AFRICA UNIVERSITY

"Investing in Africa's Future"

# FACULTY OF MANAGEMENT AND ADMINISTRATION

## MAC 401 ADVANCED ACCOUNTING

**END OF SECOND SEMESTER EXAMINATIONS**

**APRIL/MAY 2017 (1)**

**LECTURER: I. RARAMI**

**DURATION: (3 HRS)**

**INDEPENDENT STUDY**

---

### *INSTRUCTIONS*

**Answer ALL questions**

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.

**QUESTION ONE [20 MARKS]**

Good Day Ltd decided to change the policy for the valuation of inventory from the first-in, first out method to the weighted average method. The company's financial year ends on 31 December. The following information (prior to accounting for any changes in policies) was extracted from the statement of profit or loss and other comprehensive income for the year ended 28 February;

| | 2016 | 2015 |
|---|---|---|
| | $ | $ |
| Revenue | 1600000 | 1300000 |
| Cost of sales | (800000) | (520000) |
| Other expenses | (520000) | (498000) |
| Profit before tax | 280000 | 282000 |
| Income tax expense-current | (89000) | (102200) |
| Profit for the year | 191000 | 179800 |
| Total comprehensive income for the year | 191000 | 179800 |
| Dividends (statement of changes in equity) | 20000 | 10000 |

The information regarding the changes in accounting policy in respect of inventories is as follows:

| Inventories (closing) | 2016 | 2015 | 2014 |
|---|---|---|---|
| | $ | $ | $ |
| Weighted average (new) | 220000 | 280000 | 240000 |
| First-in, First out (old) | 180000 | 260000 | 260000 |

Retained earnings at the beginning of the year amounted to $24000 in 2015 and $207800 in 2016. Ignore any income tax consequences of the change in policy.

**Required:**

a). Statement of profit or loss and other comprehensive income for the year ended 28 February 2016. **[7 marks]**

b). Statement of changes in equity for the year ended 28 February 2016. **[4 marks]**

c). IAS 8 is accounting policies, changes in accounting estimates and errors.

i). Explain the accounting treatment of a change in accounting estimate. **[4 marks]**

ii). State the disclosure requirements of a change in accounting estimate. **[3 marks]**

iii). Explain the difference between a retrospective change in accounting policy and a prospective change in accounting policy. **[2 marks]**

**QUESTION TWO [20 MARKS]**

a). Make Money Bank Ltd has just purchased an Automated Teller Machine for $500000 excluding sales tax. Installation of the machine requires alterations to the main entrance of the building at a cost of $15000. A consultant from South Africa was hired to come and oversee the installation at a cost of $25000. Other costs include:

| | |
|---|---|
| Freight and Insurance | $ 5500 |
| Insurance in transit | $ 2000 |
| Spares | $40000 |
| Installation cables | $ 3000 |
| Consumables at installation | $ 1000 |
| Test runs | $ 5000 |
| Sign writing for "Money Link" | $ 1500 |
| Advertisement for advising customers of the machine arrival | $12500 |
| Connection Fees to ZimSwitch | $10000 |

Additional information.

The machine is to be depreciated at 20% straight line.

**Required:**

Calculate the cost price at which the machine should be recorded and the carrying amount of the machine after one year. **[8 marks]**

b). Bond Note Ltd has revalued its freehold premises and decided to incorporate the revaluation in the financial statements. The following information is provided:

Statement of financial position extract as at 31/12/2015

| | $ |
|---|---|
| Freehold premises at cost | 1000000 |
| Accumulated depreciation | (300000) |
| | 700000 |

i). Depreciation is being provided on the premises at 5% on straight line basis.
ii). The premises were revalued at $1200000 on 30 June 2016. There is no change in the remaining estimated life of this asset.

**Required:**

Show the relevant extracts from the financial statements for the year ended 31 December 2016 **[12 marks]**

**QUESTION THREE [35 MARKS]**

Below are Statements of Financial Position of Quick Buck Ltd and its wholly owned subsidiary Quick Cash Ltd at 31 December 2016.

| | QB Ltd<br>$ | QC Ltd<br>$ |
|---|---|---|
| **ASSETS** | | |
| **Non Current Assets** | | |
| Land and Buildings | 80000 | 40000 |
| Plant and Machinery | 60000 | 10000 |
| | 140000 | 50000 |
| Investment in QC 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). QB Ltd acquired all the share capital of QC Ltd on 1/1/2015 when the reserves of QC Ltd stood as follows:

| | |
|---|---|
| Reserves | $1000 |
| Retained income | $8000 |

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

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

d). The plant and machinery of QB Ltd includes a plant bought for $20000 from QC Ltd on 1/1/2016. QC 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:**
i). Prepare an analysis of Equity of QB Ltd in QC Ltd as at 31 December 2016. **[10 marks]**

ii). Prepare the Proforma Journals. **[5 marks]**

iii). Prepare the Consolidated Statement of Financial Position. **[20 marks]**

**QUESTION FOUR [25 MARKS]**

Raise Ltd acquired some mineral rights from Bocha Diamond Ltd on 1/4/2004 for a total of $500. Mining equipment with a value of $8000 was brought to the mine. When mining operations started on 1 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 three years were good for the company as output exceeded expectations. From 1/9/08, out 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 the 29 December 2008, a report was received from the consultants. It stated that the drilling machine 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 and Buildings | | 8400 |
| | | 21250 |
| **Current Assets** | | |
| Inventory | 1800 | |
| Receivables | 1200 | |
| Cash and 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. **[15 marks]**

b). Prepare the revised Statement of Financial Position as at 31 December 2008. **[10 marks]**

**END OF PAPER**