COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMAC 401: ADVANCED ACCOUNTING

END OF FIRST SEMESTER EXAMINATION

NOVEMBER 2022

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DURATION: 3 HOURS

INSTRUCTIONS

You are required to answer questions as instructed

Answer **all** questions

Start **each** question on a new page in your answer booklet

Credit will be awarded for logical, systematic and neat presentations

QUESTION ONE

a) The Income Statement for P (parent) and S (subsidiary) for the year ended 31 August 20x4 are shown below.
P acquired 75% of the ordinary share capital of S several years ago.

	P	S
	$000	$000
Revenue	1 200	400
Cost of sales	(1 080)	(360)
Gross Profit	120	40
Administrative Expenses	(75)	(30)
Profit before tax	45	10
Tax	(15)	(6)
Profit for the year	30	4

Required:

Prepare the group income statement (8 marks)

b) Company B is a subsidiary of company A.

- Company A makes sales of $100,000 worth inventory to company B
- Company B sales that particular inventory for $150,000 to an external party.

Required:
Explain the treatment of the transaction in the consolidated income statement (8 marks)

c) Summarized statements of changes in equity for the year ended 31 December 2021 for Hazy and it only subsidiary Tany, are shown below:

	Hazy	Tany
	$000	$000
Balance at 1 January 2021	280 250	85 100
Profit for the year	51 200	10 000
Dividends	(10 000)	(4 000)
Balance at 31 December 2021	321 450	91 100

Hazy acquired 70% of the issued share capital of Tany on 1 January 2018 when Tanya's total equity was $48.2 million. The first dividend Tany paid since acquisition is the amount of $4million in the summarised statement above. The profit for the period of $51.2m in Hazy's summarised statement of changes in equity above does not include its share of the dividend paid by Tany. It is group policy to value Non-Controlling Interest (NCI) at its proportionate share of net assets at acquisition.

Required:

Prepare a summarized consolidated statement of changes in equity for Hazy Group for the year ended 31 December 2021 (9 marks)

QUESTION TWO

a) Explain the qualifying criteria for an asset "held for sale" according to IFRS 5 (5 marks)

b) ABC Ltd owns a building which it has used for many years as a factory. On 1 January 2021 the building had a carrying value of $15m with an estimated useful economic life of 15 years. ABC uses the cost model under IAS 16 to account for buildings. On 1 April 2021 ABC commenced operations in a new building, and the old one was placed on the market as it was no longer being used. The estimated proceeds of sale were $13 million, less selling costs of $0.2 million. It was seen as highly probable at that date that the building would sell at that price. By year end, 31 December 2021, the building remained unsold, so ABC Ltd reduced the asking price to $11m. The estimate of selling costs remained the same. The directors of ABC Ltd believed at that date it was highly probable the sale would occur within 12 months at the lower price.

Required:
Explain how the old building should be treated in the books of ABC Ltd for year ended 31 December 2021 (show all workings). (20 marks)

QUESTION THREE

a) The store was completed on 1 January 20X2 and brought into use following its opening on the 1 April 20X2. Ham Co took out a $25m loan on 1 April 20X1 to aid construction of the new store (which meets the definition of a qualifying asset per IAS 23, *Borrowing Costs*). The loan carried an interest rate of 8% per annum and is repayable on 1 April 20X4.

Required
Calculate the amount to be included as PPE in respect of the new store and describe the impact that the above information would have on the statement of profit or loss (if any) for the year ended 31 March 20X2. (5 marks)

b) A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is $500 , which is equal to the present value of the restoration costs. The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around $ 800 . This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately $1,200 excluding restoration costs. The carrying amount of the mine is $1,000 . Please note that all the figures are in thousands.

Explain how you would test for impairment showing all workings (20 marks)

QUESTION FOUR

a) Differentiate Investment property (IAS40) from Property Plant and Equipment (IAS16) (5 marks)

b) Explain how the following change of use would be treated in the books of accounts:

i. Investment property to business property PPE (IAS16)

ii. Investment property to Inventory (IAS 2)

iii. Inventory to Investment Property (IAS40)

iv. Business property to Investment Property (IAS 40) (20 marks)

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END OF EXAMINATION