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FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: **MAC 401 Advanced Accounting (Harare Parallel)**

SEMESTER 1: **Final Examination November 2016**

LECTURER: **Mr S.N. Chuchu**

TIME: **3 HOURS**

INSTRUCTIONS

Answer **all five (5)** 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 logical, systematic and neat presentations.

Question 1

(a) Alpha Limited constructed a factory building at a cost of $120 000 and the building was available for use on 1 January 2013. The building has a useful life of 10 years and depreciation is charged on the straight-line basis. On 1 January 2016, the building is revalued in terms of the company's revaluation policy to a gross replacement cost of $160 000.

Required:
Compute the factory building's carrying amount before revaluation, the net replacement cost and the revaluation surplus. **[6 marks]**

(a) On 1 January 2015, Phonet Limited obtained a licence to operate a cell phone network for a period of 25 years. The total cost of the licence was $1 250 000. The licence is amortized on the straight-line basis over a period of 25 years, as it is expected that economic benefits relating to the licence will flow to the entity over this period.

On 31 December 2015, it is estimated that the licence will generate net cash inflows amounting to $212 500 per annum. A before-tax discount rate of 20% is considered appropriate. The expected future cash flows are lower than the original estimate because a similar licence was awarded to a major competitor on 1 July 2015. The licence can be sold on 31 December 2015 for $1 000 000. Assume that all the cash flows occur on the last day of every year.

Assume that the Zimbabwe Revenue Authority does not allow a deduction of the cost of the licence. Also assume a tax rate of 25%. The correct profit before tax for the year ended 31 December 2015 after taking the above information into account amounted to $750000.

Ignore deferred tax. The present value of $1 per period = $[1 - 1/(1+k)^n] \div k$.

Required:

1. Compute the amortization and determine impairment loss, if any **[4 marks]**
2. Compute the income tax expense **[3 marks]**
3. Prepare the statement of profit or loss and other comprehensive income for the year ended 31 December 2015. **[3 marks]**

(c) Beta Limited owns an office building with 100 offices. Five of these offices are occupied by the entity itself, while the other 95 are occupied by tenants. The offices of the building cannot be sold separately, and can also not be leased out separately under finance leases, as they share certain facilities, such as bathrooms and kitchen facilities.

Required:
Advise management of Beta Limited on how they should classify the office buildings as required by IAS 40. **[4 marks]**

Question 2

(a) List the criteria set out in IFRS 5 which must be met before an item can be classified as a non-current asset held for sale. **[5 marks]**

(b) Capricorn Limited, a manufacturer of several products, was incorporated on 1 January 2012. All the company's property, plant and equipment were acquired on this date and were available for use immediately. The following information with regard to property, plant and equipment was extracted from the company's statement of financial position as at 31 December 2014:

	Cost	Accumulated depreciation	Carrying amount
	$	$	$
Land	225 000	----------	225 000
Factory building	600 000	(36 000)	564 000
Plant and machinery	437 500	(213 500)	224 000
Motor vehicles	152 500	(74 500)	78 000
	1 415 000	324 000	1 091 000

The company has always depreciated its plant and machinery and motor vehicles at 20% per annum on the reducing balance basis. However, at 31 December 2015, the directors of the company decided to depreciate these assets on the straight-line basis over their remaining useful lives, as from 1 January 2015.

On 1 January 2015, the remaining useful lives of the assets were as follows:

Plant and machinery	3 years
Motor vehicles	2 years

Depreciation on factory building is provided at 2% per annum on the straight-line basis.

Required:

1. Calculate the depreciation for 2014 and 2015 **[4 marks]**
2. Disclose the notes: (a) Accounting policy; (b) Profit before tax. **[6 marks]**

(c) Sigma Limited has four segments, Yellow, Orange, White and Silver. The following segment information is available:

Operating segments	**Yellow**	**Orange**	**White**	**Silver**
	$	**$**	**$**	**$**
Total identifiable assets				
Tangible assets	200 000	560 000	80 000	40 000
Intangible assets	80 000	40 000	40 000	20 000
Total	280 000	600 000	120 000	60 000

Tangible assets of $140 000 cannot be allocated to operating segments.

Required:
Analyze the above data to identify the reportable segments in accordance with IFRS 8.

[5 marks]

Question 3

(b) The disclosure requirements of IFRS 12 apply when an entity has an interest in other entities. Identify any four (4) such other entities. **[4 marks]**

(b) Delta Limited is in the process of constructing a new manufacturing plant. The following information is available:

1. The board of directors appointed a committee to research the project. The committee estimated that it would take 20 months to complete the plant.
2. Construction on the plant commenced on 12 August 2015.
3. Expenditure associated with the project has already been capitalized to the cost of the plant.
4. No borrowing costs have capitalized to date.
5. The project has been, or will be, financed as follows:
   - Use of a general overdraft facility at an interest cost of 24% per annum until 31 December 2015.
   - The issue of debentures on 1 January 2016 at an interest cost of 12% per annum, redeemable at a premium of 5%. These debentures will be issued specifically to finance the project.
6. The company's financial year end is 31 December 2015.

Required:
Advise the board of directors of Delta Limited on the following:
1. Whether the interest paid on the overdraft facility for the period 12 August 2015 to 31 December 2015 should be capitalized to the plant. **[6 marks]**
2. Whether the company will be able to capitalize the interest paid on the debentures, as well as the premium on future redemption, to the plant. **[2 marks]**

(c) IAS 29 is applied to the primary financial statements of an entity that reports in the currency of a hyperinflationary economy. Outline any four (4) factors which should be considered to determine whether IAS 29 should be applied. **[8 marks]**

Question 4

Group Limited acquired 75% of the ordinary shares of Member Limited on 1 January 2013 when the retained earnings of Member Limited amounted to \$8 000. The abridged statements of profit or loss and other comprehensive income of the two companies for the year ended 31 December 2015 are as follows:

	Group Limited	**Member Limited**
	\$	**\$**
Revenue	450 000	110 000
Cost of sales	(232 000)	(62 000)
Gross profit	218 000	48 000
Other expenses	(140 000)	(22 000)
Profit before tax	78 000	26 000
Income tax expense	(20 000)	(8 000)
Profit for the year	58 000	18 000
Other comprehensive income	-------	-------
Total comprehensive income for the year	58 000	18 000

Additional information:

1. At date of acquisition, all assets and liabilities were considered to be fairly valued, except for an item of plant which had a fair value of \$16 000 above its carrying amount. The remaining useful life of the plant at date of acquisition was four years. Depreciation is calculated on the straight-line basis and is charged to cost of sales.

2. During the year, Group Limited sold goods to Member Limited for \$25 000. The goods were invoiced at cost plus 25%. At 31 December 2015, 50% of these goods remained unsold in the inventories of Member Limited.

3. The goodwill arising on business combination was impaired by \$1 000 at 31 December 2015.

4. Each ordinary share carries one vote.

5. Both companies did not issue additional shares during the year.

6. Assume a tax rate of 25%.

Required:

Prepare the consolidated statement of profit or loss and other comprehensive income of the group for the year ended 31 December 2015 in accordance with the requirements of IFRS. Notes and comparatives are not required. **[20 marks]**

Question 5

(a) On 15 June 2015, Gemini Limited sold goods in the USA for $50 000, when the exchange rate was $1.00 = R6.50. On 31 December 2015, the company's year end, the exchange rate strengthened to $1.00 = R6.00. The amount due was received in US dollars on 21 March 2016, when the exchange rate was $1.00 = R6.80. Gemini Limited has a functional currency of South African rands. Ignore the time value of money.

Required:
Show the relevant journal entries on 15 June 2015, 31 December 2015 and 21 March 2016 as required by IAS 21. **[6 marks]**

(b) On 1 January 2010, Large Limited paid $20 000 for a 30% investment in the equity share capital of Small Limited when the retained earnings of Small Limited amounted to $50 000. The carrying amounts of the assets of Small Limited were considered to approximate their fair values at this date. Abridged financial statements of the companies are given below.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2015

	Large Ltd	Small Ltd
	$	$
Revenue	420 000	148 000
Cost of sales	(150 000)	(50 000)
Gross profit	270 000	98 000
Dividends received	3 000	--------
Interest received	-------	2 000
Other expenses	(90 000)	(10 000)
Profit before tax	183 000	90 000
Income tax expense	(51 000)	(20 000)
Profit/total comprehensive income for the year	132 000	70 000

Statement of changes in equity for the year ended 31 December 2015 (for Small Ltd)

	Share capital	Replacement reserve	Retained earnings	Total
	$	$	$	$
Balance at 31 December 2014	10 000	--------	170 000	180 000
Total comprehensive in for year	-------	--------	70 000	70 000
Dividends paid	-------	--------	(10 000)	(10 000)
Transfer to replacement reserve	-------	30 000	(30 000)	--------
Balance at 31 December 2015	10 000	30 000	200 000	240 000

Required:
Analyze Large Limited's investment in Small Limited and prepare the group's statement of profit or loss and other comprehensive income for the year ended 31 December 2015, to comply with the requirements of IFRS. **[14 marks]**