AFRICA UNIVERSITY
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COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE (CBPLG)

ADVANCED ACCOUNTING – MAC 401

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/ DECEMBER 2018

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 [20 marks]

P Ltd purchased 1 450 000 ordinary shares in S Ltd on 1 January 2017, when the general reserve of S Ltd was $400 000 and there were no retained earnings. The Statements of Financial Position as at 31 December 2018 for the two companies are as below:

	P Ltd	S Ltd
ASSETS	**$000**	**$000**
Non Current Assets	**10,318.00**	**1,787.00**
Property Plant and Equip	8,868.00	1,787.00
Investment in S	1,450.00	-
Current Assets	**3,470.00**	**2,748.00**
Inventory	1,983.00	1,425.00
Receivables	1,462.00	1,307.00
Cash	25.00	16.00
Total Assets	***13,788.00***	***4,535.00***
EQUITY AND LIABILITIES		
Equity	**7,185.00**	**1,900.00**
Share Capital (50c Ordinary Shares)	5,500.00	1,000.00
General Reserve	1,200.00	800.00
Retained Earnings	485.00	100.00
Non - Current Liabilities	**4,000.00**	**500.00**
Long Term Loan @15%	4,000.00	-
Debentures @10%	-	500.00
Current Liabilities	**2,603.00**	**2,135.00**
Bank Overdraft	1,176.00	840.00
Payables	887.00	1,077.00
Deferred Tax	540.00	218.00
Total Equity and Liabilities	***13,788.00***	***4,535.00***

At the end of the reporting period, it was agreed that S Ltd owed P Ltd $23 000 and this was appropriately included in the relevant receivables and payables balances. The group's policy is to value Non Controlling Interest at its proportionate share of the fair value of S's net assets.

You are required to prepare the consolidated Statement of Financial Position for P Group as at 31 December 2018.

QUESTION 2 [20 marks]

With reference to the relevant standard, define the following:

a. Parent	[4 marks]
b. Joint Operations	[4 marks]
c. Control	[4 marks]
d. Power	[4 marks]
e. Business Combination	[4 marks]

QUESTION 3 [20 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? [6 marks]

c) Two real estate companies (the parties) set up a separate vehicle (Shamah) for the purpose of acquiring and operating a shopping centre. The contractual arrangement between the parties establishes joint control of the activities that are conducted in

Shamah. The main feature of Shamah's legal form is that the entity, not the parties, has rights to the assets, and obligations for the liabilities, relating to the arrangement. These activities include the rental of the retail units, managing the car park, maintaining the centre and its equipment, such as lifts, and building the reputation and customer base for the centre as a whole. The terms of the contractual arrangement are such that:

i. Shamah owns the shopping centre. The contractual arrangement does not specify that the parties have rights to the shopping centre.
ii. The parties are not liable in respect of the debts, liabilities or obligations of Shamah. If Shamah is unable to pay any of its debts or other liabilities or to discharge its obligations to third parties, the liability of each party to any third party will be limited to the unpaid amount of that party's capital contribution.
iii. The parties have the right to sell or pledge their interests in Shamah.
iv. Each party receives a share of the income from operating the shopping centre (which is the rental income net of the operating costs) in accordance with its interest in Shamah.

Required

Explain how Shamah should be classified in accordance with IFRS 11 Joint arrangements. [9 marks]

QUESTION 4 [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 5 [20 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. [20 marks]

END OF PAPER