UNIVERSITY OF ESWATINI

DEPARTMENT OF ACCOUNTING & FINANCE

RESIT 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 (R) 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 following trial balances of Bonn Limited, Sydney Limited and York Limited are provided for the year ended 31 December 2020:

	Bonn Limited E	Sydney Limited E	York Limited E
Credits			
Share capital:			
- 40 000 ordinary shares	48 000	-	-
- 36 000 ordinary shares	-	48 000	-
- 24 000 ordinary shares	-	-	24 000
Retained earnings - 1 January 2020	216 000	68 300	40 800
Mark-to-market reserve - 31 December 2020	8 135	-	-
Deferred tax on mark-to-market reserve	1 865	-	-
Revenue	165 000	124 000	148 000
Other income	24 000	6 300	-
Long-term borrowings	17 750	40 600	4 000
	480 750	287 200	216 800
Debits			
Property, plant and equipment	237 000	82 000	72 500
Investments in equity instruments:			
- Sydney Limited at fair value	75 000	-	-
- York Limited at fair value	-	35 000	-
Loan to York Limited	4 000	-	-
Cost of sales	60 000	88 000	70 000
Finance costs	2 500	2 000	5 000
Other expenses	15 000	20 000	22 000
Dividends paid – ordinary	6 000	5 000	9 000
Income tax expense	26 250	4 200	14 280
Trade receivables	32 000	14 000	8 000
Inventories	23 000	37 000	16 020
	480 750	287 200	216 800

Additional information

1. Bonn Limited acquired control of Sydney Limited by acquiring 80% of the ordinary shares in Sydney Limited on 1 July 20.13 and paid cash of E 65 000 for the investment. At that date the equity of Sydney Limited was as follows:

	E
Share capital - 36 000 ordinary shares	48 000
Retained earnings	11 000

2. Sydney Limited acquired control of York Limited by acquiring 16 800 ordinary shares in York Limited on 1 January 2020 and paid E 35 000 for the investment. On the date of acquisition the fair value of the assets and liabilities of York Limited was as follows:

	Carrying amount E	Fair Value E
Property, plant and equipment	45 000	45 000
Inventories	25 000	20 000
Trade receivables	18 000	8 000

3. Bonn Limited sold machinery to Sydney Limited on 1 July 2020 for E 45 000. The sale was made at cost plus 20%. Sydney Limited depreciates machinery at 20% per annum on the straight-line method. This is the same policy as used by the Eswatini Revenue Services.

4. At 31 December 20.14 the directors of Bonn Limited decided that the goodwill of Sydney Limited had been impaired by E10 000.

5. The Eswatini normal tax rate is 28%. You may assume the tax rate has been 28% since 1 July 2019. You may assume the CGT inclusion rate is 66,6% since 1 July 2019.

6. The group measures its investments in equity instruments at fair value through other comprehensive income.

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

Required:

i) Prepare the consolidated Statement of Comprehensive Income for the 2020 financial year the Bonn Limited Group *(Journal entries are not necessary)* **[18 Marks]**

ii) Prepare the Consolidated Statement of Changes in Equity for the year ended 31 December 2020 **[17 Marks]**

Total: **[35 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

3. 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.

5. 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. **[5 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: **15 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**