UNIVERSITY OF ESWATINI

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER FEBRUARY 2021

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| TITLE OF PAPER | : | ADVANCED CORPORATE REPORTING |
| COURSE CODE | : | ACF631 (M) FEBRUARY 2021 |
| TOTAL MARKS | : | 100 MARKS |
| TIME ALLOWED | : | THREE (3) HOURS |
| INSTRUCTIONS | 1 | The paper consists of four questions. Answer all the questions Begin the solution to each question on a new page. |
| | 2 | The marks awarded for a question are indicated at the end of each question. |
| | 3 | Show the necessary working. |
| | 4 | 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 the language and general quality of expression, together with layout and presentation of your answer.

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SPECIAL REQUIREMENTS: CALCULATOR

## QUESTION 1

**(a)** Accountants prepare accounts based on a conceptual framework. This framework deals with, among other things, objectives for the preparation of accounts, qualitative characteristics of accounting information, concept of capital maintenance and recognition and measurement of the elements of financial statements. *Discuss the **two** (2) fundamental and **four** (4) enhancing qualitative characteristics of accounting information* **(10 marks)**

**(b)** Love (Pty) Limited is a company involved in the manufacture of heating systems for the construction industry. The following trial balance was extracted from its books as at 31 December 2018:

| | **Debit** | **Credit** |
|---|---|---|
| | **E** | **E** |
| Accumulated Depreciation - Buildings - 1 January 2018 | | 580,000 |
| Accumulated Depreciation - Equipment - 1 January 2018 | | 220,000 |
| Accumulated Depreciation - Motor Vehicles - 1 January 2018 | | 190,000 |
| Administrative Expenses | 248,750 | |
| Allowance for Bad & Doubtful Debts | | 12,601 |
| Bank | 394,600 | |
| Buildings at Cost at 1 January 2018 | 2,242,500 | |
| Current Tax Payable | | 36,000 |
| Distribution Costs | 786,520 | |
| Equipment at Cost at 1 January 2018 | 864,050 | |
| Finance Costs | 36,200 | |
| Income Tax Expense | 163,000 | |
| Inventory at 1 January 2018 | 284,650 | |
| Investments (4% interest rate) | 200,000 | |
| Investment Income | | 4,000 |
| Issued Share Capital - E1 shares each | | 180,000 |
| Long-Term Loan | | 1,457,500 |
| Motor Vehicles at Cost at 1 January 2018 | 468,500 | |
| Other Receivables | 40,000 | |
| Purchases / Revenue | 4,875,260 | 7,542,520 |
| Retained Earnings | | 478,534 |
| Trade Receivables / Trade Payables | 345,875 | 248,750 |
| | 10,949,905 | 10,949,905 |

**The following information has also come to your attention:**

(i) Love Limited held an inventory count at the year-end which revealed the year-end inventories at cost amounted to E268, 460. Included in this figure is E3, 200 of slow moving inventories at cost. It is estimated that these will need to be sold at a 40% discount on selling price in order to sell them. Love Limited sells at a mark-up of 20% for these goods.

(ii) Depreciation is to be charged as follows:

| | |
|---|---|
| Buildings | 2% Straight Line on Cost |
| Equipment | 16% Reducing Balance |
| Motor Vehicles | 20% Cost Straight Line |

Depreciation for the year is charged in full in the year of disposal and none in the year of acquisition and is allocated evenly between distribution costs and administrative expenses.

(iii) Equipment costing E150,000 was purchased and paid by cheque in November 2018.

(iv) A building was sold for E140,000 on 31 October 2018. The cheque received from this sale was lodged to the bank account. This building was purchased in 2000 for E200,000.

(v) In January 2019, Love Limited declared dividends of E40,000 for the year-ended 31 December 2018. The financial statements are not authorised for issue until May 2019. Love Limited included the following entry into its financial statements in respect of this declaration:

| | | | |
|---|---|---|---|
| Debit | Other Receivables | E40,000 | |
| Credit | Retained Earnings | | E40,000 |

(vi) Investment income of E4,000 was received during 2018. The remaining balance of investment income was received in February 2019.

(vii) Inventory costing E8,000 was stolen from Love Limited in November 2018. The company has an insurance policy which covers theft of inventory and Love Limited was compensated in full by its insurance company in February 2019.

(viii) Love Limited recovered 80% of a bad debt of E6,000 which was previously written off to administration expenses in August 2018. The Allowance for Doubtful Debts should be set at 4%.

(ix) In 2018, Love Limited spent E60, 000 by cheque on the initial design work of a new product – it is anticipated that this design will be taken forward over the next two year period to be developed and tested with a view to production in three years' time. Separately, it spent E100, 000 (paid by cheque) on the testing of a new production system which has been designed internally and which will be operational during the following accounting year. This new system should reduce the costs of production by 10%. Love Limited has not accounted for this money spent in its financial statements. The rate of amortisation that Love Limited uses is 10% per annum and is taken to cost of sales.

**Requirement:**
Prepare, in a form suitable for publication, based on IFRS, a Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position for Love Limited for the financial year ended 31 December 2018.

*Note: All workings should be shown.* **(30 Marks)**

**[Total: 40 Marks]**

## QUESTION 2

Obama Limited (Pty) is involved in the manufacture of building products and its financial statements are as follows:

**Obama Limited Statement of Financial Position as at 31 December 2017**

| | 2017 | 2016 |
|---|---|---|
| | **E'000** | **E'000** |
| **Non-Current Assets** | | |
| Property, Plant & Equipment | 7,680 | 5,910 |
| **Total Non-Current Assets** | | **5,910** |
| **Current Assets** | | |
| Inventories | 2,070 | 1,830 |
| Trade Receivables | 1,170 | 1,020 |
| Cash & Cash Equivalents | 75 | 168 |
| **Total Current Assets** | | **3,018** |
| **Total Assets** | **10,995** | **8,928** |
| **Equity & Liabilities** | | |
| **Equity** | | |
| Share Capital | 360 | 300 |
| Share Premium | 90 | 75 |
| Retained Earnings | 5,697 | 3,603 |
| Revaluation Surplus | 180 | 120 |
| **Total Equity** | | **4,098** |
| **Non-Current Liabilities** | | |
| Long Term Loan | 2,250 | 2,400 |
| **Total Non-Current Liabilities** | **2,250** | **2,400** |
| **Current Liabilities** | | |
| Trade Payables | 2,208 | 2,250 |
| Bank Overdraft | 60 | 90 |
| Current Tax Payables | 150 | 90 |
| **Total Current Liabilities** | **2,418** | **2,430** |
| **Total Equity & Liabilities** | **10,995** | **8,928** |

**Additional information**

i. Obama Limited's 2017 profit for the year before tax amounted to E2,243,000.

ii. Obama Limited's income tax expense for 2017 was E63,000.

iii. The cost of Property, Plant & Equipment (PPE) at 1 January 2017 amounted to E7,290,000. The company's depreciation policy is to depreciate all assets at 10% straight line on cost from the date of purchase to the date of sale. On 1 October 2017, Obama Limited sold PPE which had a carrying value of E520,000. This PPE had originally cost Obama Limited E800,000 and the company made a loss of E20,000 on the sale of this PPE. The additions to PPE for Obama Limited occurred on 31 December 2017.

iv. Obama Limited's finance cost for the year amounted to E48,000. This was paid in full.

iv. Obama Limited paid a dividend of E86,000 in 2017.

**Requirement:**
Prepare a Statement of Cash Flows for the year-ended 31 December 2017 for Obama Limited in accordance with IAS 7 - *Statement of Cash Flows.*

**[Total: 20 Marks]**

**QUESTION 3**

IAS 16 *Property Plant and Equipment* sets out the accounting requirements for initial recognition and measurement, subsequent measurement and derecognition of items of property, plant and equipment. IAS 16 expands on and applies the definition of an asset in the Conceptual Framework, as well as the recognition criteria set out in that document.

On 31 December 2016, Stanley (Pty) limited completed the construction of a new headquarters building. Some costs associated with this were as follows:

| | **E'000** |
|---|---|
| Purchase of site | 200 |
| Legal costs and stamp duty on site purchase | 16 |
| Demolition of existing derelict building on site | 18 |
| Design and planning costs | 49 |
| Redesign costs due to conditions of planning permission | 15 |
| Redesign costs due to errors in the original design | 12 |
| Tendering and procurement costs | 5 |
| Management time spent on the above, estimated apportionment | 22 |
| Construction contractor's fee to builder's finish | 754 |
| Rectification costs due to contractor error, not covered by the contractor | 13 |
| Completion, painting and furnishing | 113 |
| Cost of moving in staff, files and equipment | 37 |
| Cancellation costs of operating lease on previous headquarters building | 31 |

The new building was brought into use on 1 January 2017. It was estimated to have a useful economic life of 50 years from that date, and a residual value of E140, 000 at the end of its life (excluding the land).

All the above costs were debited to a suspense account and credited to cash. No other entries were made. All items were paid as incurred.

**Requirement:**

(a) Outline how a newly constructed building should be recorded in the financial records applying the principles of IAS 16 *Property Plant and Equipment.* **(4 marks)**

(b) Recommend how further expenditure on an existing building should be treated under IAS 16 *Property Plant and Equipment?* **(4 marks)**

**(c)** Set out journal entries and supporting calculations to show how the principles of IAS 16 *Property Plant and Equipment* should be applied in accounting for the transactions described above for year ended 31 March 2017. **(12 marks)**

**[Total 20 marks]**

## QUESTION 4

Bright Ltd acquired 70% equity shares in Tuga Ltd on 1st January, 2020 when the income surplus of Tuga Ltd was E 150,000. The purchase consideration was settled as follows cash of E 250,000, share exchange of 5 shares in Tuga Ltd for 2 shares in Bright Ltd. The market price of Bright Ltd's shares was E 2.50 as at 1st January, 2020 and a deferred cash payment of E 250,000 on 1st January, 2020. Bright Ltd's cost of capital is 25%

**The statement of financial position of Bright Ltd and Tuga Ltd as at 31st December, 2020 were as follows:**

| | **Bright Ltd** | **Tuga Ltd** |
|---|---|---|
| | **E** | **E** |
| Premises | 400,000 | 350,000 |
| Plant & equipment | 300,000 | 150,000 |
| Motor vehicles | 500,000 | 200,000 |
| | 1,200,000 | 700,000 |
| Current assets: | | |
| Inventories | 300,000 | 140,000 |
| Trade receivables | 200,000 | 100,000 |
| Cash & bank | 450,000 | 60,000 |
| Total assets | **2,150,000** | **1,000,000** |
| | | |
| Equity & Liabilities | | |
| Stated capital (@ E 1.00) | 700,000 | 400,000 |
| Income surplus | 650,000 | 350,000 |
| 10% Loan Note | 400,000 | - |
| Trade payables | 300,000 | 200,000 |
| Taxation | 100,000 | 50,000 |
| Total equity & liabilities | 2,150,000 | **1,000,000** |

**Requirement:**

Prepare the consolidated statement of financial position of Bright Ltd group as at 31/12/2020

**[20 Marks)**