FINANCIAL ACCOUNTING 700 Seminar RS 3 – Presentation of financial statements *PH Ferreira*	DEPARTMENT OF ACCOUNTING UP

Prescribed works:

1. IAS 1 – IASB
2. GAAP Handbook Volume 1 - Chapter 2 – Pretorius, **et al**
3. IFRIC 17 (not examinable for CEV 1)

Questions:		**Time**
Question 1	Sundry theory	± 20 min
Question 2	Sundry theory	± 15 min
Question 3	Accounting policy	± 10 min
Question 4	Statement of profit or loss and other comprehensive income & statement of changes in equity	± 30 min
Question 5	Statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity	± 60 min
Question 6	Current/Non current liability	± 8 min

QUESTIONS

QUESTION 1

Answer the following questions:

1. What are general purpose financial statements?

2. What disclosure is required when financial statements are not prepared on a going concern basis?

3. What is meant with “the accrual basis of accounting”?

4. Is it necessary to include in the current financial statements all the narrative information that was provided in the financial statements of the previous period?

5. What disclosure is required when an entity changes the end of its reporting period?

6. An entity has an operating cycle of 18 months. At year-end it is expected that 20% of the work in progress will be completed and sold 14 months after year-end, while the remainder will be completed and sold 6 months after year-end. (Both these periods fall within the entity’s normal operating cycle). Should the work in progress be classified as current or non-current in the statement of financial position?

7. IAS 1 requires disclosure of the **judgements** management has made in applying significant accounting policies, as well as **sources of estimation uncertainty**. Briefly explain the difference between these two concepts.

8. IAS 1 requires disclosure of information that will enable users of financial statements to evaluate on entity’s objectives, policies and processes for managing capital. Briefly explain what this disclosure entails.

9. It is correct to disclose dividend per share on the face of the statement of profit or loss and other comprehensive income?

10. Explain the difference between profit or loss, other comprehensive income and total comprehensive income

11. Briefly explain the term “reclassification adjustments”.

QUESTION 2

Answer the following questions:

a. What does a complete set of financial statements consist of, according to IAS 1?

b. Normally complying with International Financial Reporting Standards will lead to fair presentation in financial statements. Under certain circumstances management may however be of the opinion that compliance with a requirement in a standard will be misleading. Explain what the procedure and considerations in such cases will be and what should be disclosed under these circumstances.

QUESTION 3

In view of the broad definition of accounting policy as presently contained in IAS 8.5, it is sometimes difficult to decide what should be disclosed as accounting policy and what not. The standard on presentation of financial statements provides guidelines in this regard. Discuss these guidelines and related matters in detail.

QUESTION 4

The following information relates to Safari Ltd for the year ending 31 December 20X7 and is at your disposal:

	R
Revenue	900 000
Materials	
- opening inventory	20 000
- purchases	70 000
- closing inventory	30 000
Direct labour costs	175 000
Manufacturing overheads	
- depreciation	125 000
- other	170 000
Finished products	
- opening inventory	45 000
- closing inventory	75 000
Profit on disposal of plant	10 000
Distribution costs	100 000
Administrative expenses	
- depreciation	5 000
- personnel costs	15 000
- other	50 000
Other operating expenses	39 000
Directors' emoluments	
- for services as directors	2 000
- other services	7 000
Research costs	2 000
Interest paid	30 000
Loss of cash due to theft	20 000
Revaluation of land – 30 June 20X7	42 000
Translation profit for the year i.r.o. foreign operations (assume no tax effect)	13 000
Transfer to asset replacement reserve	10 000
Interim dividend paid	5 000
Final dividend proposed	4 000
Retained earnings at beginning of the year	475 000
Revaluation surplus beginning of year	100 000
Foreign currency translation reserve beginning of year	45 000

Additional information

1. During the current financial year it was discovered that an amount received from a debtor during 20X6 was incorrectly credited to sales during that year. This amounts to R35 000 and is regarded as material. No adjustment has been made yet.

2. Assume that 100 000 ordinary shares were issued at R1 each on incorporation.

3. Assume a tax rate of 30%.

REQUIRED:

Prepare the statement of profit or loss and other comprehensive income (single statement approach, detailing tax effects and reclassification adjustments) and statement of changes in equity of Safari Ltd for the year ending 31 December 20X7. Your answer must comply with IAS 1 and must show both acceptable formats regarding the classification of expenses (by function and nature). The following notes are also required:

- Profit before tax (for expenses classified by function and also by nature);
- Dividends.

QUESTION 5

The consolidated list of balances of the Newsound Ltd group for the year ended 31 December 20X9 are as follows:

	20X9 R'000	**20X8 R'000**
Credits		
Share capital (only parent)	147 834	147 834
Revaluation surplus (including the non-controlling interests' portion)	10 625	-
Asset replacement reserve(excluding non-controlling interests' portion)	5 000	2 000
Retained earnings beginning of year (excluding non-controlling interests' portion)	18 375	33 802
Non-controlling interests	40 125	32 000
Long-term loans	236 000	108 297
Deferred taxation	28 875	23 100
Sales	1 287 052	902 052
Creditors/Payables	35 990	20 145
Current portion of long-term loans	83 042	24 639
Shareholders for dividends	17 409	11 606
Bank overdraft	1 652	-
	1 911 979	1 305 475
Debits		
Non-controlling interests in other comprehensive income (revaluation surplus) for the year	2 125	-
Non-controlling interests in profit for the year	7 200	6 800
Property, plant and equipment	16 069	14 696
Inventories	192 085	149 002
Debtors/Receivables	418 465	222 833
Bank balances and cash	-	1 465
Cost of sales	1 098 187	819 939
Operating costs	103 435	46 592
Interest paid	39 264	20 862
Taxation	10 927	6 148
Transfer to asset replacement reserve (excluding non-controlling interests' portion)	3 000	2 000
Dividends paid	21 222	15 138
	1 911 979	1 305 475

Additional information

1. Operating costs comprise of the following:

	20X9 R'000	20X8 R'000
Depreciation	3 002	2 237
Loss on scrapping of equipment	500	-
Distribution costs	25 741	14 010
Administrative expenses	28 813	10 345
Staff costs	45 379	20 000
	103 435	46 592

2. Assume that the normal taxation rate is 30%. The taxation expense (assume correct) comprise of the following:

	R'000	R'000
Taxation per trial balance	(10 927)	(6 148)
SA normal		
- current	(7 027)	(3 048)
- deferred	(3 900)	(3 100)

3. The revaluation surplus relates to a subsidiary, (in which an 80% interest is held) which revalued land during the year.

4. Dividends amounting to R1 200 000 were paid to non-controlling shareholders during 20X9 (20X8 - R1 100 000).

5. The transfer to the asset replacement reserve was done by a subsidiary in which a 60% interest is held.

6. Ignore earnings and dividend per share.

7. The long-term loans are interest-bearing.

8. Newsound Ltd classifies expenses by function.

9. Non-controlling interests are measured at their proportionate share in the fair value of the identifiable net assets of an acquiree on the date of acquisition in terms of IFRS 3.19.

REQUIRED

Prepare the consolidated financial statements of Newsound Ltd for the year ended 31 December 20X9 from the above information. Use a single statement approach for the statement of profit or loss and other comprehensive income (detailing tax effects and reclassification adjustments). No audit report, directors' report, statement of cash flows, or tax rate reconciliation is required.

(SOURCE: Unisa)

QUESTION 6

eFin (Pty) Ltd

eFin (Pty) Ltd is the company within a group that manages all the financing matters of the group.

Five years ago eFin (Pty) Ltd entered into a long-term loan of R600 000 with FMB Bank. According to the original loan agreement, the loan is redeemable on 30 April 20X3. On 5 July 20X2, the board of directors persuaded FMB Bank to extend the redemption date to 30 April 20X4.

REQUIRED:

Discuss how the loan should be classified in the statement of financial position for the year ending 30 June 20X2. Justify your answer. (5)