UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

MAIN EXAMINATION PAPER

AUGUST_ 2020

DEGREE/YEAR OF STUDY:		BACHELOR OF COMMMERCE YEAR IV/ IDE LEVEL V
TITLE OF PAPER	:	ADVANCED FINANCIAL ACCOUNTING II
COURSE CODE	:	ACF 412/ AC 427/AC 504 (M) AUGUST 2020
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. The working for any individual amount should be properly referenced to the answer; otherwise it will be ignored in the award of marks.
5. For theory questions, responses should be in bullet form and each unique point should be presented under a separate bullet/paragraph. Failure to do so will result in a loss of marks.
6. Calculations are to be made to two 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

Timbuti (Pty) Ltd is a Swati company which was founded by Ayanda Matsebula on 1 April 2010. Ayanda started this business to take advantage of the unmet demand in the local goat market. He had, after conducting extensive marketing research, concluded that there were sufficient goat producers in the country to meet local and export demand. The producers however did not have the capacity to meet the quality control standards that were required to be met in order to sell goat meat in Eswatini and for export to the European Union. The only other shareholder in Timbuti (Pty) Ltd is Amanda Vilakati, Ayanda's wife. Timbuti purchases live goats from farmers, prepares and distributes them to butcheries around the country. On 30 November 2015, Ayanda decided to purchase a majority stake in Lijaha - Sisu (Pty) Ltd, a major meat wholesale in Manzini in order to have more influence in the local meat market. Lijaha Sisu was owned by the famous Ngwane Park township Simelane brothers. The Simelane brothers maintained a minority stake in the business. He further purchased a majority stake in Iningizimu ne Mpumalanga ye Africa (Pty) Ltd (INMA) on 01 September 2017. This company was established by Maneliso, a prominent lawyer who identified an opportunity in the Common Market for Eastern and Southern Africa (COMESA) trade bloc that was currently not exploited by the businesses communities in the member states. Ayanda wanted to use this company as a vehicle for exporting goat meat to East Africa since there is huge demand for goat meat there. The trial balances for the three companies and all other relevant information for the year ended 31 March 2020 are presented below:

	Timbuti (Pty) Limited Dr/(Cr) E	**Lijaha – Sisu (Pty) Limited Dr/(Cr) E**	**INMA (Pty) Limited Dr/(Cr) E**
Share capital - 100 000 ordinary shares	(100 000)	-	-
- 50 000 ordinary shares	-	(50 000)	-
- 25 000 ordinary shares	-	-	(25 000)
Mark-to-market reserve	(8 135)	(4 068)	-
Retained earnings – 01 April 2019	(870 000)	(249 000)	(260 000)
Deferred tax	(1 865)	(932)	-
Revenue	(840 000)	(248 000)	(190 000)
Management fee received from Lijaha-Sisu Limited	(10 000)	-	-
Interests received	(8 000)	(2 500)	-
Dividends received	(10 800)	(4 000)	-
Cost of sales	504 000	149 000	85 500
Management fee paid to Timbuti Limited	-	10 000	-
Interests paid	-	5 000	-
Other expenses	88 000	25 000	45 000
Income tax expense	79 800	18 450	17 255
Dividends paid - 31 March 2020	6 400	6 000	10 000
Bank	263 100		
Inventories		50 050	51 000
Trade and other payables	(85 000)	(120 000)	(113 755)
Investment in Lijaha - Sisu Limited at fair value	325 000	-	-
Investment in INMA Limited at fair value	205 500	-	-
Investment in Sands Limited at fair value (5% interest purchased on 1 April 2019)	-	45 000	-
Property, plant and equipment	462 000	370 000	380 000
	-	-	-

Additional information

i) Timbuti (Pty) Limited acquired control of Lijaha-Sisu (Pty) Limited by acquiring 40 000 ordinary shares in Lijaha-Sisu (Pty) Limited when the retained earnings amounted to E 349 000 and there were 50 000 ordinary shares in issue. The assets and liabilities were fairly valued at date of acquisition. The cost price of the investment was considered to be equivalent to its fair value.

ii) Timbuti (Pty) Limited acquired control of INMA (Pty) Limited by acquiring 15 000 ordinary shares. The retained earnings at acquisition date amounted to E 300 000. The assets and liabilities of INMA (Pty) Limited were fairly valued at date of acquisition except for the value attached to land and buildings. A sworn appraiser valued the land and buildings at E300 000. This was E52 857 above the original cost price thereof. Land and buildings are not depreciated.

iii) The fair value of all equity instruments is equal to the cost thereof, unless otherwise stated.

iv) During the year ended 31 March 2020 Timbuti (Pty) Limited sold inventory to Lijaha Sisu (Pty) Limited for E 180 000. Inventory valued at E 18 000 was still on hand at 31 March 2020. Timbuti (Pty) Limited sold the inventory to Lijaha Sisu (Pty) Limited at cost plus 20%.

v) During the year ended 31 March 2020, Lijaha Sisu (Pty) Limited paid E 5 000 interest to Timbuti Limited. The interest was charged on a short-term loan from Timbuti Limited to Lijaha Sisu Limited that was repaid by the end of the financial year.

vi) The Eswatini normal tax rate is 27.5% and there are no capital gains taxes in Eswatini.

vii) Assume that each share carries one vote.

viii) The mark-to-market reserve in the books of Timbuti (Pty) Limited arose from the fair value adjustment of its investment in INMA (Pty) Limited to its fair value.

ix) The group elected to measure non-controlling interests in the acquiree at its proportionate share of the acquiree's identifiable net assets at acquisition date (partial goodwill method).

x) The Timbuti Limited Group measures its investments in equity instruments at fair value through other comprehensive income.

xi) The mark-to-market reserve for Lijaha-Sisu is due to a revaluation of Sands Limited that was undertaken in the current financial year.

REQUIRED:

a) Discuss the accounting treatment of a gain from bargain purchase that arises as a result of the acquisition of an interest in a subsidiary during the current year. **[2 Marks]**
b) Prepare the analysis of shareholder's equity for both subsidiaries **[14 Marks]**
c) Prepare the consolidated statement of comprehensive income for the Timbuti Limited group for the year ended 31 March 2020. **[10 Marks]**
d) Prepare the consolidated statement of changes in equity for the Timbuti Limited group for the year ended 31 March 2020. **[4 Marks]**

Total: **30 Marks**

QUESTION 2

Eyethu (Pty) Ltd is a Swati company that recently ventured in the food retail business. It targets people living in semi-urban locations of Eswatini. This market has been experiencing significant growth in recent times as a result of the growth in the number of Universities in Eswatini. The company's year-end is the 30th of April. The company has recently learnt that the government of Eswatini intends to reduce the tax rate from 27. 5% to 12. 5%. This was disclosed during the budget speech presentation by the Hon. Neal Rijkenberg, the Finance Minister. You have recently been engaged by Eyethu limited as a Financial Accountant and the following trial balance for the year ended 30 April 2020 has been given to you:

	E	E
Credits		
Share capital		500 000
Retained earnings: 1 May 2019		1 036 400
Long-term liabilities		330 200
Accumulated depreciation: Buildings – 01 May 2019		9 000
Accumulated depreciation: Plant and machinery – 01 May 2019		38 500
Sale of goods		2 650 000
Accounts payable		72 500
Dividends received		45 000
Debits		
Land: At cost	1 200 000	
Buildings: At cost	450 000	
Plant and machinery: At cost	385 000	
Investments	660 990	
Deferred tax asset: 1 May 2019	3 300	
Inventory	98 000	
Accounts receivable	125 000	
Cost of sales	1 325 000	
Operating expenses (excluding depreciation)	362 000	
Interest paid	22 310	
Dividends paid	50 000	
	4 681 600	4 681 600

Additional information

The provision for the current tax expense and deferred tax expense must still be made for the year ended 31 March 2019 The following tax rates are applicable:

	2020	2019
Normal tax rate	12.5%	27.5%

2. The assets of Eyethu Ltd were purchased as follows:

Land (owner-occupied)	1 May 2018
Buildings (owner-occupied)	1 May 2019
Plant and machinery	1 November 2018

Eyethu Ltd accounts for all assets according to the cost model.

The following are the differences between the allowances for tax purposes and the allowances that the company applies in the financial statements:

	Company	**Eswatini Revenue Authority**
Land	None	None
Buildings	2% per year	None
Plant and machinery (apportioned)	20% reducing Balance	20% straight Line
Allowance for credit losses	Full list	None

Included in operating expenses are donations of E 15 000 and fines of E 70 000 for environmental pollution. The donations made by A Ltd and the fines incurred for environmental pollution are not deductible for tax purposes.

The accounts receivable figure in the trial balance is made up as follows:

	2020	**2019**
	E	**E**
Age analysis	145 000	180 000
Allowance for credit losses	(20 000)	(12 000)
	125 000	168 000

The deferred tax balance at 30 April 2019 arose as a result of deductible temporary differences of E 12 000 relating to the allowance for credit losses.

Deferred tax is provided on all temporary differences using the statement of financial position approach. There is assurance beyond reasonable doubt that there will be sufficient taxable profit in the future to realise any tax benefits.

Required:

The finance director wants to make a presentation to the board of directors on the disclosures that are required by International Financial Reporting Standards for the taxation expense. He wants to use the expected change in tax rate to also demonstrate the impact of changes in tax rates on deferred taxation assets. He has therefore prepared the information above on the assumption that the tax rate has indeed declined to 12.5%. He has requested you to prepare the following information.

i) The Income statement section of the Statement of Comprehensive income clearly showing the tax expense and its major components (Current and Deferred taxation) **[9 Marks]**

ii) The current tax computation **[6 Marks]**

iii) The determination of the deferred tax balance using the Statement of Financial Position approach. **[4 Marks]**

iv) A reconciliation between the effective tax rate and the statutory tax rate **[7 Marks]**

v) An extract of the Statement of Financial Position to show how deferred taxation will be presented and the deferred tax note (figures only) **[4 Marks]**

Total: **30 Marks**

QUESTION 3

PART A

Kwakha construction is a reputable real estate developer in Eswatini. They have entered into a contract with a Nontobeko, the owner of the Breeze restaurant brand for the sale of a building in Manzini for E 1 million. The customer intends to open a restaurant in the building. New restaurants face high levels of competition in Manzini and the customer has little experience in the restaurant industry. Nontobeko pays a non-refundable deposit of E 50,000 at inception of the contract and enters into a long-term financing agreement with the entity for the remaining 95 per cent of the promised consideration. The financing arrangement is provided on a non-recourse basis, which means that if the customer defaults, Kwakha can repossess the building, but cannot seek further compensation from the customer, even if the collateral does not cover the full value of the amount owed. Kwakha incurred construction costs of E 600,000. Nontobeko obtains control of the building at contract inception.

Required: Discuss the accounting implications of the transaction above in accordance with the requirements of IFRS 15, Contracts with customers. **[10 Marks]**

PART B

Lwati Mabuza graduated with a BSc IT degree at the University of Eswatini in 2018. He started a Business, Smartwise IT with Tengetile, a Commerce graduate from the same University. Smartwise specialises in developing software programmes for business entities in Eswatini and Mozambique. They recently secured a big tender with Famboard, which is a government entity charged with identifying markets for farmers and assisting them with the production processing, storage, transportation, distribution and sale of agricultural products. The terms of the agreement requires Smartwise IT to transfer a software licence, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. Smartwise IT sells the licence, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.

Required: Discuss whether the services above are distinct in accordance with the requirements of IFRS 15, Revenue from contracts with customers. **[10 Marks]**

Total: **20 Marks**

QUESTION 4

Dr Sibiya resigned from her job as a Lecturer in the Chemistry department of the University of Eswatini in December 2017. She used her skill as a Chemist to evaluate the chemical composition of traditional medication produced by Swazi Traditional healers. She registered a business, traditional chemistry, to engage exclusively in this venture. After testing the chemical properties of the traditional medication, she then buys the rights for the ones that are academically sound and sells them under her brand to local pharmacies. Her products have been found to be effective and the demand has been increasing steadily. She recently started exporting the products to China and the reception from the Chinese market has been very positive. The business has found itself with excessive cash and Dr Sibiya has started saving this cash in fixed deposit accounts. Sive, her son doing the second year of his four year degree with the University of Eswatini recently advised her to purchase government bonds since they pay better interest than the fixed deposit accounts. She invested in a bond on 01 January 2020 with the following details:

Type of bond	Discount bond (Market rate exceeds coupon rate)
Market rate	14%
Instalment	E 200 000
Future value	E 2 000 000
Period	3 years
Coupon rate	10% p.a.

She is paid E 1 814 269 for the bond. She intends to hold the bond to maturity collecting the interest paid annually and the principal at the end of the three years. Dr Sibiya recently attended an accounting for dummies course and she was fascinated by all the terminology used in accounting but she is still struggling with the accruals concept of accounting. She also appreciates the use of accounting for decision making. She also knows that there is a new accounting standard dealing with financial instruments and that bonds are covered by this standard. You recently qualified as a registered auditor with the Eswatini Institute of Accountants (EIA) and Traditional Chemistry is your client. They requested you explain to them what financial instruments are and to illustrate the accounting implications of the bond purchase to comply with IFRS requirements. (The financial year for Traditional Chemistry runs from 01 January to 31 December each year).

Required: Prepare short notes for your discussions with Dr Sibiya in addressing the following

i) Explain if the bond satisfies the definition of a financial instrument and any classification implications. **[8 Marks]**

ii) Illustrate the journal entries that will need to be processed in accounting for the bond. **[12 Marks]**

Total: **20 Marks**