FINANCIAL ACCOUNTING 700 **Seminar RS 2 – The Conceptual Framework for financial reporting** ***PH Ferreira***	**DEPARTMENT OF ACCOUNTING** **UP**

SEMINAR RS 2

Prescribed works:

1.	The Conceptual Framework	–	IASB
2.	GAAP Handbook Volume 1 - Chapter 1	–	Pretorius, **et al**

Questions:		**Time**
Question 1	Advice - conceptual aspects	± 25 min
Question 2	Recognition of assets and liabilities	± 40 min
Question 3	Future operating losses	± 8 min
Question 4	Exam question 2008 (financial instruments)	± 12 min
Question 5	Status of professional pronouncements	± 10 min

QUESTIONS

QUESTION 1

You are a recently appointed employee of ASB (Africa South Breweries) and you have quickly acquired a reputation as a financial whiz. The board of directors heard of your financial prowess and asked your advice on some accounting issues (outlined below) which affect the financial year ending 30 June 20X4.

1. Brands

The chairman has just received results of market research which suggests that the company's three main lagers (namely Carstall, Loin and Lambstill) have the most sought after brand names in the country. The chairman has read a recent article on accounting for brands and feels that the brands should be brought onto the statement of financial position.

2. Medical aid contributions

The current practice of your company is to continue paying the company's share of medical aid contributions for retired employees. Although the company is not legally bound to fund post retirement medical care, it is their intention to make these payments until their retired employees withdraw from the medical fund or die. Up to now a provision has only been made for medical aid contributions currently payable.

3. Factoring debtors

The company factored debtors with a carrying amount of R400 000 for cash of R360 000. In terms of the agreement, all cash proceeds from the debtor is paid to the factor, and the factor has no recourse in the event of a debtor defaulting.

REQUIRED:

a. Provide conceptual arguments as to why you are of the opinion that the brands should/shouldn't be capitalised on the statement of financial position. (7)

b. Recommend, with reasons, the appropriate conceptual accounting treatment for the future medical aid contributions of retired employees. (6)

c. Discuss the accounting implications arising from the factoring of the debtors. (4)

[SOURCE: CAPE TOWN QE-course 1995]

QUESTION 2

Mr L Smith, the financial director of one of your clients, enquired about whether the following items can be recognised as assets or liabilities in their year-end financial statements:

a. A large advertising cost, the benefits of which is expected to flow to the company in the following year.

b. The company wishes to provide for future reconstruction costs eg. relocation costs, retrenchment pay, lease cancellation costs, etc. as the detailed plan of reconstruction has been made and this plan has been approved by the board.

c. Costs of researching the market for a new product the company wishes to produce.

d. Goodwill that has been built up by the company as a result of good quality products.

e. The excess purchase price of a business acquired over the fair value of the net underlying assets.

f. Revenue received in advance relating to the rendering of one of their services.

g. A provision for maintenance costs iro an asset that requires large maintenance costs every two years.

h. A provision for warranties given iro one of their products that is sold with a two year warranty.

REQUIRED:

Discuss briefly the recognition of the above items as assets or liabilities with reference to the "The Conceptual Framework for financial reporting" and any other relevant accounting standards.

[SOURCE: CPH – ADAPTED]

QUESTION 3

Protection Ltd is a company which manufactures alarm systems. It purchased 60% of the shares in Respond Ltd on 1 January 20X7. It is anticipated that Respond Ltd will make a loss of R2 million in 20X7, and will be profitable thereafter. The directors of Protection Ltd intend to make a provision for the anticipated 20X7 losses in the consolidated financial statements of Protection Ltd.

REQUIRED:

Comment on the intention of the directors of Protection Ltd to make a provision for the anticipated 20X7 losses in Respond Ltd. (5)

[SOURCE: QE Part I Paper II 1997 ADAPTED]

QUESTION 4 **(8 marks)**

On 1 July 2008, during the year ended 31 October 2008, Met Ltd issued cumulative preference shares to a number of individuals. These cumulative preference shares must all be converted to ordinary shares on 30 June 2012. The proceeds on the issuance of these preference shares amounted to R1 000 000, the dividend payments on the preference shares amounts to R110 000 and the dividends are compulsory. If non-convertible debentures were issued instead of preference shares, the interest rate on those debentures would have been 15%.

REQUIRED:

Discuss how Met Ltd should account for the above **at initial recognition,** assuming the recognition criteria have been met. Justify your answer in terms of the Conceptual Framework and not individual standards. **Do not** provide amounts in your answer.

QUESTION 5

Briefly provide the status of the following professional pronouncements:

- IAS/ IFRS;
- SIC/ IFRIC;
- AC 500 series;
- Circulars; and
- Exposure drafts.