AFRICA UNIVERSITY

(A United Methodist-Related Institution)

"Investing In Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 401 ADVANCED ACCOUNTING

SEMESTER 1: MAIN EXAMINATION-NOVEMBER 2014

LECTURER MR I. RARAMI

TIME: 3 HOURS

INSTRUCTIONS

Answer **ALL** questions

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

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

Use of a non-programmable calculator is permissible.

QUESTION 1

Below are the Statements of Financial Position of DD Ltd and its wholly owned subsidiary at 31 December 2013.

	DD Ltd	JM Ltd
ASSETS		
Non Current Assets		
Land and Buildings	80000	40000
Plant and Machinery	60000	10000
	140000	50000
Investment in JM Ltd at cost	55000	
Current Assets		
Inventory	19000	7000
Receivables	15000	6000
Cash and Cash equivalents	16000	7000
TOTAL ASSETS	**245000**	**70000**
EQUITY & LIABILITIES		
Ordinary Share Capital	200000	40000
Reserves	10000	5000
Retained Income	20000	15000
Current Liabilities		
Payables	15000	10000
TOTAL EQUITY & LIABILITIES	**245000**	**70000**

Additional Notes

a).DD Ltd acquired all the share capital of JM Ltd on 1/1/12 when the reserves of JM Ltd stood as follows:

Reserves	$1000
Retained Income	$8000

b). Included in the receivables of DD Ltd is $2000 owing by JM Ltd. The payables of JM Ltd included the $2000.

c). The closing inventory of JM Ltd include goods supplied by DD Ltd at $5000. DD Ltd marks up all its products at 25%

d). The plant and Machinery of DD Ltd includes a plant bought for $20000 from JM Ltd on 1/1/2013. JM Ltd made a profit of 20% on the invoice.

e). It is company policy to depreciate all plant and machinery by 20% on cost

Required:

1.Prepare an Analysis of Equity of DD Ltd in JM Ltd as at 31 December 2013. [10 marks]

2. Prepare the Proforma Journals. [4 marks]

3. Prepare the Consolidated Statement of Financial Position. [20 marks]

QUESTION 2

On 1 April 2012 Migodhi Kuvanhu Ltd started the construction of a coke oven at an estimated cost of $350000. The work was expected to be completed in 2 years. The expenditure on the project for the first year was as follows:

	$
1/4/2012	72400
1/7/2012	85600
1/10/2012	66300
1/1/2013	75700

On 1 April 2012, the company raised a 2 year United States Dollar denominated loan of $100000 at 15% per annum specifically to finance this project. Interest on this loan is payable on 31 March each year.

The company arranged a 3-month forward exchange contract for the loan repayment on 1 January 2014 at a cover rate of USD$1=$5000.
The exchange rate moved as follows during the relevant period:

	US$=Z$
1/4/2013	4500
1/1/2014	4800
31/3/2014	6500

Surplus funds were temporarily invested, earning $22500 for the company.

Required:

a).Calculate the borrowing costs to be capitalised for the year ended 31 March 2014. [12 marks}

b). According to the standard (IAS 23), borrowing costs may include what? [4 marks]

QUESTION 3

Rais Ltd acquired some mineral rights from Bocha Diamond Ltd 1/1/04 for a total of $500. Mining equipment with a value of $8000 was brought to the mine. When mining operations started on July 2004, buildings were erected for offices and staff at a cost of $3000. A railway line was constructed at a total cost of $1200. The first 3 years were good for the company as output exceeded expectations. From 1/9/08, output levels started declining. On 1 December 2008, consultants were engaged to make an estimate of future output levels so that management could come up with appropriate strategies. On 29 December 2008, a report was received from the consultants. It stated that the drilling machines with a book value of $350 used by the company were outdated and hence too slow. These could only be sold at no more than $60. The mine was expected in net terms to have profits before depreciation of:

	$
1999	3900
2000	3800
2001	3800
2002	3700
2003	3500
2004	3000

The future output is not expected to grow but would average $3000 from 2004 to 2010. The company's average weighted cost of capital is 20% and it is not expected to change.

The Statement of Financial Position of the company at 31/12/08 is as given below.

Statement of Financial Position as at 31/12/2008

Non Current Assets	
Intangible assets	350
Plant and Equipment	12500

Land & Buildings			8400
			21250
Current Assets			
Inventory		1800	
Receivables		1200	
Cash & cash equivalents	500	3500	
TOTAL ASSETS			**24750**

EQUITY & LIABILITIES

Ordinary Share Capital	14000
Reserves	9650
Current liabilities	1100
TOTAL EQUITY & LIABILITIES	**24750**

Required:

a). Calculate the impairment loss that should be recognised in the books of Rais Ltd. [20 marks]

b). Prepare the revised Statement of Financial Position as at 31/12/08 [11 marks)

c). What is recoverable amount? [2 marks]

QUESTION 4

Rais Ltd has airport landing rights in Harare, Mashonaland.Benjie Blessed Ltd has airport landing rights in Victoria Falls Matebeleland. Rais Ltd 's landing rights are valued at $120000 and they still have 10 years to run. The landing rights of Benjie Blessed Ltd also have 10 years to run. Raise Ltd decided to acquire Benjie Blessed Ltd's landing rights because they would save the company better since they were for a tourist resort. The terms of the agreement were that the two companies would swap their licenses with no cash and adjustment. Two days after the above agreement had been entered into. The government announced that all landing rights in tourist area would be cancelled after 5 years

Required:

a). Find the value at which the landing rights should be recorded. [6 marks]

b). Internally generated goodwill should never be capitalised. State the recognition criteria that it does not meet. [4 marks]

c). Mr D Dzaida invested a solar power engine that could be used in the automobile industry. Dzaida who is based in America enters into a contract with Willowvale Motor Industry whereby Willowvale will get sole right to produce the engine. The terms of the agreement are as follows:

Initial cash payment	$20000
Cost of the sample engine	$40000
10000 Willovale Motor Industry share	

Willovale Motor Industry also pays import duties of $2500. Willovale Motor Industry shares are currently trading at $15.00each. Due to exchange control regulations, payment was deferred, and as provided in the contract, Willovale Motor Industry had to pay an extra $3000 on the down payment.

Required:
Calculate the value at which the patent should be recorded. [7 marks]

END OF PAPER