Part (a) Calculate the corrected consolidated profit before tax for the R&M group for FY2017 • **Begin your calculation with the consolidated profit before tax of R1 960 264 given in the scenario.** • **Round all amounts to the nearest ZAR.**			**Marks**
	Workings	**R**	
Profit before tax		1 960 264	
Adjustments			
Head office			
Depreciation	5 000 000 / 35	(142 857)	1
Hedge			
	Calculation 2	244 000	1C
FEC: Ineffective portion in profit or loss (current year)	Calculation 2: W2	24 000	
CFR reclassified to revenue	Calculation 2: W1	220 000	
Investment in bonds			
Interest income	Calculation 4	693 831	1C
Change in expected credit losses	Calculation 4	(62 087)	1C
Intangible			
Research costs		(140 000)	1
Amortisation	(R1 million – R140 000) ÷ **3 years x 6/12 months**	(143 333)	1
Inventory			
Upfront deposit forfeited by Furn&U	GBP6 750 x 18	121 500	1
Write-down to NRV	Calculation 5	(16 000)	1
Disposal group			
IFRS 5 impairment	Calculation 6	(946 804)	1C
Adjusted consolidated profit before tax		**1 568 514**	1P
MARKS FROM WORKINGS BELOW			16
		Available	**26**
		Maximum	**26**
		Total for part (a)	**26**

Calculation 2					**Marks**
Movement in fair value of hedged item and hedging instrument:	**Item**	**Instru-ment**	**Effective portion (CFR)**	**Ineffective portion (P/L)**	
	R	**R**	**R**	**R**	
Change in FV at 31 Dec 2016					
• Item (2 000 x 100 x (14,1 – 13,5))	120 000				1
• FEC (200 000 x (14,35 – 13,62))		146 000			1
• Effectiveness testing			120 000	26 000	1P
Cumulative at 28 Feb 2017					
• Item (2 000 x 100 x (14,1 – 13))	220 000				1
• FEC (200 000 x (14,35 – 13))		270 000			1
• Effectiveness testing			**(W1)** 220 000	50 000	
Movement in current year					
• Item (2 000 x 100 x (13,5 – 13))	100 000				
• FEC (200 000 x (13,62 – 13))		124 000			
• Effectiveness testing			100 000	(**W2**) 24 000	
NOTE: *2 MARKS IN CUMULATIVE TEST MAY ALSO BE AWARDED FOR USING A CURRENT YEAR APPROACH*					

Calculation 3 **Calculating effective interest rate**		**Marks**
ALTERNATIVE 1	**31 Dec 2015** **R**	
Future value (given)	8 492 418	
Payment (9 000 000 x 5%)	450 000	1
No. of periods	1	
Present value (given)	8 267 004	
Effective interest rate	**8,17%**	1
ALTERNATIVE 2	**1 Jan 2015** **R**	
Future value (90 000 x 100)	9 000 000	
Payment (9 000 000 x 5%)	450 000	*1A*
No. of periods	4	
Present value (given in question)	8 058 615	
Effective interest rate	**8,17%**	*1A*

Calculation 4 **Determining interest expense and expected credit loss allowance**		
	31 Dec 2016 **R**	**Marks**
Gross carrying amount (GCA) at beginning of year (given in Q)	8 492 418	
Interest (GCA x **8,17%) (Amort function in calculator: P3:P3)**	693 831	
Coupon received	(450 000)	
GCA at end of year (Amort function in calculator: P3:P3)	**8 736 248**	1C
Expected credit loss allowance (R8 736 248 x 3%)	(262 087)	1C
Amortised cost at end of year	**8 474 161**	
ECL allowance at end of year	(262 087)	
ECL allowance at beginning of year	200 000	
Increase for the year (expense in profit or loss)	(62 087)	

Calculation 5 **Determining inventory write-down**		
	R	**Marks**
Total cost of inventory	**366 000**	
Write down to net realisable value	(16 000)	
Net realisable value is local selling price (R7 000 x 50 units)	**350 000**	1

Calculation 6
Calculation of IFRS 5 impairment on disposal group

ALTERNATIVE 1	**Workings**	**2017**	**Marks**
		R	
Investment property	Given	6 750 000	1
Head office building in CBD	Given	5 500 000	1
Investment in bonds	Given	8 630 137	1
Intangible	R1 million – R140 000 – R143 333 (amortisation)	716 667	1C
Inventory	Calculation 5 above	350 000	1
Carrying amount of disposal group		**21 946 804**	
Fair value less costs to sell of disposal group		**21 000 000**	1
Total impairment – IFRS 5 par 37 – loss on re-measurement recognised in profit or loss		(**946 804**)	

ALTERNATIVE 2	**Workings**	**2017**	**Marks**
		R	
Carrying amount	Given	22 124 637	*1A*
Less: Incorrect inventory		(244 500)	*1A*
Add: Corrected inventory		350 000	*1A*
Less: Intangible expensed		(140 000)	*1A*
Less: Intangible amortised		(143 333)	*1CA*
Carrying amount of disposal group		**21 946 804**	
Fair value less costs to sell of disposal group		**21 000 000**	*1A*
Total impairment – IFRS 5 par 37 – loss on re-measurement recognised in profit or loss		(**946 804**)	

Part (b) **Prepare the tax rate reconciliation note to the consolidated financial statements of the R&M group for FY2017, as required in terms of IAS 12 *Income taxes* par. 81 (c)(i).** • **Assume, for purposes of this required only (thus independent of required (a)), that the corrected consolidated profit before tax after all adjustments is ZAR1 million.** • **Round all amounts to the nearest ZAR.** • **You are not required to calculate the final consolidated tax expense.**			**Marks**
Tax rate reconciliation	**Workings**	**R**	
Corporate tax rate on profit before tax	R1 000 000 (given) x 28%	280 000	1C
Amounts taxed at different tax rate:			
IFRS 5 impairment partially at CGT rate	R837 655 x 28% (1) x 20% (1) (see calculation below)	46 909	2
Allocation of impairment pro rata under IFRS 5			
Head office building (5 500 000/(5 500 000 + 716 667 (1C))*946 804	837 655 (1C)		2
Amounts not allowed as tax deduction			
Depreciation on head office building	5 000 000 – 3 600 000 = 1 400 000 / 35 (1) x 28% (1) OR *2 000 000 / 50 (1) x 28% (1)*	11 200	2
FV loss on investment property at CGT rate	(R7m-R6,75m) (1) x 28% (1) x 20% (1)	14 000	3
Income tax expense	NOT REQUIRED		
Negative mark if the deferred tax asset on the assessed loss of S&T is a reconciling item			-1
		Available	**10**
		Maximum	**10**
		Communication skills – presentation	**1**
		Total for part (b)	**11**