FASSET LEARNING PROGRAMME

- **FAC3701**
  - **Lecture 3 - 2018**

Admin

- Sign register
- Complete feedback form
- Exam date: 9 May 2018
- MyUnisa

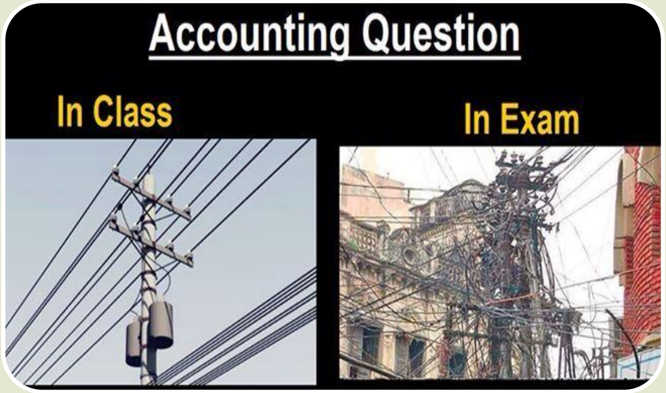
Please feel free to contact us

Semester 1 - FAC3701-18-S1@unisa.ac.za

Semester 2 - FAC3701-18-S2@unisa.ac.za

Mrs R Horn	012 429 3287
Mrs L Labuschagne	012 429 4694
Mr Y Mohamed	012 429 4414
Mr J Riekert	012 429 2135

Face-to-Face appointments



LECTURE 1

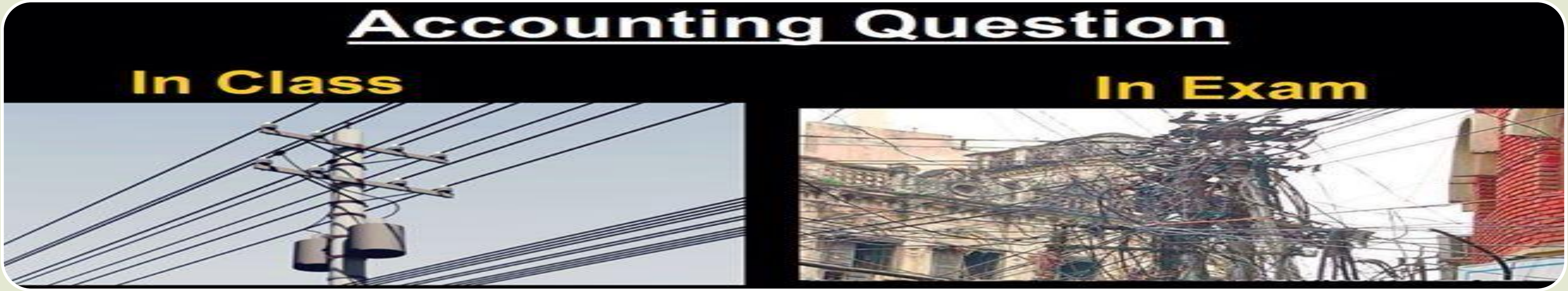
- Income taxes – IAS 12
- Conceptual Framework
- Presentation of financial statements – IAS 1
- Events after the reporting period – IAS 10

LECTURE 2

- Accounting policies, Δ in accounting estimates and errors – IAS 8
- Provisions, contingent liabilities and contingent assets – IAS 37
- Revenue from contracts with customers – IFRS 15
- Fair value measurement – IFRS 13

LECTURE 3

- Revenue from contracts with customers – IFRS 15
- Discussion – **Q1** in Tut103
- Exam technique
- Past exam question – May/June 2017 (paper 2)



Revenue from contracts with customers – IFRS 15

Revenue journals from Oct/Nov 2016

Q1 (b)Prepare the necessary journal entries to correctly record the sales tx with MT Ltd in info 6.2 above, in the accounting records of F Ltd for the year ended 29 Feb 2016.

		Debit R	**Credit R**
Accounts receivable / Debtors (SFP)	(80 000 – 8 000)	72 000	
Revenue / Sales (P/L)	(80 000 – 8 000) x 95%		68 400
Allowance for settlement discount (SFP)	(80 000 – 8 000) x 5%		3 600
Cost of sales (P/L)	(80 000 x 100/125)	64 000	
Inventory (SFP)			64 000

Revenue journals from Oct/Nov 2016

Q2 (b) Prepare the necessary journal entries for info (1) above, relating to all the revenue tx's that occurred during the year ended 29 Feb 2016, in the accounting records of BB Ltd.

		Debit **R**	**Credit** **R**
Accounts receivable / Debtors (SFP)	(12 500 x 45 x 30%)	168 750	
Commission received / Revenue (P/L)			168 750

Calculation (Allocation based on Stand Alone Selling Price)

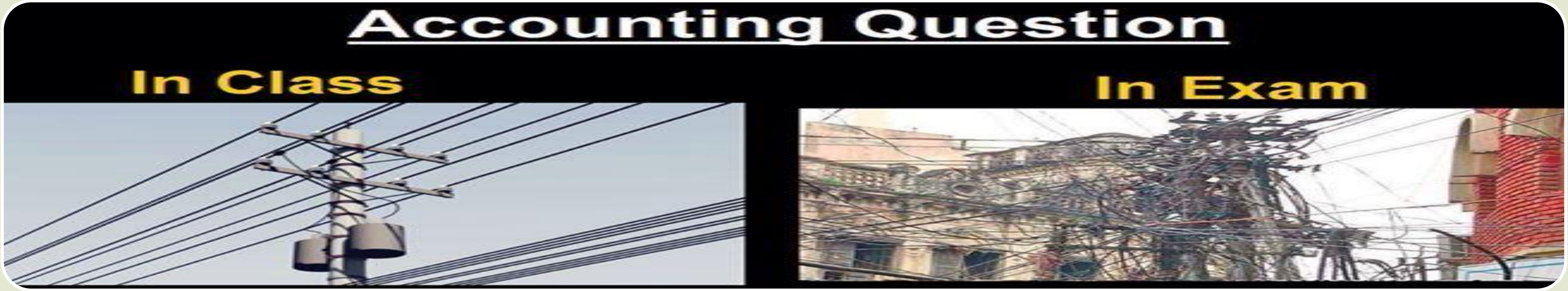
Product	Stand-alone SP
D coffee machine	R55 200
Maintenance plan	R4 800
Total	R60 000

Product	Allocated tx price	Calculation
D coffee machine	R51 520	(R55 200/R60 000 x R56 000)
Maintenance plan	R4 480	(R4 800/R60 000 x R56 000)
Total	R56 000	

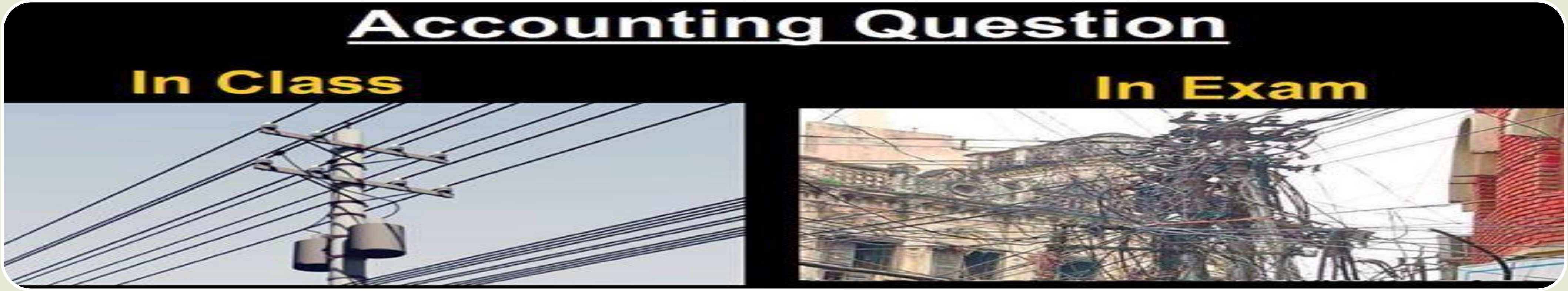
Revenue journals from Oct/Nov 2016

Q2 (b) Prepare the necessary journal entries for info (1) above, relating to all the revenue tx's that occurred during the year ended 29 Feb 2016, in the accounting records of BB Ltd.

		Debit R	Credit R
Bank (SFP)	Stand Alone SP %	56 000	
Revenue (P/L)			51 520
Contract liability / Income received in advance (SFP)			4 480
Contract liability / Income received in advance (SFP)	(4 480/36)	124	
Revenue (P/L)			124
Cost of sales (P/L)	(55 200 x 100/125)	44 160	
Inventory (SFP)			44 160



Discussion – **Q1** in Tut103



Past exam question – May/June 2017 (paper 2)

Question 1 (part A)

International Financial Reporting Standards

(a)	**Calculate the correct profit before tax**		
	Profit before tax	given	1 943 142
-	Change in accounting estimate	213 750 / (2 + 1) – 53 438	(17 812)
+	Revenue - ellipticals		88 262
=	Profit before tax		2 013 592

PbT is used as the starting point for the current tax calculation

Performance obligation	**Stand-alone SP**		**Allocated tx price**
Ellipticals (15 390 x 6)	92 340	92 340/107 340 x 102 600	88 262
Service plan (2 500 x 6)	15 000	15 000/107 340 x 102 600	14 338
	107 340		102 600

Over time
vs.
@ a point
in time

Question 1 (Part A)

(b) Current tax expense calculation	Details	R
Profit before tax		2 013 592
Exempt differences (non taxable or tax deductible)		83 700
Capital profit on sale of manufacturing machinery Depreciation – admin building Penalty on late submission of 1st provisional tax return	(358 000 – 350 000) x 20% given given	(1 600) 72 500 12 800
Profit after exempt differences		2 097 292
Temporary differences (taxable/deductible)		(100 252)
Depreciation – motor vehicle Tax allowance – motor vehicle	calculated in (a) 380 000 / 4	71 250 (95 000)
Depreciation – manufacturing machinery Tax allowance – manufacturing machinery	given (1 148 000 – 210 000) – 399 000	335 000 (539 000)
Profit on sale of manufacturing machinery Recoupment on sale of manufacturing machinery	(350 000 – 300 000) (350 000 – 210 000)	(50 000) 140 000
Allowance for credit losses – accounting Allowance for credit losses – tax	given (30 880 x 25%)	30 880 (7 720)
Contract liability (not included in pbt – taxable in CY)		14 338
Taxable income		1 997 040
Current tax expense @ 28%		559 171

Question 1 (Part A)

(c) Deferred tax movement calculation	CA	TB	TD	Deferred tax asset/(liability)
Allowance for credit losses	30 880	7 720	23 160	6 485
Manufacturing machinery	1 282 500	399 000	883 500	(247 380)
Motor vehicle	142 500	95 000	47 500	(13 300)
Contract liability – service plan	14 338	-	14 338	4 015
Deferred tax liability				(250 180)

CA: 213 750 – 71 250 **OR** 160 312 – 17 812
TB: calculated in (a)

		Balance at year end
Opening DT balance (liability)	given	230 043
Movement (250 180 – 230 043)	Credit DT (SFP) – Debit DT (P/L)	20 137
Closing DT balance (liability)	calculated	250 180

Question 1 (Part A)

(d) Income tax expense (excluding the tax rate reconciliation) **Major components of tax expense**	**2016**
Current tax expense Current period Under/(over)-provision in prior period	 559 171 -
Deferred tax expense Current period (100 252 x 28%) or ((250 180 – (230 043 – 7 933)) Change in tax rate (230 043 x 1/29)	20 137 28 070 (7 933)
	579 308

Question 1 (Part A)

(e) Pih-la-tease Ltd
Notes for the year ended 30 September 2016

2. <u>Error in respect of prior year</u>
During the year ended 30 September 2015 inventory that had been sold were incorrectly included in inventory at 30 September 2015. The effect of the correction has been accounted for retrospectively and comparative amounts have been appropriately restated. The effect of the correction of this error on the results of 2015 is as follows:

		2015 R
Increase in cost of sales Decrease in income taxation expense	 (83 500 x 28%)	83 500 (24 215)
Decrease in profit		59 285
Decrease in inventory Decrease in current taxation due (SA Revenue Service)		83 500 (24 215)
Decrease in equity		59 285

Question 1 (Part A)

3. Profit before tax
Included in profit before tax is a change in estimate relating to an increase in depreciation of R17 812 (R71 250 – R53 438), arising from the decision to depreciate motor vehicles on the straight-line method instead of the reducing balance method. This change will result in a decrease in depreciation in future periods of R17 812.

4. Contingent liability
On 1 September 2016, a customer was injured whilst using a leg press machine acquired from Pih-la-tease Ltd. The customer instituted a claim of R50 000 against Pih-la-tease Ltd as they allege that the legpress machine was faulty and of a substandard quality. At year end on 30 September 2016 the legal advisors of Pih-la-tease Ltd are of the opinion that the claim will probably not succeed.

5. Contingent asset
Pih-la-tease Ltd instituted a claim of R120 000 against La-tease Ltd for infringement of the registered tradename 'Pih-la-tease'. The court case is scheduled for 10 December 2016. According to the legal advisors of Pih-la-tease Ltd there is sufficient evidence against La-tease Ltd, therefore it is probable but not virtually certain that Pih-la-tease will be successful with their claim.

Question 1 (Part A)

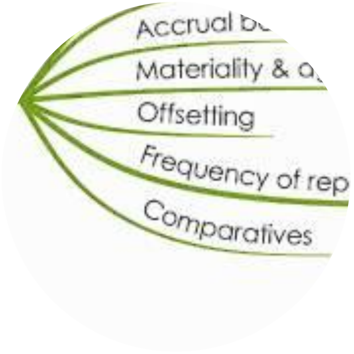
(f) Pih-la-tease Ltd
Extract from the statement of changes in equity for the year ended 30 September 2016

	Calculations	Retained earnings R
Balance at 1 October 2014	given	1 325 000
Changes in equity for 2015		
Total comprehensive income for the year (restated)	(849 715 – 59 285)	790 430
Balance at 30 September 2015		**2 115 430**
Changes in equity for 2016		
Total comprehensive income for the year	(2 013 597 – 579 310)	1 434 287
Dividends paid	given	(600 000)
Balance at 30 September 2016		**2 949 717**

Question 1 (part B)

3

1



4

1

3

Question 2

(a) Conceptual Framework for Financial Reporting 2010 discussion

The modification costs incurred of R1 150 000 should be capitalized as an asset if it meets the definition as well as the recognition criteria of an asset as set out in the Conceptual Framework for Financial Reporting 2010. If the definition is not met, the item should be expensed.

Definition of an asset:

A resource controlled by the entity as a result of past events from which future economic benefits are expected to flow to the entity.

Recognition criteria:

It is probable that any future economic benefit associated with the item will flow to the entity and the item has a cost of value that can be measured reliably.

Discussion and conclusion

The modification costs meet the definition and recognition criteria of an asset the modification costs can be capitalized as an asset as:
Machine Max is used for the production of goods and is under the control of the management of Medics Ltd.
The past event is the modification costs incurred on Machine Max on 1 Jan 2016. Future economic benefits are expected to flow to the entity as the modification of the asset will result in an increase in production and sales.
The modification costs incurred on Machine Max can be reliably measured at R1 150 000.

Question 2

(b)	Debit R	Credit R
Repair costs / Warranty expense (P/L)	650 000	
Warranty provision (SFP)		650 000
Being provision for repair costs incurred		

	Debit R	Credit R
Accounts receivable / Debtors / Reimbursement on warranty (SFP)	97 500	
Repair costs (P/L) (650 000 x 15%)		97 500
Recoupment from Robinsons Engineer Ltd that is virtually certain		

Question 2

(c1) Account for a contract with a **customer** when **all** the following criteria are met:

Parties to contract have **approved** the contract and are **committed** to perform

Each party's **rights** can be identified (Transfer of g/s)

Payment terms can be identified

Contract has **commercial substance**

Collection of consideration is **probable** (customer's **ability** and **intention** to pay)

Question 2

(c2)		Debit R	Credit R
Contract asset / Accounts receivable (SFP)		770 000	
Sales / Revenue (P/L)	(1 000 000 + 100 000) x 560 000 / 800 000		770 000
Being recognition of revenue from contract with customer			

Question 2

(d) <u>Change in accounting policy</u>

During the year, the company changed the method used to value inventory from the weighted average method to the first-in, first-out (FIFO) method. Management is of the opinion that this will result in fairer presentation of the financial position and operating results of the company.

This change in accounting policy has been accounted for retrospectively and the comparative amounts have been appropriately restated. The effect of the change is as follows:

	2016 **R**	**2015** **R**	**2014** **R**
Decrease/(Increase) in cost of sales (40 000 – 30 000); (50 000 – 30 000)	10 000	(20 000)	
(Increase)/Decrease in taxation expense (10 000 x 28%); (20 000 x 28%)	(2 800)	5 600	
Increase/(Decrease) in profit	7 200	14 400	
Increase in inventory	40 000	30 000	50 000
Increase in deferred tax liability (40 000 x 28%); (30 000 x 28%); (50 000 x 28%)	(11 200)	(8 400)	(14 000)
Increase in equity	28 800	21 600	36 000
Adjustment to retained earnings at the beginning of 2015			36 000

Question 2

(d) Provision for restructuring costs			
		R	R
Carrying amount at the beginning of the year		**375 000**	**-**
Amount used during the year Unused amounts reversed during the year Provisions made during the year	(200 000 + 75 000) (300 000 – 200 000) (300 000 + 75 000)	(275 000) (100 000) -	- - 375 000
Carrying amount at the end of the year		**-**	**375 000**
A provision was recognized for severance packages and fines payable on cancellation of lease contract as a result of Project Owl.			

Question 2

(e) Deferred tax calculation	CA	TB	TD	Deferred tax asset/(liability)
Machinery modified	575 000	766 667	191 667	53 667
Machinery	1 375 000	2 200 000	825 000	231 000
‘Contingent asset’	97 500	-	97 500	(27 300)
Contract asset	770 000	-	770 000	(215 600)
Warranty provision	650 000	-	650 000	182 000
Inventory	460 000	420 000	40 000	(11 200)
Deferred tax asset				212 567

- 1 150 000 x 50% = 575 000
- 1 150 000 – 1 150 000/3 = 766 667
- 2 750 000 – (5 500 000 x 25%)
- 3 300 000 – (5 500 000x 20%)

Questions