on 31 December 2015.

3. Machinery had already been depreciated for 2 years.

4. During the year, plant and machinery was used for three months to build a new plant. The plant was commissioned on 01 November 2017. The following expenses were incurred in building the plant and were posted to the various accounts.

Labour costs	E 55 000
Materials	E 130 000

5. The land and buildings consists of the factory building and offices at Trelawney Park. Land and buildings are owner occupied. The building was completed on 31 December 2017 at a cost of E 1 000 000.

6. Furniture and equipment with a cost price of E 10 000 and an accumulated depreciation of E 6 000 at 31 December 2016 was sold for E 3 000 on 31 October 2017. The total amount received was posted to the disposal of furniture account

7. No other transactions regarding non-current assets took place during the year.

Required:

Prepare a reconciliation of the carrying amount for PPE for the 2017 financial year in compliance with the requirements of IAS 16. **[25 Marks]**

Total: **[25 Marks]**

QUESTION 2

Vineyards Ltd is a company which produces and sells wine. The company has a 31 March year-end. On 1 April 2009, they purchased "Branc Verit", a brand name, for E 4 250 000. The asset had a definite useful life of 8 years and a residual value of E nil. The brand name was ready to be used, as intended by management, on acquisition date.

Due to employee strike action during the current financial year, the Manzini bottling plant had to use temporary workers to enable the plant to meet its volume demands.

The temporary workers were not sufficiently trained in the operation of the machinery. This resulted in 20 000 bottles, filled during the months of July and August 2010, becoming spoilt as they had not been properly sealed. Management only became aware of this problem after the brand received negative publicity and subsequently decided to recall all those bottles of wine. On 31 March 2011, the impact of the negative publicity on the brand name was assessed and the fair value less cost to sell on that date was estimated to be E 2 200 000. Due to the negative publicity, possible impairment had to be assessed.

Management expects the brand to generate the following cash flows over its remaining useful life:

Year	Net cash flow
01 April 2011 - 31 March 2012	1,200,000
01 April 2012 - 31 March 2013	1,000,000
01 April 2013 - 31 March 2014	800,000
01 April 2014 - 31 March 2015	500,000
01 April 2015 - 31 March 2016	500,000

A pre- tax discount rate of 15% is considered to be appropriate.

Required:

i) Determine the impairment loss for the brand **[15 Marks]**

ii) Process all journal entries that will be posted in relation to the brand for the 2011 financial year **[10 Marks]**

QUESTION 3

i) Discuss the qualities that an asset needs to possess in order to meet the Identifiability requirement for intangible assets **[6 Marks]**

ii) Discuss the two phases for internally generated intangible assets clearly specifying the conditions that must be met, where applicable, for an intangible asset to be capitilised. **[15 Marks]**

iii) Discuss the conditions that must be met for an item to meet the requirements of the recognition criteria per the conceptual framework **[4 Marks]**

Total: **[25 Marks]**

QUESTION 4

i) Discuss the five step process for the recognition of revenue for contracts within the scope of IFRS 15 **[10 Marks]**

ii) Caramel Ltd has a financial year-end of 31 December. The balance due to the Swaziland Revenue Authority (SRA) as reflected in the trial balance at 31 December 2016 amounted to E 25 000. The following selected transactions and events took place during the financial year ended 31 December 2017:

1) On 8 August 2017, the company paid E 25 000 to SRA as a "topping up" payment. The payment settled the balance due to SRA at 31 December 2016.
2) During the 2017 financial year, the company made two provisional tax payments as follows:
   - E 45 000 on 30 June 2017: 1st 2017 provisional payment.
   - E 40 000 on 31 December 2017: 2nd 2017 provisional payment.
3) On 25 October 2017,the company received the tax assessment for the year ended 31 December 2016 from the SRA. The assessment showed a tax expense of E 96 500 (compared to the company's own estimated tax expense of E 90 000). A cheque for E 6 800 was paid to SRA on 30 November 2017 to settle the company's tax obligations for 2016. This amount included any resultant penalties. The estimate for current tax for the 2017 financial year was E 126 000.

Required: Prepare the journal entries to account for these transactions for the 2017 financial year. Journal narrations **ARE** required.

[15 Marks]

Total: **[25 Marks]**