



UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

MAY_JUNE_2019

DEGREE/YEAR OF STUDY: BACHELOR OF COMMERCE YEAR IV/ IDE LEVEL V & VII

TITLE OF PAPER : ADVANCED FINANCIAL ACCOUNTING II

COURSE CODE : ACF 412/AC 427/ IDE AC 427/504 (M) MAY/JUNE 2019

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

Siphephelo Ltd (Siphephelo) is a respected retail chain company that supplies clothing, food and home ware. Siphephelo launched a new customer loyalty programme on 1 January 2017 that rewards a customer with one customer loyalty point for every E 150 of purchases. Each point is redeemable for discount on future purchases of Siphephelo products. The estimated stand-alone selling price of one point is E 0.90. Sales to Siphephelo customers amounted to E 2 700 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 2017. Siphephelo expects that 12 000 points will be redeemed during the financial year ended 31 December 2017. At the end of the 2017 financial year 10 000 points were redeemed by customers. At 31 December 2018 11 800 points were redeemed cumulatively in respect of the 2017 sales. Siphephelo continues to expect that 12 000 points will be redeemed in respect of the 2017 sales.

Sales to Siphephelo customers amounted to E 3 300 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 2018. At the end of the 2018 financial year 12 500 points on the 2018 sales have been redeemed by customers and Siphephelo expects that 15 000 points will be redeemed in total in respect of the 2018 sales. All sales made in 2017 and 2018 were cash sales.

REQUIRED:

Prepare the journal entries to account for the customer loyalty program in the financial statements of Siphephelo Ltd for the year ended 31 December 2017 and 31 December 2018.

Please note:

- Ignore any normal income tax implications.
- Ignore any Value Added Taxation (VAT) implications.
- Journal narrations are required.
- Round all amounts off to the nearest Lilangeni.
- Your answer must comply with the relevant International Financial Reporting Standards (IFRS).

Total:

[25 Marks]

QUESTION 2

P Ltd acquired 60 000 ordinary shares in S Ltd on 01 March 2018, at which date the retained earnings of S Ltd was E 12 000. Consider the carrying amount of assets and liabilities of S Ltd to be equal to the fair value thereof at the date of acquisition. The following represents the statements of financial position of P Ltd and S Ltd at 28 February 2019.

ASSETS	P Ltd	S Ltd
Property, plant and equipment	30,600	218,200
Investment in S ltd- 60 000 ordinary shares at fair value (Cost price: E 127 200)	127,200	-
Current assets	8,600	10,100
	<u>166,400</u>	<u>228,300</u>
EQUITY AND LIABILITIES		
Share capital - Ordinary shares (50 000/ 100 000)	100,000	200,000
Retained earnings	24,500	20,500
Long term borrowings	30,800	2,200
Current liabilities	11,100	5,600
	<u>166,400</u>	<u>228,300</u>

REQUIRED:

Draft the consolidated Statement of Financial Position of the P Ltd as at 28 February 2019 in compliance with the requirements of International Financial Reporting Standards if each share carries one vote.

Total:

[25 Marks]

QUESTION 3

Sinani Limited was incorporated on 01 January 2017. The profit before tax for the year ended 31 December 2018 amounted to E 410 000.

The following items are included in the calculation of profit before tax:

Depreciation – Plant and Machinery E 30 000

The SRA allows a deduction of E 120 000 on the plant. You can assume that the plant was bought for E 600 000 on 01 January 2017 and the allowances have remained constant.

Additional information:

1. During the year rental income amounting to E 24 000 was received in respect of January 2019.
2. Donations of E 50 000 have been taken into account in the profit before tax. This donations are not deductible for tax purposes
3. A provision for warranty costs of E 150 000 has been provided for. Warranty costs are allowed as deductions by SRA when the items are returned by the customer.
4. Deferred taxation is provided on all temporary differences using the statement of financial position approach.

REQUIRED:

Determine the taxation expense that will be reflected in the statement of profit or loss and other comprehensive income and prepare a tax reconciliation if deemed appropriate. The income tax rate is 27%

Total:

[25 Marks]

QUESTION 4

PART A

Lions Ltd owns 50 000 ordinary shares in Bulls Ltd. These shares were purchased for E 50 000 at the beginning of the year. Transaction costs amounted to E 1 000. These shares trade on the Eswatini Stock Exchange (ESE) and the market value at year end were E 3 per share. This investment was designated as not-held-for-trading and Lions Ltd had irrevocably elected to designate the investment as at fair value through other comprehensive income.

REQUIRED

Show how the above transaction will be accounted for using journal entries in the financial statements of L Ltd. **[10 Marks]**

PART B

- i) Define Non- Current assets for sale and describe the conditions that must be met before an asset can be classified as a Non- Current Asset held for sale in accordance with IFRS 5. **[9 Marks]**
- ii) Define discontinued operations and briefly explain the usefulness of information on discontinued operations **[6 Marks]**

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Total:

[25 Marks]