

Part (f)	Discuss under which classification SuperMega should present the following items in its statement of cash flows for FY2017: (i) The good faith payment of R50 million; (ii) The purchase of the BPL broadcasting rights; and (iii) The issuance of the debentures. Ignore comparatives.	Marks
General		
In terms of IAS7.10 the statement of cash flows shall report cash flows during the period classified by operating, investing and financing activities.		
(i)	Good faith payment of R50 million	
	Operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.	
	The R50 million good faith payment made by SuperMega on 2 January 2017 with regard to the Competition Commission investigation relates to activities primarily derived from SuperMega's operating activities. The good faith payment relates to the way advertisement revenue is generated and measured by SuperMega / The good faith payment is not an investing or financing activity.	1
	Accordingly, this should be classified as an operating activity cash flow in the statement of cash flows for FY2017.	1
(ii)	Purchase of BPL broadcasting rights	
	Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.	
	The R3 500 million paid on 1 July 2016 represents expenditure to acquire resources (i.e. the BPL broadcasting rights) intended to generate future income and cash flows for a prolonged period (i.e. five years).	1
	Accordingly, this should be classified as an investing activity cash flow in the statement of cash flows for FY2017.	1
(iii)	Issuance of debentures	
	Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.	
	The R500 million received on 1 January 2017 from the issuance of fixed rate compound convertible debentures represents a cash flow from the capital providers of SuperMega / will result in a change in the size and composition of the contributed equity and borrowings of SuperMega.	1
	Accordingly, this should be classified as a financing activity cash flow in the statement of cash flows for FY2017.	1
	Available	6
	Maximum	6
	<i>Communication skills – clarity of expression</i>	1
	Total for part (f)	7

Part (g) Prepare all journal entries required to account for the debentures issued by SuperMega on 1 January 2017 in the financial statements of SuperMega for FY2017.				Marks
<ul style="list-style-type: none"> • Include journal entries relating to current and/or deferred taxation. • Ignore closing journal entries. • Round all amounts to the nearest rand. 				
		Dr R	Cr R	
1.	Bank (SFP)	500 000 000		1
	Debenture liability (SFP)		439 031 564	
	Equity reserve (Equity)		60 968 436	
	(Refer W1) <i>Issue of 625 debentures at R800 000 each</i>			
2.	Debenture liability (SFP)	4 390 316		1P
	Equity reserve (Equity)	609 684		
	Bank / Accounts payable (SFP)		5 000 000	
	(Refer W2) <i>Transaction costs on issuance</i>			
3.	Finance cost (P/L)	26 800 282		1P
	Debenture liability (SFP) (balancing)		14 300 282	
	Bank (SFP)		12 500 000	
	(Refer W4) <i>Interest and coupon repayments on debentures for Jan 2017 to June 2017</i>			
4.	Income tax expense (P/L)	65 893		1P
	Equity reserve (Equity)	17 071 162		
	Deferred tax (SFP)		17 137 055	
	(Refer W5) <i>Deferred tax effect of debentures</i>			
5.	Current tax payable (SFP)	7 740 684		1P
	Equity reserve (Equity)		170 712	
	Income tax expense (P/L)		7 569 972	
	(Refer W7) <i>Current tax effect of debentures</i>			

Calculations		R	Marks
W1	Debt equity split		
	Proceeds (800 000 x 625)	500 000 000	1
	Liability component	439 031 564	
	FV = 625 000 000 (1 000 000 x 625)		1
	PMT = 6 250 000 (1 000 000 x 4% x 3/12 = 10 000 x 625)		
	N = 20 (5 x 4)		1
	I/YR = 12%; P/YR = 4 or I/YR = 3% (12 / 4)		
	Equity component	60 968 436	
W2	Allocation of transaction costs		
	Liability component (439 031 564 / 500 000 000 x 5 000 000)	4 390 316	1P
	Equity component (balancing amount)	609 684	
	Total transaction costs	5 000 000	1
W3	Effective interest rate on liability component		
	PV = (434 641 249) (439 031 564 (W1) – 4 390 316 (W2))		1P
	FV = 625 000 000 (W1)		
	PMT = 6 250 000 (W1)		1C
	N = 20 (W1)		
	P/YR = 4; I/YR ? = 12,23%		
	or I/YR ? = 3,058% (3,058% x 4 = 12,23%)		
W4	Interest payment		
	Finance cost 31/3/2017 (W3) (1 AMORT)	13 292 453	
	Finance cost 30/6/2017 (W3) (2 AMORT)	13 507 829	
	Total finance costs (W3) (1, 2 AMORT)	26 800 282	1P
	Interest payment (6 250 000 (W1) x 2)	12 500 000	1C
	Debenture liability	14 300 282	
W5	Deferred tax		
	Carrying amount of liability at 30/6/2017 (W3) (1, 2 AMRT)	448 941 531	1P
	Tax base of liability at 30/6/2017 (W6) (1, 2 AMRT)	510 145 300	1P
	Taxable temporary difference	61 203 769	
	Deferred tax liability at 30/6/2017 (61 203 769 x 28%)	17 137 055	1P
	Opening balance	-	
	Movement in deferred tax	17 137 055	
	Recognise in equity (60 968 436 (W1) x 28%)	(17 071 162)	1P
	Recognise in P/L	65 893	
	Alternative calculation		
	Transaction costs allocated to liability (W2)	(4 390 316)	1C
	Interest on debentures including transaction costs (Accounting) (W4)	26 800 282	1P
	Interest on debentures excluding transaction costs (Tax) (W6) (1, 2 AMRT)	(22 645 300)	
	Taxable temporary difference	(235 334)	
	Movement in deferred tax in P/L (235 334 x 28%)	65 893	1P
	Movement in deferred tax in equity (60 968 436 (W1) x 28%)	17 071 162	1P

W6	Effective interest rate for tax purposes		
	PV = (500 000 000)		1
	FV = 625 000 000 (W1)		
	PMT = 6 250 000 (W1)		1C
	N = 20 (W1)		
	P/YR = 4; I/YR ? = 9,01%		
	or I/YR = 2,25% (2,253% x 4 = 9,01%)		
W7	Current tax		
	Transaction costs	(5 000 000)	1
	Interest on debentures excluding transaction costs (W6) (1, 2 AMRT)	(22 645 300)	1P
	Taxable income	(27 645 300)	
	Current tax (27 645 300 x 28%)	(7 740 684)	1P
	Recognise in equity (609 684 (W2) x 28%)	170 712	1P
	Recognise in P/L	(7 569 972)	
		Available	24
		Maximum	19
	<i>Communication skills – presentation (combined with part (h))</i>		

Part (h) Prepare all adjusting journal entries required to correctly account for the broadcasting rights in the financial statements of SuperMega for FY2017.				Marks
<ul style="list-style-type: none"> • Include journal entries relating to deferred taxation. • Ignore current taxation. • For financial reporting purposes assume a discount rate reflective of the risks associated with the broadcasting right is 25% (before tax) and 20% (after tax). • Ignore closing journal entries. • Round all amounts to the nearest rand. 				
		Dr R	Cr R	
1.	Operating expenses (P/L)	50 000 000		1
	Broadcasting right: Good faith payment (SFP)		50 000 000	
	<i>Expense of good faith payment incorrectly capitalised</i>			
2.	Amortisation expense (P/L)	700 000 000		1
	Accumulated amortisation (SFP)		700 000 000	
	(3 500 000 000 / 5) <i>Amortisation on the BPL broadcasting right</i>			
3.	Impairment loss (P/L)	443 539 200		1
	Accumulated impairment (SFP)		443 539 200	
	(Refer W1 & W2) <i>Impairment loss on BPL broadcasting right</i>			
4.	Income tax expense (P/L)	6 475 691		1P
	Deferred tax (SFP)		6 475 691	
	(Refer W3) <i>Deferred tax on BPL broadcasting right</i>			

Calculations						Marks
W1	Recoverable amount of BPL broadcasting rights					
		FY 2018	FY 2019	FY 2020	FY 2021	1
		R mil	R mil	R mil	R mil	
	Revised forecasts – incremental revenues	420	1 111	1 557	1 683	1
	Additional marketing expense	(75)	(75)	(75)	(75)	1
	Net cash flow before tax	345	1 036	1 482	1 608	
	Tax (28%)	-	-	-	-	
	Net cash flow	345	1 036	1 482	1 608	
	Pre-tax discount rate = 25%					1
	NPV = 2 356 460 800					1P
	-1 if tax not zero and pre-tax discount rate used					-1
W2	Impairment loss on BPL broadcasting right				R	
	Carrying value of broadcasting right before impairment (3 500 000 000 / 5 x 4) or (3 500 000 000 – 700 000 000 (J2))				2 800 000 000	1C
	Recoverable amount (W1) (<i>Value in use as fair value less cost to sell equates value in use</i>)				2 356 460 800	
	Impairment loss				443 539 200	1P
W3	Deferred tax on BPL broadcasting right					
	Carrying value of broadcasting right post impairment (W2)				2 356 460 800	1C
	Tax base of broadcasting right (3 500 000 000 / 3 x 2)				2 333 333 333	1
	Taxable temporary difference				23 127 467	
	Deferred tax liability at 30/6/2017 (23 127 467 x 28%)				6 475 691	1P
	Opening balance				-	
	Movement in deferred tax (P/L)				6 475 691	
	Alternative calculation					
	Amortisation (J2)				700 000 000	1C
	Impairment loss (W2)				443 539 200	
	Tax deduction (3 500 000 000 / 3)				(1 166 666 667)	1
	Taxable temporary difference				(23 127 467)	
	Movement in deferred tax (23 127 467 x 28%)				6 475 691	1P
	Available					15
	Maximum					15
	Total for part (h)					15
	<i>Communication skills – presentation (combined for parts (g) and (h))</i>					<i>1</i>
	TOTAL FOR PART II					42