UNIVERSITY OF ESWATINI
DEPARTMENT OF ACCOUNTING & FINANCE
MAIN EXAMINATION PAPER
OCTOBER_ 2021

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) OCTOBER 2021
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

The Manoor family relocated from Durban to Eswatini in the early 2 000s. The Indian Family was drawn to Eswatini due to the relative stability, lower crime rate and peace in the Kingdom. They initially established the Buy and Carry retail chain in the major Eswatini towns dealing in fast moving consumer goods (FMCGs). In 2013, the Foster family, another prominent Eswatini Family which operated under the Spar franchise decided to switch from it and entered into an arrangement with the Pick and Pay franchise. Both franchisees operated as separate companies in Eswatini. The Switch therefore meant that the Foster family had to dispose of its shareholding in the Spar group. The Manoor family, under the Buy and Carry banner partnered with other interested parties to buy off the interest of the Foster Family in the Spar franchise company in Eswatini (Further details of the Manoor family's investment are provided in the notes). During the first day of the current financial year, the Manoor family through their Buy and Carry Company purchased an interest in Estate Properties. This purchase was prompted by the declining property prices in Eswatini occasioned by the Covid-19 situation which had resulted in an increase in defaults for bank financed properties. This led to an increase in the properties available in the market. The financial statements for the three companies for the year ended 30 September 2021 are provided below:

	Buy and Carry (Pty) Limited Dr/(Cr) E	**Spar (Pty) Limited Dr/(Cr) E**	**Estate Properties (Pty) Limited Dr/(Cr) E**
Share capital - 100 000 ordinary shares	(100 000)	-	-
- 100 000 ordinary shares	-	(100 000)	-
- 50 000 ordinary shares	-	-	(50 000)
Mark-to-market reserve	(79 000)	(5 000)	-
Retained earnings – 01 October 2020	(870 000)	(249 000)	(350 000)
Revenue	(900 000)	(268 000)	(250 000)
Management fee received from Spar 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 Buy & Carry 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 - 30 September 2021	6 400	6 000	10 000
Bank	263 100		
Inventories		50 050	-
Trade and other payables	(85 000)	(120 000)	(113 755)

Investment in Spar Limited at fair value	330 000	-	-
Investment in Estate Properties Limited at fair value	245 000	-	-
Investment in Sandzi Limited at fair value (5% interest purchased on 1 October 2020)	-	45 000	-
Property, plant and equipment	546 500	440 000	606 000
	-	-	-

Additional information

i) Buy and Carry (Pty) Limited acquired control of Spar (Pty) Limited by acquiring 80 000 ordinary shares in Spar (Pty) Limited when the retained earnings amounted to E 250 000 and there were 100 000 ordinary shares in issue. The assets and liabilities were fairly valued at date of acquisition. The fair value of the investment was 10% more than its initial cost price.

ii) Buy and Carry (Pty) Limited acquired control of Estate Properties (Pty) Limited by acquiring 30 000 ordinary shares. The retained earnings at acquisition date amounted to E 290 000. The assets and liabilities of Estate Properties (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 E 65 000 above the original cost price thereof. Land and buildings are not depreciated. The fair value of the investment was 20% more than its initial cost price.

iii) During the year ended 31 March 2020 Buy and Carry (Pty) Limited sold inventory to Spar (Pty) Limited for E 180 000. Inventory valued at E 18 000 was still on hand at 31 March 2020. Buy and Carry (Pty) Limited sold the inventory to Spar (Pty) Limited at cost plus 20%.

iv) During the year ended 31 March 2020, Spar (Pty) Limited paid E 5 000 interest to Buy and Carry Limited. The interest was charged on a short-term loan from Buy and carry Limited to Spar Limited that was repaid by the end of the financial year.

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

vi) Assume that each share carries one vote.

vii) The mark-to-market reserve in the books of Buy and Carry (Pty) Limited arose from the fair value adjustment of its investment in Estate Properties (Pty) Limited to its fair value.

viii) 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).

ix) The Buy and Carry Limited Group measures its investments in equity instruments at fair value through other comprehensive income.

x) The mark-to-market reserve for Spar is due to a revaluation of Sandzi Limited that was undertaken in the current financial year.

Required:

i) Prepare the pro-forma consolidation journal entries (marks will be awarded for workings)

[20 Marks]

ii) Prepare the consolidated statement of changes in equity

[10 Marks]

iii) Comment on the acquisition of Estate Properties in the context of the Buy and Carry group of companies

[5 Marks]

Total: **[35 Marks]**

QUESTION 2

The accountant of Zakhele Ltd prepared separate accounting profit and taxable income calculations for the year ended 30 September 2021:

	Notes	**Accounting Profit**	**Taxable Income**
		E	E
Gross profit		475 000	475 000
Other expenses		(200 000)	(200 000)
Other income		100 000	100 000
Dividends received		40 000	-
Donations		(20 000)	-
Office building	1		
Depreciation		(10 000)	-
Manufacturing plant	2		
Depreciation		(60 000)	-
Wear and tear		-	(85 000)
Gains on sale of land		110 000	
Rental received for the year		120 000	120 000
Rental received in advance		-	10 000
VAT penalty		(5 000)	-
		550 000	420 000

Additional information

1) The cost of the office building was E 200 000 and the building is depreciated at 5% per annum on the straight line method. On 30 September 2021, the carrying amount was E 150 000. No tax allowances were granted on this building.
2) Information on the manufacturing plant is as follows:

Carrying amount at 30 September 2021	E 140 000
Tax base at 30 September 2021	E 115 000

3) Assume that the residual value, useful life and depreciation method for all assets were reviewed at each financial year-end and that there were no changes.
4) Assume a tax rate of 27.5% and that there are no capital gains taxes in Eswatini
5) There was no balance on the deferred tax liability account at 30 September 2020.

Required:

i) Prepare reconciliation between accounting profit and taxable income by differentiating between temporary differences, non-taxable items and non-deductible items for tax purposes.

[5 Marks]

ii) Calculate and journalise the transfer to or from the deferred tax account at 30 September 2021.

[10 Marks]

iii) Calculate the income tax expense for the year ended 30 September 2021.

[5 Marks]

iv) Prepare the tax reconciliation for the year ended 30 September 2021.

[10 Marks]

Total: **[30 Marks]**

QUESTION 3

i) MTB Eswatini enters into a contract with a customer, The Eswatini Communication Commission, a government agency, to build a specialized satellite. The entity builds satellites for various customers, such as governments and commercial entities. The design and construction of each satellite differ substantially, on the basis of each customer's needs and the type of technology that is incorporated into the satellite.

ii) An entity enters into a contract with a customer to build an item of equipment. The payment schedule in the contract specifies that the customer must make an advance payment at contract inception of 10 per cent of the contract price, regular payments throughout the construction period (amounting to 50 per cent of the contract price) and a final payment of 40 per cent of the contract price after construction is completed and the equipment has passed the prescribed performance tests. The payments are non-refundable unless the entity fails to perform as promised. If the customer terminates the contract, the entity is entitled only to retain any progress payments received from the customer. The entity has no further rights to compensation from the customer.

Required:

Discuss whether the revenue to be realized from each of the transaction above should be recognized over time or at the end of the project

[20 Marks]

QUESTION 4

On 01 September 2020, Nelile Ltd purchased a debenture at its fair value of E 100 000. No transactions costs were paid. The debenture paid a coupon of E 12 000 on 31 August each year and will be redeemed at E 90 000 on 31 December 2023.On 01 September 2020, the debenture was not credit impaired and credit risk was considered to be low. Nelile Ltd classifies the debenture as a financial asset at amortised cost. On 31 August 2021, no coupon payment was effected and the probability weighted contractual cash flows of the debenture considering possible default events indicate that no annual coupon payment will be received when they are contractually due. However, all the outstanding coupon payments will be received together with the capital redemption amount of E 90 000 on 31 August 2023.

Required:

Prepare the journal entries that have to be processed to account for the debenture in the financial year ending 31 August 2021

[15 Marks]