AFRICA UNIVERSITY

"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 401 ADVANCED ACCOUNTING-mtre

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2016

LECTURER: NDONGWE I.

DURATION: 3 HOURS

INSTRUCTIONS

Answer **ANY** five (5) questions.

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

Credit will be awarded for logical, systematic and neat presentations. Show all working.

SILVER JUBILEE 25 YEARS 1992-2017

QUESTION ONE

a. Explain in general terms what the IASB Framework is trying to achieve. (10 marks)

b. There are those who suggest that any standard setting body is redundant because accounting standards are unnecessary. Other people feel that such standards should be produced, but by the government, so that they are a legal requirement.

Required:

Discuss the statement that accounting standards are unnecessary for the purpose of regulating financial statements. (10 marks)

QUESTION TWO

a. Pipo ltd. incurs the following costs in relation to the construction of a new factory and the introduction of its products to the local market.

	$'000
Site preparation costs	240
Materials used	1,500
Labour costs, including €90,000 incurred during an industrial dispute	3,190
No construction occurred during the period of the dispute.	
Testing of various processes in factory	150
Consultancy fees re installation of equipment	220
Relocation of staff to new factory	110
General overheads	500
Costs to dismantle the factory at end of its useful life in 10 years' time	100

Required:

Calculate the amount at which the machine should be stated in the accounting records of the firm in accordance with IAS16. (10 marks)

b. Explain the two models for the measurement (valuation) of non-current assets.(10 marks)

QUESTION THREE

a. On 1 January 2006 Stremans Co borrowed \$1.5m to finance the production of two assets, both of which were expected to take a year to build. Work started during 2006. The loan facility was drawn down and incurred on 1 January 2006, and was utilised as follows, with the remaining funds invested temporarily.

	Asset A	*Asset B*
	\$'000	\$'000
1 January 2006	250	500
1 July 2006	250	500

The loan rate was 9% and Stremans Co can invest surplus funds at 7%.

Required:

Ignoring compound interest, calculate the borrowing costs which may be capitalised for each of the assetsand consequently the cost of each asset as at 31 December 2006.

(10 marks)

b. Explain in general terms what the IASB *Framework* is trying to achieve. (10 marks)

QUESTION FOUR

A firm had an asset in its statement of financial position at 31 December 2001 as follows.

	\$
Cost	450,000
Accumulated depreciation	(300,000)
Carrying amount	150,000

On 31 December 2001 the asset was revalued to its fair value of \$600,000.

In 2001, depreciation of \$60,000 was charged on the asset. On 31 December 2001, the asset is revalued again and its fair value is now \$500,000.

Required:

Set out the amounts to be taken to the revaluation reserve in respect of this asset on 1 January 2001.

Ignore taxation. (20 marks)

QUESTION FIVE

a. A parent entity P acquired 100% of the equity shares of a subsidiary entity S when the subsidiary was first established. The net assets of S when it was first set up (total assets minus total liabilities).were valued at $120,000 and P paid $120,000 to acquire these net assets.

The summary statements of financial position of both entities when S was established and P acquired 100% ownership were as follows.

	Parent P $	Subsidiary S $
Non-current assets:		
Property, plant and equipment	640,000	125,000
Investment in S	120,000	-
	760,000	125,000
Current assets	140,000	20,000
	900,000	145,000
Equity:		
Equity shares of $1 each	200,000	80,000
Share premium	250,000	40,000
Retained earnings	350,000	-
	800,000	120,000
Current liabilities	100,000	25,000
	900,000	145,000

Required:

Prepare a consolidated statement of financial positionas at the date of incorporation. (12 marks)

b.

i. Ac ltd charged interest expenses incurred from the construction of tangible non-current assets to the income statement before but now it capitalizes the interest as an addition to the cost of tangible non-current asset as per IAS 23 borrowing costs.

ii. Ac ltd depreciate the machine using the reducing balance basis method at 30% but now it uses the new depreciation method over ten years.

iii. Account limited shows overhead expenses within cost of sales before but now it shows under administration expenses.

Required:
Determine whether the above transactions are a change in accounting policy or accounting estimate and whether the accounting treatment is retrospective or prospective.(8 marks)

QUESTION SIX

State three different regulatory influences on the preparation of the published accounts of quoted companies and briefly explain the role of each one. Comment briefly on the effectiveness of this regulatory system. (20 marks)