AFRICA UNIVERSITY

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"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP & GOVERNANCE

NMAC 401: ADVANCED ACCOUNTING

END OF SECOND SEMESTER EXAMINATIONS

MAY 2021

LECTURER : DR E. MUGUTI

TIME:7 HOURS

INSTRUCTIONS

Answer **ONE** question

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

Show all your workings where it is required.

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

QUESTION 1 (60 MARKS)

PART A (50 MARKS)

Amuli Papers Ltd (Amuli) is a VAT registered Zimbabwean company that specialises in the production of bond paper of different sizes. On 3 January 2013, Amuli bought a new, automatic bond making machine (The Machine) which was deemed to be more efficient. The equipment was available for use on 3 January 2013 but was brought into use on 3 February 2013.

The selling price of The Machine comprised of the following;

		$
	Price excluding VAT	1,040,000
	VAT at 14.5 %	150,800
	Price including VAT	1,190,800

Amuli also paid $36,000 to Zalawino Transporters who transported The Machine to Amuli's Graniteside factory in Harare. In addition, installation costs amounting to $24,000 were also paid.

Unfortunately, some minor parts of The Machine required repairs due to some damages during installation and these were repaired at a cost of $4,000.

The accounting policy of Amuli in relation to Property, Plant and Equipment is to provide for depreciation at 20% per annum on a straight-line basis. The residual value at the date of acquisition was estimated to be $100,000.

During the preparation of the financial statements for the year ended 31 December 2017, the Finance Director advanced an opinion that The Machine might be impaired due to technological advances in the market. There is an active market for this type of machine and at 31 December 2017 it could have been disposed of to a knowledgeable, willing buyer for $540,000. The costs of dismantling and removing the machine were estimated at $30,000. The present value of the expected return from the use of the machine over the remainder of its useful life amounted to be $498,000 and the present value of the estimated residual value amounted to $62,000.

At 31 December 2019, there is evidence from internal reporting that the economic performance of the asset has been better than expected. The fair value less costs to sell is estimated to be $340,000 and the value in use is estimated to be $396,000. The company uses the cost model to measure its Property, Plant and Equipment.

Required:
(a) Explain with supporting calculations the amount to be recorded as the initial cost of The Machine in the accounting records of Amuli. **(5 marks)**
(b) Why is it necessary to test assets for impairment and what are the procedures and calculations required in order to test for impairment? **(5 marks)**
(c) Determine whether The Machine has been impaired as at 31 December 2017. **(10 marks)**
(d) Draw up an extract from the notes to the financial statements of Amuli as at 31 December 2017 showing all the disclosures relating to The Machine. **(15 marks)**
(e) Discuss with supporting calculations whether there was an impairment reversal at 31 December 2019 and state the amount and accounting treatment of the reversal if any. **(15 marks)**

NB: Ignore deferred tax implications

PART B (10 MARKS)

(a) Pumudza Ltd bought 60% of the issued share capital of Sairosi Ltd on 1 January 2020. Each share entitles the holder to one vote at the annual general meeting (AGM) of Sairosi Ltd. The decisions made at the annual general meeting direct the relevant activities of Sairosi Ltd.

Required:

Discuss whether Pumudza Ltd should consolidate Sairosi Ltd using all the criteria in IFRS 10. **(5 marks)**

(b) Pakanaka Ltd bought 40% of the Issued Share Capital of Sakara Ltd at 1 January 2020. Pakanaka Ltd can appoint or remove 3 of the 5 directors on the board of Sakara Ltd. Each director is entitled to one vote at the directors' meeting. The decisions made at the directors' meetings direct the relevant activities of Sakara Ltd.

Required:

Discuss whether Pakanaka Ltd should consolidate Sakara Ltd using all the criteria in IFRS 10. **(5 marks)**
[Total: 60 marks]

QUESTION 2 (60 MARKS)

PART A (30 MARKS)
Arufai Ltd (Arufai), Bakasa Ltd (Bakasa) and Charuma Ltd (Charuma) are three mining companies registered in Zimbabwe. The three companies established separate arrangements depicted as Scenario A, Scenario B and Scenario C as shown in the table below. Decision making criteria and ownership interest are also shown.

	Scenario A	**Scenario B**	**Scenario C**
Decisions about relevant activities	Require the Unanimous consent of Arufai Ltd, Bakasa Ltd & Charuma Ltd	Require at least 80% of voting rights	Require at least 80% of voting rights
Ownership Interest			
Arufai Ltd	75%	40%	60%
Bakasa Ltd	10%	40%	20%
Charuma Ltd	5%	20%	20%

Additional Information
1. Under Scenario A, a separate private company was established in order to run the affairs of the arrangement. The companies have an interest in the net assets of the arrangement.
2. Under Scenario B, the companies have rights to the individual assets, and obligations for the liabilities, relating to the arrangement. No private company has been formed to handle the arrangement.

Required:
(a) Explain, with supporting figures, whether joint control exists under Scenario A, Scenario B and Scenario C. Also state the parties that jointly-control the arrangement, if any. **(20 marks)**
(b) Explain the accounting method and disclosures required for the companies under Scenario A, Scenario B and Scenario C. **(10 marks)**

PART B (30 MARKS)
Holy Stones Inc. is a company engaged in the trading of various minerals throughout African and Asian Regions. It has been defining its operating segments based on type of mineral as; Gold, Diamonds, Iron, Platinum and Zinc. Due to the sheer size of each segment, they all met the quantitative threshold for definition of reportable operating segment. During a recent management meeting, the company modified its management reporting framework and it now looks at its

operations from a geographical point of view. You are provided with the following information for the year ended 31 December 2020.

	Southern Africa	West Africa	East Africa	Central Africa	Asia Greater	UAE	Total
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue	2,200	1,000	2,400	3,200	1,000	400	10,200
Profit/ (Loss)	320	(50)	400	700	(130)	(30)	1,210
Assets	3,400	1,200	2,800	4,000	2,000	1,200	14,600

<u>Required:</u>

(a) Using the information above, explain, with supporting calculations which of the operating segments are required to be reported separately for the year ended 31 December 2020. **(25 marks)**

(b) Draft an extract of the notes to the financial statements showing any two disclosures relating to the operating segments. **(5 marks)**

[Total: 60 Marks]

QUESTION 3 (60 MARKS)

PART A (30 MARKS)

(a) Munenzva Ltd acquired 75% of the share capital of Shasha Ltd 2 years ago, when the reserves of Shasha Ltd stood at ZWL$2,500,000. Munenzva Ltd paid initial cash consideration of $20,000,000 Additionally, Munenzva Ltd issued 4,000,000 shares with a nominal value of $1 and a market value at the acquisition date of ZWL$3.60. It was also agreed that Munenzva Ltd would pay a further ZWL$10,000,000 in three years' time. Current interest rates are 10% per annum.

The appropriate discount factor for $1 receivable three years from now is 0.75. The shares and deferred consideration have not yet been recorded in the books of accounts.

Required:
Calculate the purchase consideration to be used in the calculation of Goodwill according to IFRS 3 *Business Combinations.* **(10 marks)**

(b) Haruna Ltd bought 90% of the equity share capital of Shamura Ltd, two years ago on 1 January 2019 when the retained earnings of Shamura Ltd stood at ZWL$100,000. Statements of Financial Position at the year end of 31 December 2020 are as follows.

Statement of Financial Position as at 31 December 2020		
Assets	**Haruna Ltd**	**Shamura Ltd**
Non-Current Assets	**ZWL$**	**ZWL$**
Property, Plant & Equipment	2,000,000	600,000
Investment in Shamura Ltd at Cost	680,000	
Total Non-Current Assets	**2,680,000**	**600,000**
Current Assets		
Inventories	1,800,000	400,000
Trade Receivables	2,200,000	500,000
Cash & Cash Equivalents	200,000	100,000
Total Current Assets	**4,200,000**	**1,000,000**
Total Assets	**6,880,000**	**1,600,000**
Equity & Liabilities		
Equity		
Ordinary Shares $1 each, fully paid	300,000	100,000
Retained Earnings	3,180,000	620,000
Total Equity	**3,480,000**	**720,000**
Non-Current Liabilities	2,400,000	560,000

Current Liabilities	1,000,000	320,000
Total Equity & Liabilities	**6,880,000**	**1,600,000**

Additional Information

1.Shamura Ltd transferred goods to Haruna Ltd at a transfer price of ZWL$360,000 at a mark-up of 25%. Half of these goods remained in inventory at the year end. The current account in Haruna Ltd and Shamura Ltd stood at ZWL$440,000 on that day.

2. Goodwill has suffered an impairment of ZWL$200,000.

3. The Group uses the fair value method to value the non-controlling interest. The fair value of the non-controlling interest at acquisition was ZWL$80,000.

Required:

Prepare the Consolidated Statement of Financial Position as at 31 December 2020. **(20 marks)**

PART B (10 MARKS)

Karimanzira Ltd is a Zimbabwean company incorporated on 1 March 2019. Companies in Zimbabwe uses the Zimbabwean Dollar (ZWL$) as their presentation currency.

Recent newspaper articles highlighted that the general Zimbabwean populace prefers to keep its wealth in US dollars, rands and in livestock. In addition, property sellers are refusing offers made in the local currency. Also, the general populace is marking monetary amounts in rands and US dollars and the largely informalised economy is still quoting prices in forex. Heavy penalties and interest rates are being levied on those defaulting on payments. However, the publication of year-on-year consumer price index was suspended by government, although the moratorium on the publication of year-over-year inflation happened when the year-over-year inflation was sitting at 175,66%.

Required:

Based on the information provided above, discuss whether the economy of Zimbabwe could be considered to be hyperinflationary according to the criteria in the relevant IFRS. **(10 marks)**

PART C (20 MARKS)

Pakamisa Ltd owns a building which it has used for many years as an Office Building in Harare CBD. On 1 January 2020, the building had a carrying value of ZWL$30million with an estimated useful economic life of 15 years.

Pakamisa Ltd uses the cost model under IAS 16 to account for buildings. On 1 April 2020, Pakamisa Ltd relocated its Head Office to

Bulawayo CBD and acquired a new office building there. The Harare Office Building was placed on the market as it was no longer being used.

The estimated proceeds of sale were $26 million, less selling costs of ZWL$300,000. It was seen as highly probable at that date that the building would sell at that price.

As at 31 December 2020, the Harare Office Building remained unsold, so Pakamisa Ltd reduced the asking price to $22 million. The estimate of selling costs remained the same.

The directors of Pakamisa Ltd believed at that date it was highly probable the sale would occur within 12 months at the lower price.

Required:
Explain, with supporting figures how the Harare Office Building should be treated in the books and financial statements of Pakamisa Ltd as at:

(a) 1 April 2020. **(10 marks)**
(b) 31 December 2020. **(10 marks)**
[Total: 60 marks]

END OF EXAMINATION