

May/June 2023

FAC3701

General Financial Reporting

100 marks

3 hours

THIS PAPER CONSISTS OF TWELVE (12) PAGES

INSTRUCTIONS:

Please remember to complete the Honesty Declaration.

The FAC3701 require invigilation via the INVIGILATOR APP.

Follow these steps to submit your take-home answer file.

1. Go to the myExams <https://myexams.unisa.ac.za/portal> and login with your Unisa credentials.
2. Click on the **FAC3701 examination site** on the horizontal navigation bar.
3. Click on the **eAssessment** tool in the left-navigation menu.
4. A new screen will open. Scroll down to Submission. Make sure that all your pages are converted into a single PDF document for uploading.
5. Under **Attachments**, click on the **Choose File** button to browse for a file on your device.
6. Read the **Honor Pledge** statement. If you agree with the statement, tick the checkbox.
7. Verify your file details to ensure that you are uploading the correct answer file to the correct course and assessment number.
8. Click on the **Submit** button to complete your assessment submission. Once you have submitted your assessment, you will receive a confirmation message on the screen.

PLEASE NOTE:

1. The paper consists of **TWO (2)** questions.
2. All questions must be answered.
3. All calculations must be shown.
4. Each question attempted, **must commence on a new (separate) page.**
5. **PROPOSED TIME-TABLE:** (Avoid deviating from this as far as possible.)

Question number	Subject	Marks	Time (minutes)
1	Accounting policies, changes in accounting estimates and errors, Income taxes and Revenue.	53	95
2	Conceptual Framework, Presentation of financial statements, Accounting policies, changes in accounting estimates and errors, Events after the reporting period, Income taxes, Revenue and Provisions, contingent liabilities and contingent assets.	47	85
TOTAL		100	180

[TURN OVER]



	FAC3701
Date:	19 May 2023

INSTRUCTIONS ON THE DAY OF ASSESSMENT:

- Ensure you are connected to the internet in order to log into the Invigilator App and scan this QR code.
- If you encounter difficulty in scanning the QR code, you can alternatively enter the Exam Access Code below the QR code to start the invigilation.
- Unless otherwise specified by your institution, note that you can only scan this QR code once. If your assessment has multiple online sections, tests or attempts, you should NOT finish the invigilation until your entire assessment has been completed.
- Only scan the QR code when the assessment formally commences.
- **The QR code is only scannable for a limited time and it should therefore be scanned as soon as possible to start the invigilation.**
- Once the QR code is scanned, ensure your media volume is turned up and place your smartphone next to you. The Invigilator App will notify you with a notification beep when you are required to action a request, which you should then perform.
- We recommend that you keep your smartphone on charge for the duration of the assessment.
- If you only have one device you may access your assessment in the application by pressing the 'Access Exam' button in the top right corner of your app.
- **Keep the Invigilator App open on your cell phone for the full duration of the assessment. You are not allowed to minimise or leave the app.**
- Ensure you are connected to the internet in order to commence the invigilation as well as at the end of the assessment. No internet connection is required during the assessment.
- You have to **adhere to the assessment time limit communicated to you by your institution** as the time displayed in the Invigilator App could differ from the time allocated to complete your assessment.
- You can click the "Finish Assessment" button in the app if you finish your assessment early.
- **If you are performing a written or Scan-and-Upload assessment:**
 - The Invigilator App may request you to take a picture of every page of your answer sheet at the end of the assessment. **Unless otherwise specified by your institution, this does NOT replace the normal upload of your script to your institutions online portal**
 - After completing invigilation and following all app instructions, you must upload your Invigilation App data. If however there is a delay in the upload of the app data at the end of the assessment, you should prioritise the upload of your script to your university portal and you can temporarily minimise the app to do so. Uploading of app data is not time sensitive and you can come back and do it after you have successfully uploaded your script to the exam portal.
- Should you encounter any technical difficulty, please WhatsApp The Invigilator Helpdesk on 073 505 8273.

YOUR EXAM QR CODE & EXAM ACCESS CODE



Exam Access Code: 6088e5aa

Examination rules

- Students must upload their answer scripts in a single PDF file (answer scripts must not be password protected or uploaded as “read only” files).
- NO e-mailed scripts will be accepted.
- Students are advised to preview submissions (answer scripts) to ensure legibility and that the correct answer script file has been uploaded.
- Students are permitted to resubmit their answer scripts should their initial submission be unsatisfactory.
- Incorrect file format and uncollated answer scripts will not be considered.
- Incorrect answer scripts and/or submissions made on unofficial examinations platforms (including the invigilator cellphone application) will not be marked and no opportunity will be granted for resubmission.
- A mark awarded for an incomplete submission will be the student’s final mark. No opportunity for resubmission will be granted.
- A mark awarded for illegible scanned submission will be the student’s final mark. No opportunity for resubmission will be granted.
- Submissions will only be accepted from registered student accounts.
- Students who have not utilised invigilation or proctoring tools will be subjected to disciplinary processes.
- Students have 48 hours from the day of their examination to upload their invigilator results from the Invigilator App. Failure to do so will result in students deemed not have participated in the online invigilation.
- Students suspected of dishonest conduct during the examinations will be subjected to disciplinary processes. Unisa has a zero tolerance for plagiarism and/or any other forms of academic dishonesty.
- Students are provided thirty minutes to submit their answer scripts after the official examination time.
- Submissions made after the official examination time will be rejected by the examination regulations and will not be marked.
- Students experiencing network or load shedding challenges are advised to apply for an aegrotat and submit supporting evidence within three days of the examination session.
- Students experiencing technical challenges should contact the SCSC on 080 000 1870 or via e-mail Examenquiries@unisa.ac.za or refer to the Get-Help resource for the list of additional contact numbers. Communication received from your myLife account will be considered.

QUESTION 1 (53 marks)(95 minutes)

Roger Ltd is a manufacturer of various types of washing machines and dishwashers.

The following is an extract of Roger Ltd trial balance for the year ended 31 December 2021:

	Notes	Debit R	Credit R
Minibus at cost	1	1 600 000	
Accumulated depreciation: Minibus	1		160 000
Delivery vehicles at cost	2	380 000	
Accumulated depreciation: Delivery vehicles	2		219 687
Accounts receivable	4	30 000	
Accounts payable	5		40 000
Profit before tax	7		1 450 000

The profit before tax in the above trial balance includes all the below mentioned additional information, except where otherwise stated.

Additional information

- On 1 January 2021 a Minibus with an original cost of R1 200 000, was involved in a car accident and was damaged beyond repair. A claim was lodged with the company's insurers and the company received proceeds of R1 250 000. The carrying amount and tax base of the Minibus on the day of the accident amounted to R960 000 and R900 000 respectively. On 30 June 2021 the company purchased a new Minibus for R1 600 000 to replace the abovementioned Minibus. The tax base of the new Minibus on 31 December 2021 amounted to R1 400 000.
- The delivery vehicles were acquired on 1 January 2019 at a cost of R380 000. Delivery vehicles are depreciated according to the reducing balance method at 25% per annum. However, after a review of the draft financial statements for the year ended 31 December 2021 the directors' decided to change the depreciation method to the straight-line method. The expected useful lives of the delivery vehicles on 31 December 2021 was estimated to be 2 years with a residual value of Rnil. The change in the method of depreciation in the accounting records of Roger Ltd **have not been recorded** as yet for the financial year ended 31 December 2021. The tax base of the delivery vehicles at 31 December 2020 and 31 December 2021 amounted to R190 000 and R95 000 respectively.
- On 31 December 2021 Roger Ltd sold six laundry machines each including a two-year service plan for a total amount of R102 600 cash. A customer can acquire a laundry machine without a two-year service plan for R15 390 each. Roger Ltd also regularly sells a two-year service plan to customers at a stand-alone selling price of R2 500 each. This sales transaction **has not been recorded** in the accounting records of Roger Ltd for the year ended 31 December 2021.
- The accounts receivable balance in the above trial balance consists only of rent paid in advance for the property that Roger Ltd currently occupies. The rent paid in advance relates to the rental for January 2022 which was already paid in December 2021. The accounts receivable balance at the end of the previous financial year amounted to Rnil. Included in profit before tax for the year ended 31 December 2020 is an amount of R100 000 which was incorrectly accounted for as maintenance

QUESTION 1 (continued)

expenses instead of accounts receivable (debtor). The SA Revenue Services indicated that they will reopen the tax assessment for the financial year ended 31 December 2020.

5. The accounts payable balance in the above trial balance consists only of unearned sales revenue received in advance for lay away sales of goods which will be delivered in January 2022 when the buyer makes the final payment. The accounts payable at the end of the previous financial year amounted to Rnil. The sales revenue received in advance is included in gross income for tax purposes.
6. On 20 December 2020 the board of directors of Roger Ltd declared and approved ordinary dividends to its shareholders. The dividend tax due amounted to R168 164. The dividends and dividend tax were correctly recorded in the accounting records of Roger Ltd for the financial year ended 31 December 2020. All the shareholders of Roger Ltd are natural persons. The dividends and dividends tax were paid on 10 January 2021. These payments **have not been recorded** yet in the accounting records of Roger Ltd for the year ended 31 December 2021.
7. The following items are also included in the abovementioned profit before tax:
 - 7.1. VAT penalties paid of R12 000.
 - 7.2. Donations of R120 000 paid, of which R30 000 are not allowed for tax purposes.
 - 7.3. R11 000 employees tax (PAYE) paid during the month of December 2021 in respect of salaries and wages for November 2021.
 - 7.4. Foreign income amounting to R220 000 which is not taxable in South Africa in terms of a double taxation agreement. The company paid foreign taxes of R30 000 on this income.
 - 7.5.1 Depreciation delivery vehicles R53 437.
 - 7.5.2 Depreciation Minibus R160 000.
 - 7.6 Dividends received in respect of listed investments and unlisted investments in South Africa amounting to R190 000.
 - 7.7 Profit on Minibus destroyed in car accident amounting to R290 000.
- 8 The company provides for deferred tax on all temporary differences using the statement of financial position approach. There is certainty beyond any reasonable doubt that the company will have sufficient taxable profit in future against which any unused tax losses can be utilized. There are no other temporary differences except those mentioned in the question.
- 9 The SA Normal tax rate changed from 29% in 2020 to 28% in 2021. The dividend tax rate is 20%. All capital gains are taxable at 80%.

QUESTION 1 (continued)**REQUIRED:**

		Marks
(a)	With reference to the sale of the laundry machines mentioned in additional information (3) above, list three methods Roger Ltd can adopt to estimate the stand-alone prices of the laundry machines and service plan. Assume the stand-alone prices was not available to Roger Ltd on 31 December 2021. Your answer must comply with the requirements of <i>IFRS 15, Revenue</i> from contracts with customers.	3
(b)	Prepare the necessary journal entry to correctly record the transaction in additional information (6) in the accounting records of Roger Ltd for the year ended 31 December 2021. Your answer must comply with the requirements of <i>International Financial Reporting Standards (IFRS)</i> . Journal narrations are not required. No abbreviations for general ledger count names may be used. Indicate in your journals if it is a statement of financial position (SFP) or statement of profit or loss and other comprehensive income (P/L) general ledger account.	4
(c)	Calculate the correct profit before tax in the statement of profit or loss and other comprehensive income of Roger Ltd for the year ended 31 December 2021, taking into account all the above-mentioned information. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).	8
(d)	Calculate the deferred tax balance in the statement of financial position of Roger Ltd for both the years ended 31 December 2020 and 31 December 2021, using the statement of financial position approach , according to the requirements of <i>IAS 12, Income taxes</i> . Indicate if the balances are a deferred tax asset or liability in the statement of financial position.	10½
(e)	Using your answers in (c) and (d) above, calculate the current tax expense in the statement of profit or loss and other comprehensive income of Roger Ltd for the year ended 31 December 2021. Your answer must comply with the requirements of <i>IAS 12, Income taxes</i> . The movement in temporary differences in the current tax calculation should be calculated using the statement of financial position approach.	6½
(f)	Disclose only the income tax expense note (including the tax rate reconciliation, using R-values), to the annual financial statements of Roger Ltd for the year ended 31 December 2021 . Your answer must comply with the requirements of <i>IAS12, Income taxes</i> . No accounting policy notes are required. Comparative figures are not required.	11

QUESTION 1 (continued)**REQUIRED (continued):**

		Marks
(g)	Disclose information (2) and (4) above in the notes to the annual financial statements of Roger Ltd for the year ended 31 December 2021 according to the requirements of only <i>IAS 8, Accounting policies, changes in accounting estimates and errors</i> . No accounting policy notes are required. Comparative figures are required	10
		53

<p>Please note:</p> <p>Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).</p> <p>All calculations must be shown.</p> <p>Calculations are to be done to the nearest Rand.</p>	
--	--

[53]

QUESTION 2 (47 marks) (85 minutes)

THIS QUESTION CONSISTS OF TWO INDEPENDENT PARTS.

PART A (43 Marks) (78 minutes)

Mytoys Ltd is a manufacturer of a wide range of toys. The annual financial statement of Mytoys Ltd for the year ended 31 December 2022 will be presented to the board of directors for authorization for issue on 24 February 2023.

You are presented with the following additional information.

ADDITIONAL INFORMATION**1. Change in method of inventory valuation**

After the draft annual financial statements of Mytoys Ltd for the year ended 31 December 2022 had been prepared, the directors decided to change the current inventory valuation method from the weighted average method to the first-in, first-out method. The directors are of the opinion that this will result in a fairer presentation of the financial position and operating results of the company. The following is a summary of the inventory, according to the different valuation methods, of Mytoys Ltd on the respective dates:

	Weighted average R	First-in, first-out R	Difference R
31 December 2020	390 000	440 000	50 000
31 December 2021	300 000	330 000	30 000
31 December 2022	420 000	460 000	40 000

The SA Revenue Service indicated that they will **not** accept the new inventory valuation method for tax purposes and they will **not** reopen the previous year's tax assessments.

2. Sale of 250 Didi dolls

On 20 December 2022 Mytoys Ltd sold 250 Didi dolls to Kiddie's Learners' School for R20 000 cash. Kiddies' Learners' School immediately 'took title and accepted billing' for the 250 Didi dolls sold but requested Mytoys Ltd to postpone delivery until 15 January 2023 as Kiddie's Learners' School was closed during the school holidays. Mytoys Ltd stored the 250 Didi dolls separately in their warehouse ready for delivery and clearly marked it as sold.

3. Refund policy – Quad bikes

Mytoys Ltd introduced a policy in the previous financial year to refund customers for Quad bikes, within two (2) months from the date of sale, if the customer has a valid complaint regarding the quality of the Quad bikes supplied to them. This refund policy is specifically included in the sale agreement between Mytoys Ltd and their customers.

QUESTION 2 PART A (continued)

A provision for refunds, amounting to R170 000, was made in the annual financial statements of Mytoys Ltd for the year ended 31 December 2021 (2020: Rnil), based on the past sales history. During the current financial year R60 000 was paid to dissatisfied customers for Quad Bikes returned, of which R19 400 related to sales of Quad Bikes for the year ended 31 December 2021.

The financial director estimated that R156 000 will be refunded to dissatisfied customers in the first two months of the next financial year, relating to Quad Bikes sold during the year ended 31 December 2022.

All the transactions relating to the payments and provisions for refunds for the current year **have not been recorded** yet in the accounting records of Mytoys Ltd for the year ended 31 December 2022.

4. Purchase of Machine Elway

- 4.1. On 1 January 2022 machine Elway was acquired for the purpose of packaging toys manufactured by Mytoys Ltd at a cost of R150 000. Depreciation and the tax allowance on machine Elway for the current year both amounted to R30 000.
- 4.2. On 1 September 2022, an employee of Mytoys Ltd instituted a claim of R150 000 against Mytoys Ltd for injuries sustained on 15 August 2022 whilst operating the Elway machine. At year end 31 December 2022, the legal advisors of Mytoys Ltd are of the opinion that it is not probable that Mytoys Ltd will be found liable as all staff were trained to use the Elway machine and were asked to use the Elway machine at their own risk.

5. Inventory

On 10 January 2023, part of the inventory of Mytoys Ltd was stolen, which resulted in a loss of R450 000 to the company. This loss includes inventory with a cost amounting to R280 000 that was on hand on 31 December 2022. Mytoys Ltd was not insured for any loss of inventory due to theft.

On 20 January 2023 a major competitor of Mytoys Ltd launched a marketing campaign to significantly reduce the selling prices of playsets. As a result, the sales director of Mytoys Ltd had to also reduce the selling price of their playsets, in order to retain their current market share. The cost of playsets included in inventory of Mytoys Ltd on 31 December 2022, amounted to R190 000. The market selling price of these playsets on hand at year end on 31 December 2022 amounted to R160 000.

This information **has not been recorded** yet in the accounting records of Mytoys Ltd for the year ended 31 December 2022.

6. Taxation

The company provides for deferred tax on all temporary differences using the statement of financial position approach. There is certainty beyond any reasonable doubt that there will be sufficient taxable profit in the future against which any deductible temporary differences can be utilized. There are no other exempt or temporary differences except those mentioned in the question. The SA Normal tax rate remained unchanged at 28% for the past few years.

7. Assume that all amounts are material.
8. Ignore the time value of money.

QUESTION 2 PART A (continued)**REQUIRED:**

	Marks
(a) With reference to additional information (1) , calculate the effect of the change in inventory valuation method on gross profit for both years ended 31 December 2021 and 31 December 2022. The gross profit before the change in inventory valuation method for both the years ended 31 December 2021 and 31 December 2022 amounted to R150 000 and R250 000 respectively.	3
(b) 1. State all the relevant requirements that must be met for the recognition of the bill and hold sale arrangement (refer additional information (2)) as revenue in the annual financial statements of Mytoys Ltd for the year ended 31 December 2022, according to the requirements of <i>IFRS 15, Revenue from contracts with customers</i> .	4
2. Motivate with reasons why no deferred tax exists for the sale of the 250 Didi dolls referred to in additional information (2) at 31 December 2022.	2
(c) Prepare all the necessary general journal entries to correctly record the transactions in additional information (3) above in the accounting records of Mytoys Ltd for the year ended 31 December 2022. Your answer must comply with the requirements of International Financial Reporting Standards (IFRS). Ignore SA normal tax implications.	6½
(d) Disclose additional information (1) and (4.2) above in the notes to the annual financial statements of Mytoys Ltd for the year ended 31 December 2022 in accordance with the requirements of only <i>IAS 8, Accounting policies, changes in accounting estimates and errors</i> and <i>IAS 37, Provisions, contingent liabilities and contingent assets</i> . Comparative figures are required. No other notes are required. No accounting policy notes are required.	16½
(e) The financial accountant of Mytoys Ltd wants to determine the fair value of Machine Elway refer to additional information (4.1) above, at 31 December 2022. List the three most widely used techniques that can be used to determine the fair value of Machine Elway for the financial year ended 31 December 2022. Your answer must comply with the requirements of <i>IFRS 13, Fair value measurement</i> .	3
(f) Calculate the deferred tax balance in the statement of financial position of Mytoys Ltd for the year ended 31 December 2022 using the statement of financial position approach. Indicate in your answer if the balance is a deferred tax asset or liability. Your answer must comply with the requirements of <i>IAS 12, Income taxes</i> .	3

QUESTION 2 PART A (continued)

	Marks
<p>(g) Discuss, with reasons, the appropriate accounting treatment and disclosure requirements for the matters referred to in additional information (5) in the annual financial statements of Mytoys Ltd, only for the year ended 31 December 2022. If necessary, include journal entries in your answer.</p> <p>Your answer must comply with the requirements of <i>IAS 10, Events after the reporting period</i>.</p>	5
	[43]
<p>Please note:</p> <p>Your answer must comply with the requirements of International Financial Reporting Standards (IFRS).</p> <p>All calculations must be shown.</p> <p>Calculations are to be done to the nearest Rand.</p> <p>Journal narrations are not required.</p> <p>No abbreviations for general ledger account names in your journal may be used.</p> <p>Indicate in your journal if it is a statement of financial position (SFP) or statement of profit or loss and other comprehensive income (P/L) general ledger account.</p>	

PART B (4 Marks) (7 minutes)

This question must be answered in your examination answer book. No marks are given for calculations.

Each question has only one correct answer. The marks per question are indicated in brackets at the end of each question.

QUESTION 1

Which of the following statements relating to the enhancing qualitative characteristics of comparability of the information contained in the financial reports of an entity is **incorrect**, in terms of the *Conceptual Framework for Financial Reporting 2018* and *IAS 1, Presentation of financial statements*?

1. Users of financial information should be given comparable information in order to identify trends over time and between similar companies, in order to meet their decision-making needs.
2. The most visible example of comparability is the comparative amounts included in the financial statements as required by *IAS 1, Presentation of financial statements*.
3. It is undesirable to permit alternative accounting methods for the same transactions or events because comparability and other desirable qualities such as faithful representation and understandability may be diminished.
4. Comparability entails that the accounting treatment should be consistent for the same items over time, for the same items in the same period and for similar items of different but similar companies over time and in the same period.
5. When the application of a more appropriate accounting policy becomes necessary, the current accounting policy should not be changed in order to achieve absolute and complete comparability.(1)

QUESTION 2 PART B (Continued)**QUESTION 2**

According to *IAS 1, Presentation of Financial Statements*, which one of the following statements relating to the general features of financial statements of an entity is **incorrect**?

1. Financial statements of an entity are prepared using the cash flow basis of accounting, with the exception of the cash flow statement which uses the accrual basis of accounting.
2. Financial statements of an entity present material classes of similar items separately.
3. Financial statements of an entity do not offset assets and liabilities or income and expenses, unless specifically required or permitted by an International Financial Reporting Standard (IFRS).
4. When the financial statements are prepared on the going concern basis it means that the statement of profit or loss and other comprehensive income and the statement of financial positions are drafted on the assumption that there is no intention or need to cease or materially curtail operations,
5. All numerical information presented in financial statements should be accompanied by a comparative amount for the preceding period, unless a standard or interpretation permits otherwise.

(1)

QUESTION 3

Which of the following circumstances will not give rise to separate disclosure on the face of the statement of profit or loss and other comprehensive income or in the notes of Oilex Ltd, a retailer of oil products for the year ended 31 December 2021 according to *IAS 1, Presentation of financial statements*?

1. Write-down of closing inventory to net realisable value.
2. The reversal of write-downs to the recoverable amount of an investment property.
3. The profit on disposal of shares held in a subsidiary.
4. The reversal of provision for claims against the reporting entity.
5. Monthly salaries and wages paid to employees.

(1)

QUESTION 4

If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless it is impracticable. Which of the following items is **not** required to be disclosed when an entity decides to reclassify comparative amounts, according to *IAS 1, Presentation of financial statements*?

1. The nature of the reclassification.
2. The effect of the reclassification on future periods for material and immaterial items.
3. The amount of each item or class of items that is reclassified for the preceding period.
4. The reason for the reclassification.
5. The reason for not reclassifying amounts when it is impracticable to reclassify comparative amounts.

(1)