"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

ADVANCED ACCOUNTING MAC 401

END OF SECOND SEMESTER EXAMINATIONS

MAY/ JUNE 2020

LECTURER: N. E CHIRIMA

TIME:48 Hours

INSTRUCTIONS

ANSWER ONE QUESTION IN MICRO SOFT WORD 97 – 2003 Document.

EACH QUESTION IS WORTH 50 MARKS

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION 1 PART 1

K Ltd’s Draft Trial Balance for the year ended 30 April 2020

	DR ($)	CR ($)
Revenue		149,078,000.00
Purchases	82,350,000.00	
PPE 1/05/2019	92,875,000.00	
Administrative Expenses	26,043,000.00	
Distribution Expenses	7,144,000.00	
Marketing Expenses	2,957,000.00	
Research and development expenses	1,500,000.00	
Allowance for receivables		130,000.00
Receivables/ Payables	10,539,000.00	
Cash	177,000.00	
Bank Acc 1	2,000.00	
Bank Acc 2		
Non – Current Assets held for Sale (1/5/2019)	1, 000, 000.00	1,471,000.00
Inventory 1/ 05/ 2019	7,927,000.00	
Accumulated Depreciation 1/05/2019		17,510,000.00
Ordinary Share Capital 50c par 1/05/2019		43,000,000.00
10% Long Term Loan		10,000,000.00
5% Preference Share Capital		3,000,000.00
Preference Dividend	75,000.00	
Accumulated Impairment Loss 1/05/2019		150,000.00
Payables		6,000,000.00
Revaluation Reserve 1/05/2019		750,000.00
Investment Property 1/05/2019	3,500,000.00	
Retained Earnings 1/05/2019		5,000,000.00
	236,089,000.00	236,089,000.00

Additional Information

1. K Ltd’s policy is to prepare its financial statements in accordance with IFRS/ IAS and states the following measurement criteria for its assets:

Inventory	cost is measured using Average Cost Method based on IAS 2
PPE	measured using the revaluation model
Investment Property	measured using the fair value model
Intangible assets	measured using the cost model

2. At year end, inventory held had an average cost value of $13 551 000 and includes $1 200 000 worth of inventory were found to be obsolete but management have determined that after spending $500 000 on the damaged goods they can sell them for $1 320 000. Inventory with a cost value of $450 000 had been excluded from the closing inventory amount and accounted for as sold for $720 000; this inventory had been on a sell/ return contract basis and the customer returned the goods on 30 April 2020.
3. PPE consists of the following:

	1/5/2019 $000	**Acc Depn 1/03/2019 $000**	**Carrying Amount $000**	**Fair Value 30/4/2020 $000**
Land	45,000.00		45,000.00	65,000.00
Machinery	24,800.00	8,500.00	16,300.00	9,820.00
Office Equipment	15,775.00	7,500.00	8,275.00	9,300.00
Factory Equipment	6,300.00	1,500.00	4,800.00	3,700.00
Vehicles	1,000.00	10.00	990.00	970.00
	92,875.00	17,510.00	75,365.00	

All assets are depreciated at 10% per annum. The fair value has been included after considering cost to sell. The value in use for the machinery $10,820 million; for the office equipment $10,7 million and for factory equipment $2,56 million.

4. Part of the land; with a cost value of $15 million and a fair value as at 30 April 2020 of $17,5 million, is being held for capital appreciation. During the year $45 000 was spend on the land held for capital appreciation to fight a locust plague that was destroying the natural vegetation. This amount has not been captured in the trial balance and is yet to be paid.
5. Land with a cost value of $5 million has been illegally settled on since 1 January 2018. The company has since taken legal action but the case is still pending court judgment. The probability of who will win the case is not clear though the company lawyer is highly hopeful.
6. Factory Equipment valued at $150 000 as at 30 April 2020 (included in PPE) has been redundant for the past 3 years and management is considering selling it. A buyer willing to purchase the equipment at $140 000 has approached management and discussions are in progress, with management trying to bargain a better selling price for the equipment. To sell it, the equipment has to be serviced for $15 000 and a few parts replaced at a cost of $65 000.
7. Non Current Assets Held for sale reported for the year ended 30 April 2019 have not yet been sold and have been used in the normal course of production during the year. Management still intends to sell the assets although there is no clear justification as to why they were not sold in the year just ended.
8. A building was acquired on the 1st of September 2019 for 750 000, on a 7% mortgage. 45% of the building will be used as office space for K Ltd while the rest will be let out. The building is made up of apartments which can be separately identified and sold. This transaction has been omitted. Interest on the mortgage accrues annually. The valuer has determined its fair value as at 30 April 2020 at $1 million.
9. Included in marketing expenses are the following:
    - Advertising expenses $200 000
    - $21 000 relating to the development of two prototypes developed during the year. A final choice between the two is yet to be made.
    - $25 000 spend during the current year to develop a trademark internally whose benefits will flow to the company over a period of 10 years
    - $43 000 spend on the development of a new product which will be launched onto the market on 31 March 2021.

10. A rights issue of 2 shares for every 100 shares held was issued on 29 April 2020; proceeds being deposited into bank acct 2. This is yet to be incorporated into the trial balance.
11. A 5% ordinary dividend has been declared on all shares in issue as at 1 April 2020.
12. A transfer of $9 million is to be made to the general reserve.

You are required to prepare:

a. K Ltd's Statement of Profit or Loss and other Comprehensive Income for the year [9 marks]
b. K Ltd's Statement of Changes in Equity for the year [3 marks]
c. K Ltd's Statement of Financial Position as at 30 April 2020 [10 marks]
d. Notes to the Financial Statements [3 marks]

Clearly show and reference your workings in Micro – Soft Word.

QUESTION 1 PART 2

Father Ltd purchased 1,450,000 ordinary shares in Son Ltd on 1 January 2010, when the general reserve of Son Ltd stood at $400,000 and retained earnings was $150 000. The statements of financial position of the two companies as at 31 December 2019 are set out below.

	Father	Son
ASSETS	$000	$000
NON - CURRENT ASSETS		
Property, Plant and Equipment	8,868.00	1,787.00
Investment in Son Ltd	1,450.00	-
	10,318.00	***1,787.00***
CURRENT ASSETS		
Inventory	1,983.00	1,425.00
Receivables	1,462.00	1,307.00
Cash	25.00	16.00
	3,470.00	***2,748.00***
	13,788.00	***4,535.00***
EQUITY AND LIABILITIES		
EQUITY		
Ordinary Share Capital ($1 each)	5,500.00	-
Ordinary Share Capital ($0.50 each)	-	1,000.00
General Reserve	1,200.00	800.00
Retained Earnings	485.00	100.00
	7,185.00	***1,900.00***

NON - CURRENT LIABILITIES		
Long term loans	***4,000.00***	***500.00***
CURRENT LIABILITIES		
Bank Overdraft	1,176.00	840.00
Payables	887.00	1,077.00
Tax Payable	540.00	218.00
	2,603.00	***2,135.00***
	13,788.00	***4,535.00***

At the end of the reporting period the current account of Father Ltd with Son Ltd was agreed at $23,000 owed by Son Ltd. This account is included in the appropriate receivable and trade payable balances shown above. It is the group's policy to value the non-controlling interest at its proportionate share of the fair value of the subsidiary's net assets.

You are required to prepare a consolidated Statement of Financial Position (and the accompanying notes) for the Father Son Group of Companies as at 31 December 2019. [10 marks]

Clearly show your workings

QUESTION 1 PART 3

Internationally there are two boards which are responsible for reporting standards: the Financial Accounting Standards Board and the International Accounting Standards Board.

1. Compare and contrast the two boards. [5 marks]

2. There have been proposals and plans to converge the two boards. In your opinion, what are the advantages of converging the two boards and having one international board overseeing reporting standards? [10 marks]

QUESTION 2

The following are trial balances for P Ltd and S Ltd for the year ended 29 February 2019.

	P Ltd	S Ltd
	DR/(CR)	DR/(CR)
Share capital- 525 000 ordinary shares	(525,000.00)	-
share capital-90 000 ordinary shares	-	(90,000.00)
Retained earnings- 1 March 2017	(497,335.00)	-
Accumulated loss - 1 March 2017	-	86,700.00
Gross profit	(183,525.00)	(195,000.00)
Other income	(54,500.00)	-
Other expenses	96,630.00	31,300.00
Income tax expense	30,631.00	45,836.00
Dividend paid 28 February 2018	80,000.00	20,000.00
Loan from Paul Limited	-	(100,000.00)
Trade and other payables	(40,470.00)	(14,320.00)
Property plant and equipment	621,609.00	162,000.00
Investment in Saul Limited- Ordinary shares	65,000.00	-
Investment in Saul Limited- Loan	100,000.00	-
Available -for-sale financial assets	175,000.00	-
Trade receivables	23,960.00	24,184.00
Inventories	108,000.00	29,300.00
Totals	-	-

Additional information

1. On 1 March 2016, P Ltd acquired 60% in S Ltd when S Ltd's equity comprised of 90 000 ordinary shares at $1 each and retained earnings of $12 000. On this date, there were no unidentified assets,

liabilities or contingent liabilities. The fair value of all assets, liabilities and contigent liabilities were confirmed to be equal to the carrying amounts thereof.

2. During the current year P Ltd made a loan to S Ltd at 10% annual interest and no repayment dates set. The interest received/ paid has been included in the above trial balances.

3. P Ltd charges S Ltd a management fee of $7 000 per year. This has been included in other expenses.

4. Goodwill was tested for impairment and was found to be impaired to $1 000.

5. The group uses the proportionate method to account for goodwill.

6. It is the group's policy to value the non-controlling interest at its proportionate share of the fair value of the subsidiary's net assets.

Required

a. Prepare the annual consolidated financial statements for the group for the year ended 29 February 2019 including the accompanying notes [10 marks]

b. With reference to examples of companies listed on the Zimbabwe Stock Exchange as well as the relevant standards, explain the meaning of:

   a. Control [8 marks]

   b. Power [7 marks]

   c. Subsidiary [3 marks]

   d. Joint Venture [5 marks]

   e. Associate [4 marks]

   f. Non – current asset investment [3 marks]

c. Given the developments concerning the new and revised International Accounting Standards and International Financial Reporting Standards, Accountants need to make themselves conversant with the developments. Critically examine and comment on the development of the following; (the discourse should outline the major changes made from the superseded accounting framework/ standard as well as the updates adopted since then).

1. IFRS 3 [3 marks]
2. IFRS 9 [7 marks]

END OF PAPER