JUNE 2012 EXAMINATION

DATE: 7 JUNE 2012

TIME: 09H00 – 13H00  TOTAL: 100 MARKS

DURATION: 4 HOURS  PASS MARK: 40%

(BUS-AC3)

FINANCIAL ACCOUNTING 3

THIS EXAMINATION PAPER CONSISTS OF 2 SECTIONS:

SECTION A: CONSISTS OF 1 COMPULSORY QUESTION
ANSWER THE QUESTION (40 MARKS)

SECTION B: CONSISTS OF 4 QUESTIONS
ANSWER ANY THREE OF THE QUESTIONS (60 MARKS)

INSTRUCTIONS:

1. Read the following instructions carefully before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers exactly as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated.
   Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated.
    The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall after the examination has taken place.

NOTE: YOU ARE ALLOWED TO USE A NON-PROGRAMMABLE CALCULATOR. AN ACCOUNTING ANSWER BOOK WILL BE PROVIDED.
**SECTION A: COMPULSORY QUESTION**  
(40 MARKS)

**ANSWER THE QUESTION**

**QUESTION 1**

A Limited purchased 60 000 shares in B Limited on January 20.0 when B Limited’s retained earnings amounted to R60 000. On 1 January 20.1 A Limited acquired 27 000 shares in C Limited, when the retained earnings of C Limited amounted to R40 000. In both acquisitions the assets and liabilities were fair valued at the date of acquisition and there were no unaccounted for contingent liabilities.

You are required to:

Use the information in order to complete the following:

(a) Consolidated Income Statement for the year ended 31 December 20.3.

(b) Consolidated Statement of Changes in Equity for the year ended 31 December 20.3.

The following trial balances were extracted from the books of the three companies at 31 December 20.3:

<table>
<thead>
<tr>
<th></th>
<th>A LIMITED</th>
<th>B LIMITED</th>
<th>C LIMITED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital – R1 ordinary shares</td>
<td>100 000</td>
<td>80 000</td>
<td>–</td>
</tr>
<tr>
<td>Share capital – R2 ordinary shares</td>
<td>–</td>
<td>60 000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings – beginning of the year</td>
<td>200 000</td>
<td>150 000</td>
<td>110 000</td>
</tr>
<tr>
<td>Non distributable reserve</td>
<td>–</td>
<td>40 000</td>
<td>–</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>345 000</td>
<td>220 000</td>
<td>95 000</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>266 500</td>
<td>284 000</td>
<td>136 500</td>
</tr>
<tr>
<td>Investment in B at cost</td>
<td>110 000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Investment in C at cost</td>
<td>100 000</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>65 000</td>
<td>100 000</td>
<td>100 000</td>
</tr>
<tr>
<td>Income Tax expense</td>
<td>103 500</td>
<td>66 000</td>
<td>28 500</td>
</tr>
<tr>
<td>Transfer to non distributable reserve</td>
<td>–</td>
<td>40 000</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>645 000</strong></td>
<td><strong>490 000</strong></td>
<td><strong>265 000</strong></td>
</tr>
</tbody>
</table>

- The fair value of the available for sale financial assets is equal to the cost price thereof.
- Goodwill was not considered impaired at year-end.
- In both companies each share carries one vote.

[40]
QUESTION 1

A Ltd acquires a broadcasting license in terms of a contractual agreement at a cost of R10 million on 1 January 20.5. The license may be renewed indefinitely every three years at a cost of R500 for each renewal.

You are required to:

Discuss the accounting treatment of the broadcasting license in the financial statements of A Ltd in terms of international financial reporting standards.

The directors of A Ltd have confirmed their intention to renew the license every three years and there is evidence to support their ability to do so.

The licensing agreement provides for the following:

- A Ltd reserves the exclusive right in SA to broadcast international sporting activities in SA.
- The license may be renewed indefinitely at the end of every three years at a cost of R500 per renewal.
- The broadcasting authority reserves the right to renew the license, in which event they will issue notice to A Ltd that these broadcasting rights will terminate within five years from the date of such notice.
- All revenues from advertising are for the exclusive benefit of A Ltd.
- The broadcasting license may not, in any way, be sold to, transferred or exchanged with another party.

In the past, the licensing authority has always renewed other broadcasting licenses. There is no active market for broadcasting licenses in South Africa.

As long as the broadcasting license is renewable, it will continue to contribute to its net cash inflows of A Ltd indefinitely, (from the advertising revenue and other fee income). [20]
QUESTION 2

Charlie Ltd acquired a machine on 2 January 20.1 that needs to be inspected every 8 000 hours. The cost price of the machine is R2 000 000 and it is estimated that the cost of a major inspection will amount to R200 000. Major inspections will have to be carried out every two years. The useful life of the machine is estimated to be eight years and the financial year of this company ends on 31 December.

You are required to:

Calculate the depreciation for and carrying amounts at 31 December 20.1 and 20.2 if everything runs according to plan. [20]

AND / OR

QUESTION 3

The information below pertains to the company ABC Ltd.

Cost of machinery on 1 July 20.3 R800 000
Depreciation 20% straight-line
Impairment loss on 30 June 20.4 R200 000

You are required to:

Calculate the reversal of the impairment loss on 30 June 20.6 if the recoverable amount has been estimated at R400 000 during June 20.6. The company does not follow a policy of revaluation. [20]

AND / OR
QUESTION 4

The following information is applicable to INVEST Limited, a listed company:

1. Excerpts from the statement of changes in equity:

<table>
<thead>
<tr>
<th>Retained earnings</th>
<th>20.8</th>
<th>20.7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
<td>R</td>
</tr>
<tr>
<td>Profit for the period</td>
<td>1 800 000</td>
<td>1 200 000</td>
</tr>
<tr>
<td>Preference dividends paid (paid on year end)</td>
<td>(12 000)</td>
<td>(12 000)</td>
</tr>
<tr>
<td>Ordinary dividends (paid on year end)</td>
<td>(250 000)</td>
<td>(250 000)</td>
</tr>
</tbody>
</table>

2. INVEST Limited issued shares as follows:

<table>
<thead>
<tr>
<th>Ordinary shares</th>
<th>12% non-cumulative non-redeemable preference shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 20.7</td>
<td>300 000</td>
</tr>
<tr>
<td>31 March 20.7</td>
<td>50 000</td>
</tr>
<tr>
<td>31 January 20.7</td>
<td>35 000</td>
</tr>
</tbody>
</table>

3. The following is applicable to the shares issued by INVEST Limited:

   i. On 31 March 20.7 50 000 shares were issued for cash. The cash was received on 30 June 20.7.

   ii. On 31 January 20.7 a capitalisation issue took place.

You are required to calculate:

(a) the earnings and

(b) the dividend per ordinary share for INVEST Limited for the years ended 20.8 and 20.7.  

[20]

Section A: 40 marks

[60]

Section B: 60 marks

TOTAL: 100 MARKS