
UNIVERSITY OF ESWATINI
DEPARTMENT OF ACCOUNTING & FINANCE
RESIT EXAMINATION PAPER
SEPTEMBER 2020

DEGREE/YEAR OF STUDY: BACHELOR OF COMMERCIAL YEAR IV/ IDE LEVEL V

TITLE OF PAPER : ADVANCED FINANCIAL ACCOUNTING II

COURSE CODE : ACF 412/ AC 427/AC 504 (S) SEPTEMBER 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

Emakhata (Pty) Ltd is a Swati company which was founded by Andile on 1 April 2010. Andile noted that due to changes in the climate of Eswatini, there was an increase in the demand for Air-conditioning equipment by Eswatini households. The existing players in the industry at the time were focusing on prominent brands and serving corporate clients. He identified a cheaper brand in China and introduced it to the Eswatini market. Andile and his 4 siblings are the only shareholders in Emakhata (Pty) Ltd. In 2015, Andile noted that the existing players in the business were not adequately serving the small and medium businesses of Eswatini. He however wanted the company to focus on the domestic market. He therefore tasked the board with finding an appropriate takeover target among the existing players in the local market. In December 2015, after months of searching, a board resolution was passed by the Emakhata limited board to purchase a majority stake in Emabhizinisi (Pty) Ltd, an upcoming player in the business equipment market. The transfer of shares to Emakhata (Pty) Ltd was completed on 31 December 2015. The board further passed a resolution to purchase a majority stake in Ngcondvongcondvo (Pty) Ltd, a software development company in August 2017. The board was of the view that the future of business is in technology. The transfer of the shares was completed on 01 September 2017. The trial balances for the three companies and all other relevant information for the year ended 30 June 2020 are presented below:

	Emakhata (Pty) Limited Dr/(Cr) E	Emabhizinisi (Pty) Limited Dr/(Cr) E	Ngcondvo ngcondvo(Pty) Limited Dr/(Cr) E
Share capital - 75 000 ordinary shares	(75 000)	-	-
- 40 000 ordinary shares	-	(40 000)	-
- 20 000 ordinary shares	-	-	(20 000)
Mark-to-market reserve	(8 135)	(7 050)	-
Retained earnings – 01 April 2019	(800 000)	(300 000)	(280 000)
Deferred tax	(2 000)	(1 932)	-
Revenue	(910 000)	(350 000)	(250 000)
Management fee received from Emabhizinisi Limited	(10 000)	-	-
Interests received	(8 000)	(3 500)	-
Dividends received	(10 800)	(4 000)	-
Cost of sales	504 000	145 000	185 500
Management fee paid to Emakhata Limited	-	10 000	-
Interests paid	-	6 000	-
Other expenses	90 000	35 000	40 000
Income tax expense	77 800	21 450	27 255
Dividends paid – 30 June 2020	6 400	7 000	10 000
Bank	263 100	-	-
Inventories	-	70 050	61 000
Trade and other payables	(112 085)	(145 000)	(123 755)
Investment in Emabhizinisi Limited at fair value	330 000	-	-
Investment in Ngcondvongcondvo Limited at fair value	197 500	-	-
Investment in Lisiko Limited at fair value (6% interest purchased on 1 June 2019)	-	50 000	-
Property, plant and equipment	465 270	506 982	350 000
	-	-	-

Additional information

- i) Emakhata (Pty) Limited acquired control of Emabhizinisi (Pty) Limited by acquiring 30 000 ordinary shares in Emabhizinisi (Pty) Limited when the retained earnings amounted to E 250 000 and there were 40 000 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. The fair value of NCI is E 97 000.
- ii) Emakhata (Pty) Limited acquired control of Ngcondvongcondvo (Pty) Limited by acquiring 15 000 ordinary shares. The assets and liabilities of Ngcondvongcondvo (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 E250 000. This was E47 000 above the original cost

price thereof. Land and buildings are not depreciated. Retained earnings at acquisition date was E 100 000 and the fair value of NCI was E 70 500.

- 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 Emakhata (Pty) Limited sold inventory to Emabhizinisi (Pty) Limited for E 180 000. Inventory valued at E 27 000 was still on hand at 31 March 2020. Emakhata (Pty) Limited sold the inventory to Emabhizinisi (Pty) Limited at cost plus 25%.
- v) During the year ended 31 March 2020, Emabhizinisi (Pty) Limited paid E 5 000 interest to Emakhata Limited. The interest was charged on a short-term loan from Emakhata Limited to Emabhizinisi 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 Emakhata (Pty) Limited arose from the fair value adjustment of its investment in Ngcondvongcondvo (Pty) Limited to its fair value.
- ix) The group elected to measure non-controlling interests at its fair value on acquisition date (full goodwill method).
- x) The Emakhata Limited Group measures its investments in equity instruments at fair value through other comprehensive income.

REQUIRED:

- a) Prepare the analysis of shareholders equity for both subsidiaries **[14 Marks]**
- b) Prepare the consolidated statement of comprehensive income for the Emakhata Limited group for the year ended 30 June 2020. **[12 Marks]**
- c) Prepare the consolidated statement of changes in equity for the Emakhata Limited group for the year ended 30 June 2020. **[4 Marks]**

Total:

30 Marks

QUESTION 2

You are the audit partner of Nosizo and Associates, a prominent audit firm based in Manzini, Eswatini. Your client, Nokwazi limited has requested you to assist them with their income tax computations and disclosures. The following trial balance for the year ended 30 June 2020 has been presented to you:

	E	E
Credits		
Share capital		400 000
Retained earnings: 1 July 2019		1 136 400
Long-term liabilities		330 200
Accumulated depreciation: Buildings – 30 June 2019		13 050
Accumulated depreciation: Plant and machinery – 30 June 2019		60 000
Sale of goods		2 800 000
Accounts payable		72 500
Dividends received		65 000
Debits		
Land: At cost	1 200 000	
Buildings: At cost	435 000	
Plant and machinery: At cost	400 000	
Investments	660 990	
Deferred tax asset: 1 July 2019	6 875	
Inventory	130 000	
Accounts receivable	113 000	
Cost of sales	1 475 000	
Operating expenses (excluding depreciation)	362 000	
Interest paid	37 310	
Dividends paid	60 175	
	4 857 600	4 857 600

Additional information

The provision for the current tax expense and deferred tax expense must still be made for the year ended 30 June 2020 The following tax rates are applicable:

	2020	2019
Normal tax rate	27.5%	27.5%

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

Land (owner-occupied)	1 June 2018
Buildings (owner-occupied)	1 June 2018
Plant and machinery	1 January 2019

Nokwazi 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	3% per year	None
Plant and machinery (apportioned)	30% reducing Balance	30% straight Line
Allowance for credit losses	Full list	None

Included in operating expenses are donations of E 17 500 and fines of E 95 000 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 E	2019 E
Age analysis	145 000	180 000
Allowance for credit losses	(32 000)	(25 000)
	<u>113 000</u>	<u>115 000</u>

The deferred tax balance at 30 June 2019 arose as a result of deductible temporary differences of E 25 000 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:

Prepare the following information to meet the requirements of your client:

- 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) Current income tax expense computation [6 Marks]
- iii) The computation 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 [6 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) [5 Marks]

Total:

30 Marks

QUESTION 3

Inala (Pty) Ltd (Inala) is a respected retail chain company that supplies clothing, food and homeware. Inala launched a new customer loyalty programme on 1 January 2018 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 Inala products. The estimated stand-alone selling price of one point is E 0.90. Sales to Inala customers amounted to E 2 700 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 2018. Inala expects that 12 000 points will be redeemed during the financial year ended 31 December 2018. At the end of the 2018 financial year 10 000 points were redeemed by customers. At 31 December 2019 11 800 points were redeemed cumulatively in respect of the 2018 sales. Inala continues to expect that 12 000 points will be redeemed in respect of the 2018 sales.

Sales to Inala customers amounted to E 3 300 000 (the stand-alone selling prices of the products) during the financial year ended 31 December 2019. At the end of the 2019 financial year 12 500 points on the 2019 sales have been redeemed by customers and Inala expects that 15 000 points will be redeemed in total in respect of the 2019 sales. All sales made in 2018 and 2019 were cash sales.

REQUIRED:

Prepare the journal entries to account for the customer loyalty program in the financial statements of Inala Ltd for the year ended 31 December 2018 and 31 December 2019.

Total:

20 Marks

QUESTION 4

ABC Co has a 31 December year end and uses the dollar (\$) as its functional currency. On 25 October 2019 ABC Co buys goods from a Swedish supplier for Swedish Krona (SWK) 286,000.

Rates of exchange:

25 October 2019 \$1 = SWK 11.16

16 November 2019 \$1 = SWK 10.87

31 December 2019 \$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 2019. **[7 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.

[8 Marks]

Total:

20 Marks