Tutorial Letter 202/2/2018

General Financial Reporting

FAC3701

Semester 2

Department of Financial Accounting

This tutorial letter contains the suggested solution to compulsory Assignment 02.

IMPORTANT INFORMATION:

Please register on myUnisa, activate your myLife e-mail address and make sure that you have regular access to the myUnisa module website, FAC3701-2018-S2, as well as your group website.

Note: This is an online module and therefore it is available on myUnisa. However, in order to support you in your learning process, you will also receive some study material in printed format.

BARCODE

Define tomorrow.

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1 INTRODUCTION

Dear Student

The suggested solution to Assignment 02/2018 is contained in this tutorial letter.

In our suggested solutions dealing with company financial statements, please note that opposite certain items, calculations are shown in brackets. We give these calculations for tuition purposes only and consequently, they do not form part of the statutory disclosure requirements.

2 LECTURERS AND CONTACT DETAILS

2.1 E-mail address

Please use only the following **e-mail address** for all communication with the lecturers:

FAC3701-18-S2@unisa.ac.za

2.2 Lecturers

You can contact the lecturers of FAC3701 telephonically, by making use of the telephone contact numbers provided below:

Lecturers	Office	Telephone number
Mr Y Mohamed	AJH van der Walt Building, 2-51	(012) 429 4414
Ms L Labuschagne	AJH van der Walt Building, 2-49	(012) 429 4694
Ms R Horn	AJH van der Walt Building, 2-53	(012) 429 3287
Mr J Riekert	AJH van der Walt Building, 2-42	(012) 429 2135

3 SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 02

1. The correct answer is (3).

1. This is correct, refer to par.5 of *IAS 8, Accounting policies, changes in accounting estimates and errors*.
2. This is correct, refer to par.5 of *IAS 8, Accounting policies, changes in accounting estimates and errors*.
3. This is incorrect, a change in accounting estimate does not affect the tax base of an asset or liability.
4. This is correct, refer to par.5 of *IAS 8, Accounting policies, changes in accounting estimates and errors*.
5. This is correct, refer to par.5 of *IAS 8, Accounting policies, changes in accounting estimates and errors*.

2. The correct answer is (4)

Calculation of cleaning costs incorrectly allocated to accounts receivable in the annual financial statements of T-bone Ltd for the year ended 28 February 2017.

	R
Expenses incorrectly allocated to accounts receivable account	786 600
Less VAT on expenses incorrectly allocated (786 600 x $\frac{14}{114}$)	(96 600)
	690 000
Effect in the financial statements - decrease in current tax expense (690 000 x 28%)	193 200

3. The correct answer is (4).

There will be no effect on profit for the year ended 28 February 2018 as the error is a prior period error and the error was corrected in the prior year.

LECTURER'S COMMENT

The prior period error note for the incorrect allocation of the cleaning costs to the accounts receivables account will be presented as follows in the notes to the annual financial statements for the year ended 28 February 2018.

SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 02 (continued)

T-BONE LTD
NOTES FOR THE YEAR ENDED 28 FEBRUARY 2018
Prior Period Error

Correction of cleaning costs paid incorrectly debited against accounts receivable account. The effect of the error has been accounted for retrospectively and comparative amounts have been appropriately restated. The effect of the correction on the results for 2017 is as follows:

	2017
	R
Increase in expenses (786 600 x 100/114)	690 000
Decrease in current tax expense (690 000 x 28%)	(193 200)
Decrease in profit	496 800
(Decrease) in accounts receivables/debtors	(786 600)
Decrease in VAT liability	96 600
	(690 000)
Decrease in current tax liability/SARS (690 000 x 28%)	193 200
Decrease in equity	(496 800)

4. The correct answer is (3).

The effect of the decrease in both the opening and closing inventory results in an increase in cost of sales, and a decrease in profit.

	2017
	R
Cost of sales	10 000
Opening Inventory	(20 000)
Purchases	xxx
Closing inventory	30 000

5. The correct answer is (2).

For the 2016 period the carrying amount of inventory is based on the first-in, first-out method and the tax base of inventory is based on the weighted average method, resulting in temporary differences for deferred tax purposes. The temporary differences arised in the 2016 period as the SA Revenue Service does not accept the inventory valuation method for tax purposes in prior periods. Therefore the deferred tax carrying amount and tax base is as follows for 2016:

SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 02 (continued)

	Carrying amount	Tax base
	R	R
2016	430 000	450 000

6. The correct answer is (3).

For the current financial year ended 28 February 2018 the carrying amount of inventory is based on the first-in, first-out method and the tax base of inventory is based on the weighted average method, resulting in temporary differences for deferred tax purposes. The temporary differences arose in the current period as the SA Revenue Service does not accept the inventory valuation method for tax purposes in the current period. Therefore the deferred tax balance for 2018 is calculated as follows:

	Carrying amount	Tax base	Temporary Difference	Deferred tax asset/ (liability) @ 28%
	R	R	R	R
Inventory	430 000	420 000	10 000	(2 800)

7. The correct answer is (4).

Calculation of the effect on retained earnings on 1 March 2016.

	R
Inventory on the first-in, first-out method	430 000
Inventory on the weighted average method	450 000
	(20 000)
Tax effect @ 28%	5 600
Decrease in retained earnings	14 400

LECTURER'S COMMENT

The change in accounting policy note will be presented as follows in the notes to the annual financial statements for the year ended 28 February 2018

SUGGESTED SOLUTION TO COMPULSORY ASSIGNMENT 02 (continued)

T-BONE LTD

NOTES FOR THE YEAR ENDED 28 FEBRUARY 2018

Change in accounting policy

The company changed its current inventory valuation method from the weighted average method to the first in, first-out method to give a reliable presentation of the effect of inflation on the company's profits. This change has been accounted for retrospectively and comparative amounts have been appropriately restated. The effect of the change for 2018 is as follows:

	2018	**2017**	**1/3/2016**
	R	**R**	**R**
Decrease/(Increase) in cost of sales	40 000	(10 000)	
[10 000 + 30 000]; [30 000 – 20 000]			
(Increase)/Decrease in deferred tax expense	(11 200)	2 800	
[40 000 x 28%]; [10 000 x 28%]			
Increase/(Decrease) in profit	28 800	(7 200)	
Increase/(Decrease) in inventory	10 000	(30 000)	(20 000)
(Increase)/Decrease in deferred tax liability	(2 800)	8 400	5 600
Increase/(Decrease in equity	7 200	(21 600)	(14 400)
(Decrease) in retained earnings	(21 600)	(14 400)	

8. The correct answer is (1).

   Calculation of the carrying amount for the industrial refrigerators for the year ended 28 February 2017 and 28 February 2018:

	R
Carrying amount 28 February 2017 (given)	6 375 000[1]
Less depreciation 10% reducing balance method (6 375 000 x 10%)	(637 500)
Carrying amount 28 February 2018	5 737 500

[1]Note the carrying amount at the beginning of the year is not affected as a result of the change in estimate. Changes in estimates are not accounted for retrospectively.

9. The correct answer is (5).
   Calculation of the tax base for industrial refrigerators for the years ended 28 February 2017 and 28 February 2018:

	R
Cost 1 March 2016	7 500 000
Tax allowance [7 500 000/6]	(1 250 000)
Tax base 28 February 2017	6 250 000
Tax allowance [7 500 000/6]	(1 250 000)
Tax base 28 February 2018	5 000 000

10. The correct answer is (2).

1. This is correct, refer to par. 4.63 of *the Conceptual Framework* and Descriptive accounting par. 2.6.4.
2. This is incorrect, refer to par. 4.57 of *the Conceptual Framework* and Descriptive accounting par. 2.6.4.
3. This is correct, refer to par. 4.64 of *the Conceptual Framework* and Descriptive accounting par. 2.6.4.
4. This is correct, refer to par. 4.61 of *the Conceptual Framework* and Descriptive accounting par. 2.6.4.
5. This is correct, refer to par. 4.59(a) of *the Conceptual Framework* and Descriptive accounting par. 2.6.4.

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