
UNIVERSITY OF ESWATINI**DEPARTMENT OF ACCOUNTING & FINANCE****RESIT EXAMINATION PAPER****JULY 2019**

DEGREE/YEAR OF STUDY:	BACHELOR OF COMMERCIAL YEAR IV/ IDE LEVEL V & VII
TITLE OF PAPER	: ADVANCED FINANCIAL ACCOUNTING II
COURSE CODE	: ACF 412/AC 427/ IDE AC 427/504 (S) JULY 2019
TOTAL MARKS	: 100 MARKS
TIME ALLOWED	: THREE (3) HOURS
INSTRUCTIONS	<ol style="list-style-type: none">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

Mr Smart has recently been appointed as the new financial manager of Berry Ltd. Even though he held a financial position long ago, he has been working in the film industry for the past 15 years. His knowledge of financial accounting is thus somewhat outdated and he approached you for advice on the correct accounting treatment for the products and services offered by Berry Ltd. The company's year-end is 31 December 2018.

Technology support services

Berry Ltd provides online technology support services to customers remotely via the internet. Berry Ltd will scan a customer's personal computer for viruses and optimize their computer's performance for a fixed fee of E 800. When a customer calls to obtain the support services the following process is followed:

- Berry Ltd describes to the customer the services it can provide and the price for those services. All telephonic conversations with customers are recorded.
- When the customer agrees to the terms stated by the Berry Ltd representative, a payment is made over the telephone via the customer's credit card.
- After a successful payment has been made by the customer, Berry Ltd gives the customer an access code for Berry Ltd's website in order to obtain and use the scan services.

Software licences and software customisation

Berry Ltd licences accounting software to its customers. In addition Berry Ltd also provides a service to significantly customise the accounting software to the customer's business environment and information technology platform. The licence, including the customisation of the software, is sold to customers at E 35 000.

Laptops

Berry Ltd sells laptops to the public via its website. Berry Ltd only sells the Bell X1 and Bell X2 model laptops. The Bell X1 and Bell X2 are sold for R8 500 and R10 500 respectively.

Once the customer has paid for the laptop on Berry Ltd's online shop using his/her credit card, the laptop is dispatched to the customer. Berry Ltd uses a third-party carrier to deliver the laptops to its customers. Berry Ltd's delivery terms on its website stipulate that legal title of the product passes to the customer when the laptop is handed over to the carrier.

Required: Advise Mr Smart on the following:

(a) Whether the technology support services provided by Berry Ltd is a contract with a customer. **[9 Marks]**

(b) Whether the software licences and software customisation are separate performance obligations in a single contract.

[10 Marks]

(c) At what point should revenue from the laptops sold via the online shop be recognised by Berry Ltd. **[6**

Marks]

Your answers should be supported with references to the appropriate International Financial Reporting Standards.

Total:**[25 Marks]****QUESTION 2**

The following statements of financial position have been prepared at 31 December 2018.

	Simelane E	Mabuza E
Non-current assets:		
Property, plant & equipment	85,000	18,000
Investment: Shares in Mabuza	65,000	
Current assets	160,000	84,000
	<u>305,000</u>	<u>102,000</u>
Equity:		
Ordinary E 1 shares	65,000	20,000
Share premium	35,000	10,000
Retained earnings	70,000	25,000
	<u>170,000</u>	<u>55,000</u>
Current liabilities	135,000	47,000
	<u>305,000</u>	<u>102,000</u>

Simelane acquired 16,000 ordinary E1 shares in Jones on 1 January 2018, when Mabuza' retained earnings stood at E 20,000 and its share premium was E 10, 000. On this date, the fair value of the 20% non-controlling shareholding in Jones was E 12, 500. The Simelane Group uses the fair value method to value the non-controlling interest.

Required:

Prepare the consolidated statement of financial position of Simelane Ltd as at 31 December 2018.

Total:**[25 Marks]****QUESTION 3**

Unathi Limited was incorporated on 01 July 2017. The profit before tax for the year ended 30 June 2019 amounted to E 720 000.

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

Depreciation – Plant and Machinery E 120 000

The SRA allows a deduction of E 60 000 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 68 000 was received in respect of January 2019.
2. Donations of E 75 000 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 380 000 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 14 %

Total:

[25 Marks]

QUESTION 4

PART A

ABC Co has a 31 December year end and uses the dollar (\$) as its functional currency. On 25 October 2018 ABC Co buys goods from a Swedish supplier for Swedish Krona (SWK) 286,000.

Rates of exchange:

25 October 2018 \$1 = SWK 11.16

16 November 2018 \$1 = SWK 10.87

31 December 2018 \$1 = SWK 11.02

Required:

Show the accounting treatment for the above transactions if:

(a) A payment of SWK286, 000 is made on 16 November 2018.

[10 Marks]

(b) The amount owed remains outstanding at the year-end date.

[5 Marks]

PART B

Using an appropriate example, discuss the conditions that must be met for a financial asset to be classified as a financial asset at amortized cost and the accounting implications for this classification.

[10 Marks]

Total:

[25 Marks]