ITC JANUARY 2018 SUGGESTED SOLUTION

Part (g)	 Prepare the journal entries required to account for all of the transactions relating to the machinery bought from Zungu as well as the loan obtained from Kermit in the individual financial statements of Kekana for FY2017 Ignore VAT, current taxation and deferred taxation Do not prepare closing journal entries 						
Date	Description		Dr.	Cr.			
			ZAR	ZAR			
	Hedging and machine						
1/03/2017	Journal 1						
	Deposit / Prepayment	SoFP	59 040		1		
	Bank	SoFP		59 040			
	Deposit paid upfront to Zungu – [USD 4 500 x 13,12 = ZAR 59 040]				1		
1/05/2017	Journal 2						
	Derivative asset / FEC-asset	SoFP	1 365		1		
	Cash flow hedge reserve	OCI		1 365	1		
	[Movement in forward rate = 13,56 – 13,43 = 0,13 x USD 10 500 = ZAR 1 365]				1		
	Test for ineffective portion: [Movement in spot rate = $13,27 - 13,12 = 0,15 \times USD$ $10\ 500 = ZAR\ 1\ 575$]				1		
1/05/2017	Journal 3						
1/00/2011	Manufacturing machinery	SoFP	139 335		1		
	Foreign accounts payable	SoFP	100 000	130 335	I		
	Machinery recognised on transaction date for unpaid amount [USD 15 000 – USD 4 500 = USD 10 500 x 13,27 = ZAR 139 335]				1		
1/05/2017	Journal 4						
	Manufacturing machinery	SoFP	59 040				
	Deposit/Prepayment	SoFP		59 040	1P		
	Reallocation of deposit to cost of machinery						
1/05/2017	Journal 5						
	Cash flow hedge reserve	Equity	1 365		1C		
	Manufacturing machinery	SoFP		1 365	1C		
	Basis adjustment transferring reserve to machinery						
10/05/2017	Journal 6						
	Manufacturing machinery	SoFP	19 000		1		
	Manufacturing machinery	SoFP	25 000		1		
	Marketing / Other expenses	P/L	30 000		1		
	Bank	SoFP		74 000	-		
	Payment of import duties on machinery [ZAR 19 000], raw material and labour costs [ZAR 25 000], marketing expenses [ZAR 30 000]						

QUESTION 1 Part II Confused PAPER 3

ITC JANUARY 2018 SUGGESTED SOLUTION

Foreign exchange loss P/L 5 040 1 Foreign accounts payable SoFP 5 040 1C <i>Re-measurement of hedged item to spot rate on 30 June 2017</i> 13,75 - 13,27 = 0,48 x USD 10 500 = ZAR 5 040] 1C 1C 30/06/2017 Journal 8 1 1C 30/06/2017 Journal 8 1 Derivative asset / FEC-asset SoFP 1 995 1 Foreign exchange gain P/L 1 995 1 <i>Re-measurement of FEC derivative to spot on 30 June 2017</i> 113,75 - 13,56 = 0,19 x USD 10 500 = ZAR 1 995] 1 1 30/06/2017 Journal 9 1C 1 Bank SoFP 144 375 1C 1 1 USD 10 500 x 13,75 = ZAR 144 375 OR ZAR 139 3360 1C 1 1 IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141 015] IUSD 10 500 x 13,43 = ZAR 141
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$ \begin{array}{ c c c c c c } \hline \text{Derivative asset / FEC-asset} & \text{SoFP} & 1 995 & 1 \\ \hline \text{Foreign exchange gain} & P/L & 1 995 & 1 \\ \hline \text{Foreign exchange gain} & P/L & 1 995 & 1 \\ \hline \text{Re-measurement of FEC derivative to spot on 30} \\ \hline \text{June 2017} & 13,75 - 13,56 = 0,19 \times \text{USD 10 500} = \text{ZAR 1 995} & 1 \\ \hline \text{I3,75 - 13,56 = 0,19 \times \text{USD 10 500} = \text{ZAR 1 995} & 1 \\ \hline \text{Journal 9} & & & & & & \\ \hline \text{Foreign accounts payable} & \text{SoFP} & 144 375 & 1C \\ \hline \text{Derivative asset / FEC-asset} & \text{SoFP} & 144 375 & 1C \\ \hline \text{Derivative asset / FEC-asset} & \text{SoFP} & 144 375 & 1C \\ \hline \text{Bank} & & \text{SoFP} & 144 375 & 1C \\ \hline \text{USD 10 500 \times 13,75 = ZAR 144 375 OR ZAR 139} \\ 335 + ZAR 5 040] & & & & & & & & \\ \hline \text{[USD 10 500 \times 13,43 = ZAR 141 015]} & & & & & & & & \\ \hline \text{Settlement of FEC derivative and foreign payable} & & & & & & & \\ \hline \text{Sutharm 10} & & & & & & & & \\ \hline \text{Depreciation expense} & P/L & 17 574 & & 1C \\ \hline \text{Accumulated depreciation} & & & & & & & & \\ \hline \text{Depreciation on new machinery} \\ \hline \text{[59 040 + 139 335 + 19 000 + 25 000 - 1 365 = 241} \\ 010] \\ \hline \text{[241 010 / 8 \times 7/12 = 17 574]} & & & & & & & & & \\ \end{array}$
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[241 010 / 8 x 7/12 = 17 574] 1P
Foreign Ioan
Intercompany loan Sorr 106 160 1
$ZAR \ 106 \ 160]$
31/12/2017 Journal 12
Interest expense
Intercompany loan/Accrued interest expense SOFP 717 1
Interest for the period
$[USD 53.33 \times 13.45 = ZAR 717]$
31/12/2017 Journal 13
Foreign currency loss P/L 2 809 1C
Accrued interest expense SoFP g 1P
Intercompany loan SoFP 2 800 1P
Forex on loan from Kermit [(USD 8000 x 13,62 = ZAR 108 960 – ZAR 106 160
$= \angle AK \angle 800)$ (USD 53 33 x 13 62 ZAP Z1Z = ZAP 0)]
$\Delta vailable 32$
Communication skills – presentation and lavout 1
Maximum Total for part (a) 28

 Part (h) Calculate the deferred tax balances in Kekana's individual financial statements as at 31 December 2016 and 2017 For the purposes of this required only, assume as at 31 December 2017 that the tax base relating to – the machinery bought from Zungu is ZAR200 000; and the loan is ZAR106 160 									
Deferred tax 31 December 2016	CV	TB	ТП	DT Dr / (Cr)					
				Initial Recognition					
Office building from Jali	26 250 000 (1)	19 500 000 (1)	682 500	Exemption (1)					
				-					
Deterred tax 31 December 2017	000 400 (40)	000.000	00.400						
Imported machinery – Part (g)	223 436 (1C)	200 000	23 436	(6 562) (1C)					
Kermit Ioan - Part (g)	109 686	106 886							
[106, 160 + 2, 800] - Part (a)	108 960 (1C)	106 160	2 800	784 (1C)					
- Interest accrual									
[717 + 9] - Part (g)	726 (1C)	726 (1)	-	-					
				(5 778)					
Calculation 1									
Office building from Jali									
Fair value at 1 Jan 2016	30 000 000								
Useful life	/ 8 Years								
Depreciation for the year	3 750 000								
Carrying value 31/12/2016	26 250 000								
Tax base 19 500 000 Due to section 42 roll-over provision applying									
	9								
	8								