Part (a)	Discuss the accuracy and completeness of Note 18: *Interest in Associate* for FY2020 in accordance with IFRSs. Do not re-draft the note, except with regard to potentially omitted disclosures.	Marks
1.	The following is considered to be **accurately and completely disclosed** in accordance with IFRS 12 (based on the information provided):	
	• **Name** of the associate, i.e. TWE Manufacturing *(par. 21a(i));*	1
	• **Whether** the investment in TWE Manufacturing is **measured using the equity method** *(par. 21b(i))*;	1
	• Summarized **financial information** *(par. 21b(i) & B12); and*	1
	• The **equity method** was **accurately applied** in determining the carrying amount of the investment being disclosed.	1
2.	The following is considered to **NOT** be accurately and completely disclosed in accordance with IFRS 12 (based on the information provided):	
	• **Comparative information** has not been disclosed;	1
	• **The nature of TWE Manufacturing's operations** which should state that it manufactures DVDs, clothing and accessories *(par. 21a(ii))*;	1
	• The **principal place of business**, namely South Africa *(par. 21a(iii))*;	1
	• The **proportion of ownership** held by TWE Group, namely 35% *(par. 21a(iv))*;	1
	• The **reconciliation of the investment in associates** carrying amount has been omitted *(par. B14b);*	1
	• The **intragroup transaction** (inventory sale) has also **not been eliminated** *(par. 28);*	1
	• The **net investment loan** to the associate has been **omitted from the carrying amount of the investment** in the associate *(IAS28 par.38); and*	1
	The following elements of the note has therefore been redrafted as far as the information provided allows:	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020		Marks
	2019	
TWE Manufacturing:	**R Dr. / (Cr.)**	1
Investment in Associate	*632 500	
Summarised financial information for the year		
Financial position		
Non-current assets	xxx	
Current assets	xxx	
Non-current liabilities	xxx	
Current liabilities	xxx	
Net assets		
Stated capital	100 000	
Retained earnings (1 370 000 – 120 000)	1 250 000	1
Profit or loss for the year		
Revenue	xxx	
Profit after tax for the year	xxx	

** Marks for calculation provided in reconciliation below.*

4.	• TWE Manufacturing **manufactures DVDs, clothing and accessories**.	1
	• Its operations are carried out within **South Africa**.	1

	• The Group has an ownership interest of **35%** in TWE Manufacturing. **Reconciliation of summarised financial information to investment in associate**			1
		2020	**2019**	
		R **Dr. / (Cr.)**	**R** **Dr. / (Cr.)**	
	Proportionate share of net assets of associate 2020: (1 470 000 x 35%) 2019: (1 470 000 – 120 000 = R1 350 000 x 35%)	514 500	472 500	 1 1
	Intercompany sale of inventory (R45 000/125 x 25 x 35%) **OR** (R45 000/125 x 25 x 35%) x 72%	(3 150)/ *(2 268)	-	1
	Loan to associate	80 000	80 000	1
	Goodwill (R500 000 – (R1 200 000 x 35%)	80 000	80 000	1
	Investment in associate	**671 350/ 672 232	**632 500	
	** An alternative approach applied to the intercompany inventory is to account for the deferred tax directly against the investment in associate as opposed to deferred taxation specifically. Therefore R2 268 is also acceptable.* *** An alternative approach of cost plus share of post-acquisition profit less intercompany sale of inventory plus loan to associate is also acceptable*			
			Available	**21**
			Maximum	**10**
			Communication skill – logical argument	*1*
			Total for part (a)	**11**

Part (b) **Discuss how TWE Holdings should recognise and measure the 5 000 shares to be issued by TWE Holdings in partial settlement of the acquisition of the 35% interest in DSS in its separate financial statements for FY2020.**	**Marks**
Initial recognition and measurement:	
• The 5 000 additional shares issued by TWE Holding constitute **contingent consideration as they are contingent on the DSS's sales reaching R16 million** by 30 June 2020 and should be reflected in the measurement of the investment recognised (together with any other consideration transferred).	1
• This contingent consideration will be **recognised on 1 September 2019**.	1
• Consideration should initially be **recognised** at the **acquisition date fair value.**	1
• The total fair value of the contingent consideration at 1 September 2019 amounts to **R178 000** (R35,60 per share x 5 000 shares).	1
• The acquirer shall **classify** this obligation to pay a **contingent consideration** as equity because they will be settled by a fixed number of shares i.e. 5 000 shares.	1
Subsequent recognition and measurement:	
• For the financial year ended June 2020 the achieved sales are R15,8m, thus the required sales target per the purchase agreement has **not been achieved**. As a result, TWE Holdings **does not have an obligation** to issue any shares to the sellers.	1
• Due to the 5 000 shares being recognised as **equit**y, they will **not be remeasured subsequently** nor remeasured on settlement.	1
• The **equity component recognised at acquisition will remain in equity** in the separate financial statements of TWE Holdings or it can be **transferred to retained earnings.**	1
Available	**8**
Maximum	**6**
Total for part (b)	**6**

Part (c)	Prepare the pro forma journal entries to account for the investment in DSS in the consolidated financial statements of the TWE Group for FY2020. • Do not provide journal entries for the attribution of the FY2020 profit to the non-controlling interests. • Do not provide separate journal entries for the elimination of profit or loss line items during FY2020 up and until the acquisition date.			Marks
		Dr.	**Cr.**	
		R	**R**	
J1	Dr. Other expenses (P/L)	65 000		1
	Cr. Investment (SFP)		65 000	
	Expensing acquisition related costs on consolidation			
J2	Dr. Mark-to-market reserve (SCE) ((380 000 – 300 000) x 77,6%)	62 080		1 + 1
	Cr. Retained earnings (SCE)		62 080	1
	Reclassification of reserve to retained earnings			
J3	Dr. Share capital (SCE)	100 000		1
	Dr. Retained earnings (SCE)	1 860 000		1
	Dr. Intangible asset (SFP)	620 000		1
	Dr. Computer equipment (SFP)	150 000		1
	Dr. Goodwill (SFP) (balancing)	418 600		1P
	Cr. Deferred tax (SFP) ((620 000 + 150 000) x 28%)		215 600	1P + 1P
	Cr. Investment (SFP) (C1)		1 483 000	[C1]
	Cr.Non-controlling interests (SFP)		1 450 000	1
	Elimination journal at acquisition of subsidiary			
	Including employee benefits in PFJE (IFRS 3: measurement exception)			- 1
	Including the payment to the acting COO (IFRS 3: payment for future services)			- 1
J4	Accumulated depreciation (SFP) (Accum)	300 000		1
	Computer equipment (SFP) (Cost)		300 000	
J5	Dr. Depreciation (P/L)	150 000 /41 667*		1P
	Cr. Accumulated depreciation (SFP)		150 000 /41 667*	1C
	Depreciation of at acquisition fair value adjustment on computer equipment			
J6	Dr. Deferred tax liability (SFP) (150 000/41 667* x 28%)	42 000 /11 667*		1P
	Cr. Deferred tax/income tax expense (P/L)		42 000 /11 667*	1C
	Deferred tax on depreciation			
J7	Dr. Other income/Sales (P/L) (given)	140 000		1
	Cr. Other expenses/Cost of Sales (P/L)		140 000	1
	Intragroup management fee paid			
J8	Dr. Accrued expenses (SFP) (given)	14 000		1
	Cr. Other debtors (SFP)		14 000	1
	Intragroup management fee paid – balance at year end			
C1.	**Consideration transferred**			
Cash			990 000	1
Contingent consideration			178 000	1C
Fair value of previously held interest			380 000	1
			1 548 000	

Less: Acquisition-related costs ***(PFJE 1)***		(65 000)	1
Total Investment for elimination		**1 483 000**	

Available	**25**
Maximum	**24**
Communication skills – presentation	***1***
Total for part (c)	**25**

Part (d) Calculate the estate duty payable by Buzz's estate. Provide reasons for assets or liabilities which should not be included in the estate duty calculation.		Marks
	R	
Property		
Flat in Australia	4 750 000	½
Listed shares in TWE Holdings 10 000 x R300 ** Alternative: no value included for shares held in TWE Holdings because the value per share was not given OR no amount included for shares held in TWE Productions because the number of shares were not given.*	3 000 000	1
Primary residence in Johannesburg	12 700 000	½
Shares in an Australian company – s5(1)(*f*)bis	4 750 500	1
Cars and sundry personal assets	7 800 000	½
Domestic life policy R10 100 000 [1] – R215 000 [1] – s3(3)(*a*)	9 885 000	1 + 1
Bare dominium in a farm in the Free State: (R3 700 000 x 70% [1]) – R3 282 878 [1] = (R692 878) limited to Rnil.	–	1 + 1
Cash on call account	8 000 000	½
Total value of property	**51 578 378**	
Allowable deductions		
Deathbed and funeral expenses – s4(*a*)	(180 000)	½
SARS: Income tax payable by the deceased – s4(*b*)	(780 000)	1
Master's fee and executor's remuneration – s 4(*d*)	(1 193 422)	½
Flat in Australia – s4(*e*)(*i*)	(4 750 000)	1
Outstanding bond on the flat in Australia – The amount cannot be deducted as it has not been discharged from property included in the estate and the amount of the debts don't exceed the value of any assets of Buzz outside the RSA and not so included – section 4(f).	–	1
Bequeathed to spouse – s4(*q*)	(12 700 000)	1
Total allowable deductions	**19 603 422**	
Net value of the estate	31 974 956	
Abatement – s 4A	(3 500 000)	1
Dutiable amount – s4A	28 474 956	
Estate duty		
Amount up to R30m – 20% x R28 474 956	5 694 956	1C
Estate duty payable	**5 694 911**	
	Available	**15**
	Maximum	**15**
	Total for part (d)	**15**