COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

ADVANCED ACCOUNTING – MAC 401

END OF FIRST SEMESTER EXAMINATIONS

April/ May 2019

LECTURER: N. E CHIRIMA

DURATION: 3 HRS

INSTRUCTIONS

ANSWER **ALL** QUESTIONS

MARKS ARE SHOWN AT THE END OF EACH QUESTION

ALL WORKING IS TO BE SHOWN CLEARLY IN THE AFRICA UNIVERSITY ANSWER BOOKLET. ANYTHING WRITTEN IN PENCIL IS DEEMED TO BE WORKING.

CREDIT WILL BE AWARDED FOR NEATLY PRESENTED WORK

START EACH QUESTION ON A NEW PAGE.

QUESTION 1 [25 MARKS]

The Statements of Financial Position of P Ltd and S Ltd for the year ended 31 October 2018 are as follows:

	P Ltd $000	S Ltd $000
NON - CURRENT ASSETS	***194,000.00***	***90,000.00***
Land	4,000.00	-
PPE	120,000.00	90,000.00
Investment	70,000.00	-
CURRENT ASSETS	***113,000.00***	***57,000.00***
Inventory	55,000.00	34,000.00
Trade Receivables	38,000.00	18,000.00
Cash and cash equivalents	20,000.00	5,000.00
Total Assets	**307,000.00**	**147,000.00**
EQUITY	***262,000.00***	***125,000.00***
200 000 shares at $1 each	200,000.00	-
80 000 shares at $1 each		80,000.00
Retained Earnings	62,000.00	45,000.00
LIABILITIES	***45,000.00***	***22,000.00***
Short term loans	10,000.00	-
Other Payables	35,000.00	20,000.00
Long Term Loans	-	2,000.00
Total Capital Employed	**307,000.00**	**147,000.00**

i. P Ltd owns 80% of S Ltd since S Ltd's incorporation on 1 January 2016. P only holds investments in S Ltd.

ii. During the year S Ltd had been advanced $8 000 by P Ltd. This amount is included in receivables and payables of the two companies.

iii. Non Controlling Interest is to be computed at its appropriate share of P Ltd's net assets.

iv. It was found that $500 of the goodwill acquired in the business combination was impaired.

v. The following information is also available:

Asset	Fair Value at 1 January 2016		Fair Value at 31 October 2018	
	P LTD	S LTD	P LTD	S LTD
Land	$3 500		$5 200	
PPE	$110 000	$97 000	$117 00	$98 500

a) Clearly showing your workings you are required to prepare the Consolidated Statement of Financial Position for P Ltd as at 31 October 2018. [15 marks]

b) Distinguish between an Investment in Financial Assets, an association, a joint venture and a subsidiary. [5 marks]

c) According to IFRS 3, when is an investment recognised as a business combination? [5 marks]

QUESTION 2 [10 MARKS]

a) On 1 December 2018, a company became committed to a plan to sell a manufacturing facility and has already found a potential buyer. The company does not intend to discontinue the operations currently carried out in the facility. At 31 December 2018 there is a backlog of uncompleted customer orders. The subsidiary will not be able to transfer the facility to the buyer until after it ceases to operate the facility and has eliminated the backlog of uncompleted customer orders. This is not expected to occur until spring 2019.

Required

Can the manufacturing facility be classified as 'held for sale' at 31 December 2018? [5 marks]

b) On 20 October 2017 the directors of a parent company made a public announcement of plans to close a steel works. The closure means that the group will no longer carry out this type of operation, which until recently has represented about 10% of its total turnover. The works will be gradually shut down over a period of several months, with complete closure expected in July 2018. At 31 December output had been significantly reduced and some redundancies had already taken place. The cash flows, revenues and expenses relating to the steel works can be clearly distinguished from those of the subsidiary's other operations.

Required

How should the closure be treated in the financial statements for the year ended 31 December 2017? [5 marks]

QUESTION 3 [20 MARKS]

a) On 1 September 2017, R Ltd acquired a new manufacturing property and decided to lease the old property to another company in terms of an operating lease. The details of the leased out property are as follows:

Cost:	
Land	$500 000
Buildings	$1 200 000
Accumulated depreciation on buildings (1/01/2017)	$240 000
Fair Value – 1/ 09/ 2017	$630 000
Buildings	$1 210 000
Fair Value (31/ 12/ 2017)	
Land	$650 000
Buildings	$1 235 000

Owner occupied property is accounted for using the cost model while investment property is accounted for using the fair value model. Owner occupied buildings are depreciated on a straight line basis over 15 years and with nil residual value.

You are required to prepare the journal entries in relation to the above property for the year ended 31 December 2017. [10 marks]

b) G Ltd, a manufacturing company, purchased an office building; with a 30 year useful life; in central business area of Mutare. The capacity of the building is 20 000m² and it is fully let.

You are required to discuss the accounting treatment of the abovementioned land and buildings in the financial statements of G Ltd. [10 marks]

QUESTION 4 [15 MARKS]

Talychi Ltd started constructing a store room on 1 Januay 2015. The following relevant information is provided:

Estimated cost	$4 millon
Estimated period of construction	16 months

Expenditure in respect of the project was incurred during the following months:

January 2015	$80 000
February 2015	$30 000
March 2015	$60 000
April 2015	$50 000
December 2015	$200 000

On 30 April 2015 active development of the storeroom ceased. Construction only started again on 1 December 2015.

From 1 January 2015 upto 31 March 2015, the project was primarily financed by a bank overdraft facilitiy specifically obtained for the project. Interest on the bank overdraft is at 15% per annum payable monthly in arrears.

On 1 April 2015, the full balance of the overdraft was repaid from a general pool of company funds. From that date onwards the project was also financed by means of the general pool of funds which consisted of 17% interest bearing debts of $8 million. The total interest expense for the company amounted to $1 374 567 for the year ended 31 December 2015. Talychi Ltd capitalizes borrowing costs on a monthly basis for accounting purposes.

You are required to disclose the following notes to the financial statements of Talychi Ltd for the year ended 31 December 2015:

a) Property, Plant and Equipment [7 marks]

b) Finance Cost [8 marks]

Clearly show your computations

QUESTION 5 [15 MARKS]

On 1 January 2013, Chichi Ltd bought a plant at a cost of $100 000. Depreciation is computed using the straight line basis over 10 years. Its net replacement cost at the end of 2015 was $71750.

At the end of 2016 there were indications that the plant was impaired. The recoverable amount was determined at $58 000.

At the end of 2017 the conditions that led to impairment in 2016 no longer existed and the recoverable amount of the plant was determined at $54 000.

Chichi Ltd revalues its assets every 3 years at the end of the year. At revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset. Depreciation for each financial year is computed on the most recent revalued amount. The revaluation surplus is realized as the assets are used.

You are required to prepare journal entries for the plant for the years ended 31 December 2015, 2016 and 2017 so as to comply with the International Financial Reporting Standards. [15 marks]

QUESTION 6 [15 MARKS]

The accountant of Small Ltd was recently appointed but she studied accounting some years back and is not well versed with the recent changes in accounting standards. The following issues have arisen during the financial reporting period under review and she approaches you for assistance:

1. The company has been in business for a number of years and has established a portfolio of loyal customers. The managing director has indicated that this portfolio of loyal customers be included as intangible assets in the Statement of Financial Position as he is of the opinion that this would faithfully represent the net worth of the company.

2. Early in the current year a new production process was brought into use staff was trained for three months to operate the system. Total training expenses amounted to $22 000. The new system will be in use for 8 years and the accountant has proposed to capitalize the training costs and amortize them over 8 years.

3. Market research has indicated that there is need for a device that can be used for self defense. Two prototypes were developed during the year at a cost of $21 000. A final choice between the two prototypes will be made in the next financial year. The accountant wants to capitalize the $21 000.

Indicate in each of the above cases whether or not the costs may be capitalized. Motivate your answer in accordance with the International Financial Reporting Standards. [15 marks]

END OF PAPER