MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS MANAGEMENT AND APPLIED SOCIAL SCIENCES

DEPARTMENT: APPLIED ACCOUNTING SCIENCES

MODULE: FINANCIAL REPORTING

CODE: ACCT 411

SESSIONAL EXAMINATIONS

APRIL 2024

DURATION: 3 HOURS

EXAMINER: DR P KORERA

INSTRUCTIONS

1. *This paper contains **5** questions carrying 20 marks each*
2. *Answer **all questions**.*
3. *Start a new question on a fresh page*
4. *Total marks 100*

Additional material(s): Non programable *Calculator*

Question 1 [20 Marks]

(A)

R&A Ltd, a company conducting business in South Africa, purchased inventory from an overseas supplier for FC200 000 on 30 September 2021, when R1 = FC1. The supplier will only be paid on 31 December 2023. No forward cover was taken out for the transaction. The exchange rates were31 December 2023. No forward cover was taken out for the transaction. The exchange rates were as follows:

31 December 2021	R1 = FC0,80
31 December 2022	R1 = FC1,00
31 December 2023	R1 = FC1,25

R&A Ltd uses a perpetual inventory system to account for its inventories and has a 31 December year end.

The inventory was sold as follows:

2021: 75%

2022: 25%

The selling price is cost plus 100%. Assume the sales is on credit.

Required:

Show the journal entries for the above transaction in each of the three years ending at 31 December. **(**10 marks)

(B)

KP Ltd, operating in South Africa, entered into a sales transaction with a foreign company on 30 September 2021. Since KP Ltd anticipated that the rand would deteriorate in the foreseeable future, the transaction was denominated in FC. In terms of this transaction, KP Ltd delivered inventory valued at FC200 000 to the foreign company on 30 September 2021 when the exchange rate was R1 = FC1. The foreign company will settle the amount outstanding in respect of the inventory sold to them on 31 December 2023. No forward cover was taken out. KP Ltd has a 31 December year end. The relevant exchange rates are as follows:

31 December 2021	R1 = FC0.80 or FC1 = R1.25
31 December 2022	R1 = FC1.00 or FC1 = R1.00
31 December 2023	R1 = FC1.25 or FC1 = R0.80

Required**:**

Show the journal entries for the above transaction in each of the three years ending at 31 December. (10 marks)

Question 2 [20 Marks]

(a) MLF, a public limited company, has entered into several share related transactions during the period and wishes to obtain advice on how to account for them.

On 1 April 2023, MLF granted 500 share appreciation rights (SARs) to its 300 managers. All of the rights vested on 31 March 2025, but they can be exercised from 1 April 2025 up to 31 March 2027. At the grant date, the value of each SAR was $10 and it was estimated that 5% of the managers would leave during the vesting period. The fair value of each SAR is as follows:

Date	**Fair value** ($)
31 March 2024	9
31 March 2025	11
31 March 2026	12

All the managers who were expected to leave employment did leave the company as expected before 31 March 2025. On 31 March 2026, 60 managers exercised their options when the intrinsic value of the right was $10.50 and were paid in cash.

MLF is confused as to whether to account for the SARs under IFRS 2 *Share-based Payment* or IFRS 13 *Fair Value Measurement* and would like advice as to how the SARs should have been accounted for between the grant date and 31 March 2026. (8 marks)

(b) During the year to 30 September 2023 HD built a new mining facility to take advantage of new laws regarding onshore gas extraction. The construction of the facility cost $10 million, and to fund this Hudson took out a $10 million 6% loan on 1 October 2022, which will not be repaid until 2026. The 6% interest was paid on 30 September 2023. Construction work began on 1 October 2022, and the work was completed on 31 August 2023. As not all the funds were required immediately, HD invested $3 million of the loan in 4% bonds from 1 October 2022 until 31 January 2023. Mining commenced on 1 September 2023 and is expected to continue for 10 years.

As a condition of being allowed to construct the facility, HD is required by law to dismantle it on 1 October 2033. HD estimated that this would cost a further $3 million.

As the equipment is extremely specialised, HD invested significant resources in recruiting and training employees. HD spent $600 000 on this process in the year to 30 September 2023, believing it to be worthwhile as it anticipates that most employees will remain on the project for the entire 10-year duration.

HD has a cost of capital of 6%.

Required:

Show, using extracts, the correct financial reporting treatment for the above items in the financial statements for HD for the year ended 30 September 2023.

(12marks)

Question 3 [20 Marks]

(a) Entities are investing more time and money in implementing sustainable development practices. A key sustainable development goal set by many entities is to minimise the impact of business operations on the environment. Margie is considering preparing extensive disclosures about its sustainable development goals, including its environmental impacts.

Required:

Discuss recent developments in the area of sustainability reporting and the potential benefits that might arise when an entity discloses its impact on the environment to its stakeholders. (12 marks)

(b) On 1 June 2023, CL received written confirmation from a local government agency that it would receive a $1 million grant towards the purchase price of a new office building. The grant becomes receivable on the date that CL transfers the $10 million purchase price to the vendor.

On 1 October 2023 CL paid $10 million in cash for its new office building, which is estimated to have a useful life of 50 years. By 1 December 2023, the building was ready for use. CL received the government grant on 1 January 2024.

Required:

Discuss the possible accounting treatments of the above in the financial statements of CL for the year ended 31 December 2023. (8 marks)

QUESTION 4 [20 Marks]

SPKN Ltd has a 31 December year-end. The following transactions related to SPKN Ltd:

TRANSACTION 1

SPKN Ltd acquired 20 000 Company XYZ Ltd shares for R12.50 per share on 1 June 2023. Transaction cost amounted to R2 500. The fair value of these shares as at 31 December 2023 was R11.00 per share and R11.50 as at 31 December 2024. Company SPKN Ltd acquired these shares for speculative purposes. - (6 marks)

TRANSACTION 2

Convertible debentures amounting to R250 000 were issued on 1 January 2023 by SPKN Ltd. The debentures have a nominal value of R2 per debenture and pay interest at 14% per annum until conversion. The debentures are convertible into ordinary shares with a nominal value of R2 each at a rate of one share for one debenture at the option of the debenture holders at any time before 31 December 2027. All fair interest rate for similar debentures without conversion rights is 16%.

Required

For each investment, provide all the journal entries since acquisition up until 31 December 2024. Ignore tax.

NB. Round effective interest rates calculated to four decimals. (14 marks)

Question 5 [20 Marks]

The following trial balance relates to H&W at 31 March 2024:

	$000	$000
Equity shares of 50 cents each		6 000
Retained earnings at 1 April 2023		1 400
8% convertible loan note (note (i))		30 000
Property – at cost (land element $25m (note (ii)))	75 000	
Accumulated depreciation – 1 April 2023 – building		10 000
Current tax (note (iii))		800
Deferred tax (note (iii))		2 600
Inventory at 31 March 2024	36 000	
Trade receivables (note (iv))	47 100	
Bank		11 500
Trade payables		24 500
Revenue		339 650
Cost of sales	207 750	
Distribution costs	27 500	
Administrative expenses (note (iv))	30 700	
Loan interest paid (note (i))	2 400	
	426 450	426 450

The following notes are relevant:

1. The 8% \$30 million convertible loan note was issued on 1 April 2023 at par. Interest is payable in arrears on 31 March each year. The loan note is redeemable at par on 31 March 2026 or convertible into equity shares at the option of the loan note holders on the basis of 30 equity shares for each \$100 of loan note. H&W's finance director has calculated that to issue an equivalent loan note without the conversion rights it would have to pay an interest rate of 10% per annum to attract investors.

Applicable discount rates are:

	8%	10%
End of year 1	0.93	0.91
End of year 2	0.86	0.83
End of year 3	0.79	0.75

2. On 1 April 2023 H&W decided to revalue its property. The market value of the property on this date was \$80 million of which \$30 million related to the land. At this date, the remaining estimated life of the property was 20 years. H&W does not make a transfer to retained earnings in respect of excess depreciation on the revaluation of its assets. All depreciation is charged to cost of sales.

3. Current tax represents the under/over provision of the tax liability for the year ended 31 March 2023. The required provision for income tax for the year ended 31 March 2024 is \$19.4 million. The difference between the carrying amounts of the assets of H&W (including the property revaluation in note (ii) above) and their (lower) tax base at 31 March 2024 is \$27 million. H&W's rate of income tax is 25%.

4. On 31 March 2024 H&W factored (sold) trade receivables with a book value of $10 million to E&F. H&W received an immediate payment of $8.7 million and will pay E&F 2% per month on any uncollected balances. Any of the factored receivables outstanding after six months will be refunded to E&F. H&W has derecognised the receivables in full and charged $1.3 million to administrative expenses. If H&W had not factored these receivables it would have made an allowance of $600 000 against them.

Required:

(a) Prepare the statement of profit or loss and other comprehensive income for

H&W for the year ended 31 March 2024. (8 marks)

(b) Prepare the statement of financial position as at 31 March 2024. (12 marks)

Note: Your answers and workings should be presented to the nearest $000.

END OF EXAMINATION