

**FAC2602**

May/June 2015

**SELECTED ACCOUNTING STANDARDS AND SIMPLE
 GROUP STRUCTURES**

Duration 2 Hours

100 Marks

 EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination

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This paper consists of EIGHT (8) pages.
PLEASE NOTE

- 1 This paper consists of **THREE** (3) questions
- 2 All questions must be answered
- 3 Basic workings, where applicable, must be shown
- 4 Ensure that you are handed the correct examination answer book (blue for Accounting) by the invigilator
- 5 Each question attempted must be commenced on a **new** (separate) page

6 PROPOSED TIMETABLE

Question number	Subject	Marks	Time in minutes
1	Group financial statements	25	30
2	Group financial statements	45	54
3	Statement of cash flows	30	36
		100	120

[TURN OVER]

QUESTION 1 (25 marks) (30 minutes)

MHG Ltd is involved in the construction industry, creating road infrastructure and therefore makes extensive use of heavy duty plant and machinery. When MHG Ltd acquired its interest in Tide Ltd, the aim was to benefit from synergies in their ventures.

The following are the trial balances of MHG Ltd and Tide Ltd as at 30 April 2015

	MHG Ltd R	Tide Ltd R
Credits		
Share capital		
– Ordinary shares (400 000/600 000 shares)	1 000 000	720 000
– 12% Cumulative preference shares (100 000/80 000 shares)	150 000	120 000
8% Debentures (10 000/10 000 debentures)	50 000	40 000
Loan from MHG Ltd	-	300 000
Retained earnings	1 528 000	988 000
Trade and other payables	400 000	370 000
Dividends payable	60 000	90 000
Current account with MHG Ltd	-	20 000
Accumulated depreciation - plant and machinery	600 000	450 000
	<u>3 788 000</u>	<u>3 098 000</u>
Debits		
Land and buildings	860 000	1 040 000
Plant and machinery	1 130 000	1 050 000
Inventory	260 500	150 000
Trade and other receivables	595 000	450 000
Bank	84 000	163 000
Current account with Tide Ltd	20 000	-
Loan to Tide Ltd	300 000	-
Investment in Tide Ltd at fair value		
– 360 000 ordinary shares (cost price R450 000)	450 000	-
– 44 000 12% cumulative preference shares (cost price R68 500)	68 500	-
– 4 000 8% debentures (cost price R20 000)	20 000	-
Investment in HPQ Ltd	-	245 000
	<u>3 788 000</u>	<u>3 098 000</u>

Additional information

- MHG Ltd acquired its 60% interest in Tide Ltd on 1 January 2000. At date of acquisition, the equity of Tide Ltd consisted of a total share capital amounting to R840 000 and retained earnings of R12 000. There have been no changes in Tide Ltd's share capital since 1 January 2000. It is group policy to show goodwill at cost less impairment in the consolidated financial statements. Goodwill was not impaired during the current year. Assume that the carrying amounts of all the other assets and liabilities of Tide Ltd were considered to be equal to their respective fair values.
- MHG Ltd sold machinery with a carrying amount of R150 000 to Tide Ltd on 30 June 2013. Tide Ltd paid R175 000 for the machinery. It is the policy of the group to depreciate plant and machinery at a rate of 20% per annum using the diminishing balance method.
- As part of its expansion program, Tide Ltd raised additional cash through a loan from MHG Ltd amounting to R300 000. The loan was acquired on 1 January 2015 and bears interest at the rate of 11% per annum, payable annually in arrears. The interest did not qualify for capitalisation and was accounted for by both companies.

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QUESTION 1 (continued)

- 4 The subsidiary declared and recorded a final ordinary dividend of R0,15 per share on 30 April 2015. MHG Ltd has not yet recorded the dividend in its financial records.
- 5 MHG Ltd declared an ordinary dividend of R60 000 at the end of the current financial year.
- 6 No preference dividends were in arrears at the beginning of the current financial year and all preference dividends were paid at year end.

REQUIRED-

Draft the following pro-forma consolidation journal entries of the MHG Ltd Group for the year ended 30 April 2015, after taking the above-mentioned information into account.

- a) Elimination of the ordinary owners' equity at acquisition (5)
- b) Elimination of the interest on the intragroup loan (3½)
- c) Elimination of the depreciation associated with the sale of the machinery (6½)
- d) Elimination of the intragroup preference dividends and recording of the non-controlling interests in the preference dividends (5½)
- e) Recording of the journals necessary before the current accounts can be eliminated, taking into account that MHG Ltd still has to provide for the ordinary dividends declared by Tide Ltd. Both companies use the current accounts for these intragroup transactions. The elimination of the current accounts is not required. (4½)

Note.

- Indicate clearly to which company each account refers to
- Journals narrations are **not** required
- Show all calculations and round off all amounts to the nearest Rand
- Ignore the taxation effect on all unrealised profit and/or losses as well as capital gains tax

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QUESTION 2 (45 marks) (54 minutes)

Mcom Ltd is a company involved in providing support and guidance to students who are engaged in postgraduate studies. Dcom Ltd supply and distribute study and support material aimed towards postgraduate qualifications. On 1 September 2011, Mcom Ltd acquired 56 000 ordinary shares, 1 000 debentures and 20 000 preference shares in Dcom Ltd. The following trial balances of the two companies are provided as at 31 August 2014.

	Mcom Ltd R	Dcom Ltd R
Credits		
Share capital		
– Ordinary shares (500 000/70 000 shares)	362 500	43 750
– 10% Cumulative preference shares (90 000/50 000 shares)	225 000	125 000
12% Convertible debentures (3 000 debentures)	-	37 500
Retained earnings – 1 September 2013	42 500	60 000
Revaluation surplus – 1 September 2013	125 000	62 500
Accumulated depreciation – plant and equipment	40 000	35 000
Tax payable	32 500	15 000
Profit before tax	326 250	373 750
Trade and other payables	228 000	55 000
Bank overdraft	-	100 000
Loan – Mcom Ltd	-	50 000
	<u>1 381 750</u>	<u>957 500</u>
Debits		
Land and buildings at fair value	665 000	500 000
Plant and equipment at cost	150 000	112 500
Investment in Dcom Ltd at fair value	150 000	-
Loan – Dcom Ltd	50 000	-
Bank	20 000	-
Inventories – 31 August 2014	82 500	105 000
Income tax expense	80 150	104 650
Trade and other receivables	184 100	66 600
Preference dividends paid	-	68 750
	<u>1 381 750</u>	<u>957 500</u>

Additional information

- 1 At the date of acquisition, Dcom Ltd's equity consisted of the following

	R
Ordinary share capital	43 750
10% Cumulative preference share capital	125 000
Revaluation surplus	31 250
Retained earnings	33 750

At the date of acquisition, the directors of Mcom Ltd were of the opinion that any premium paid at acquisition for the ordinary shares, was due to the property of Dcom Ltd being undervalued on 1 September 2011. Dcom Ltd has not accounted for this revaluation in its own financial records. All other assets and liabilities of Dcom Ltd were considered to be fairly valued at the date of acquisition.

Dcom Ltd classified the 10% cumulative preference share capital as equity. On 1 September 2011 the preference dividends of Dcom Ltd have been in arrears for the previous two and a half years. Dcom Ltd only paid the arrear dividends together with all other cumulative dividends on 31 August 2014. A portion of the purchase price of the interest represents a recovery of the arrear preference dividends at acquisition.

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QUESTION 2 (continued)

The investment in Dcom Ltd comprises	R
Ordinary shares (cost price R75 000)	75 000
Preference shares (cost price R62 500)	62 500
Debentures (cost price R12 500)	12 500
	<u>150 000</u>

Since acquisition there have been no changes in the issued share capital of Dcom Ltd

It is group policy to show goodwill, if applicable, at cost less impairment in the consolidated financial statements

Assume each ordinary share carries one vote and that voting rights alone determine control

- 2 Since Mcom Ltd acquired its interests Dcom Ltd, Mcom Ltd purchases an exclusive range of books and study material from Dcom Ltd at cost plus 20%

The following inventories of Mcom Ltd were on hand at	R
31 August 2013	75 000
31 August 2014	82 500

The following inventories of Dcom Ltd were on hand at	R
31 August 2013	97 500
31 August 2014	105 000

60% of the opening and closing inventories of Mcom Ltd have been purchased from Dcom Ltd

Intragroup sales for the year amounted to R312 500

- 3 On 1 March 2013 Mcom Ltd sold machinery to Dcom Ltd for R62 500 Mcom Ltd made a profit of R25 000 on the sale of the machinery The group provides for depreciation on machinery at 20% per annum according to the straight-line method

- 4 Included in the profit before tax for the year ended 31 August 2014, are the following items

	Mcom Ltd R	Dcom Ltd R
Income		
Sales	1 000 000	1 075 000
Interest received on debentures	1 500	-
Interest received on loan	5 000	-
Management fees received	15 000	-
Dividends received	40 000	-
Expenses		
Purchases	375 000	362 500
Management fees paid	-	15 000
Depreciation	27 500	18 750
Finance cost		
– 12% Convertible debentures	-	4 500
– Bank overdraft	-	6 250
– Loan	-	5 000
Other expenses	340 250	296 750

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QUESTION 2 (continued)**REQUIRED**

Draft the following consolidated statements of the Mcom Ltd Group as at 31 August 2014

- a) The statement of profit or loss and other comprehensive income, starting with "Revenue"
- b) The statement of changes in equity

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS)

Note

- Notes to the consolidated statements are not required
- Ignore the taxation effect on unrealised profits and/or losses, as well as capital gains tax
- Round off all amounts to the nearest Rand

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QUESTION 3 (30 marks) (36 minutes)

The following represent extracts from the accounting records and financial statements of Keanu Ltd for the financial year ended 28 February 2015

	2015 R	2014 R
Debits		
Property, plant and equipment (carrying amount)	2 220 000	1 500 000
Financial assets at fair value through profit or loss	595 000	500 000
Inventory	465 100	325 000
Trade and other receivables	541 230	412 000
Bank	300 000	-
	<u>4 121 330</u>	<u>2 737 000</u>
Credits		
Share capital – Ordinary shares	710 000	500 000
Revaluation surplus	420 000	250 000
Retained earnings	957 640	280 000
Long-term borrowings	1 005 000	770 000
Tax payable	81 560	5 000
Dividends payable	-	50 000
Trade and other payables	947 130	832 000
Bank overdraft	-	50 000
	<u>4 121 330</u>	<u>2 737 000</u>

KEANU LTD**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2015**

	2015 R
Revenue	2 500 000
Cost of sales	(1 050 000)
Gross profit	<u>1 450 000</u>
Other income	115 500
Other expenses	(520 000)
Finance cost	(21 000)
Profit before tax	<u>1 024 500</u>
Income tax expense	(286 860)
PROFIT FOR THE YEAR	<u>737 640</u>
Other comprehensive income for the year	170 000
– Revaluation surplus	220 000
– Revaluation surplus realised	(50 000)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>907 640</u>

Additional information**1. Property, plant and equipment**

Land with a cost price of R400 000, which was revalued on 28 February 2013 to an amount of R450 000, was sold for R500 000 on 1 April 2014. To expand the company's production capacity, land and buildings were purchased on 30 April 2014 at a cost of R780 000. On 28 February 2015 this new land and buildings were valued at R1 000 000.

On 30 August 2014, equipment with a cost price of R230 000 and a carrying amount of R180 000, was sold for R200 000 in cash. On the date of the sale, new equipment was purchased to maintain the production capacity. The new equipment was financed with a loan of R280 000 and a cash deposit of R20 000.

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QUESTION 3 (continued)

Any additional equipment obtained, was purchased to expand the business capacity

The current year's depreciation for all property, plant and equipment amounted to R150 000 and was included in other expenses

2 Financial assets

On 30 August 2014 the directors decided to sell one of their financial assets for its carrying amount of R45 000. The fair value of all financial assets were impaired by R5 000 on 28 February 2015.

3 Share capital and dividends

On 1 September 2014 the company had a rights issue of shares where the shareholders could buy one ordinary share for every five ordinary shares held at R2.10 per share. All the rights were exercised immediately. The number of issued ordinary shares for the year ended 28 February 2014 were 500 000.

On 28 February 2015 a dividend of 10c per share was declared and paid.

4 Trade and other receivables

Trade and other receivables include the following
– Prepaid expenses of R1 800 (Rnil in 2014)

5 Other information

Other income includes dividends received amounting to R30 000, profit on sale of assets and interest received.

Taxation amounting to R210 300 was paid in the current year.

REQUIRED

Draft the statement of cash flows of Keanu Ltd, according to the direct method, for the year ended 28 February 2015, after adjusting for all entries mentioned above.

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).

Note:

- No comparative figures are required
- Show all calculations
- Round off all amounts to the nearest Rand
- The notes to the statement of cash flows are not required