



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP & GOVERNANCE

NMAC 401: ADVANCED ACCOUNTING

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2021

LECTURER DR E. MUGUTI

DURATION: 5 HOURS

INSTRUCTIONS

Answer any 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. Your answers should comply with International Financial Reporting Standards (IFRSs)

QUESTION 1 (60 MARKS)

PART A (30 MARKS)

Arumando Limited bought a special sausage-making plant on 1 January 2020, details of which follow:

	ZWL\$
Purchase price (inclusive of VAT of 14,5%)	1,040,000
Import duties-non-refundable	200,000
Installation costs	60,000
Fuel (incurred when transporting the plant to the factory)	90,000
Administration costs	20,000
Staff party to celebrate the acquisition of the new plant	28,000
Staff training	24,000
Testing to ensure plant fully operational before start of production	21,960
Proceeds from sale of samples and by-products made during testing	26,000
Advertising of the 'special sausages' to be made by the new plant	100,000
Initial operating loss	70,000
Estimated costs of dismantling/ removal costs at the end of its useful life (future amount payable of ZWL\$140,062 present valued at a discount rate of 10%)	54,040

The initial operating loss was incurred as a result of having to dump unsold 'special sausages' at sea since the advertising had not yet created sufficient demand.

The company is registered VAT operator under Category C in Zimbabwe.

Required:

(a) Explain with supporting calculations the amount that should be capitalised as the initial cost of the sausage making machine.

(15 marks)

(b) You are provided with the following additional information about Arumando Limited.

(i) The company uses the cost model of accounting for Property, Plant and Equipment according to IAS 16.

(ii) The sausage-making machine has a 10-year useful life with a nil residual value as at 31 December 2020.

(iii) The recoverable amount of the asset as at 31 December 2020 was estimated to be ZWL\$1,000,000.

Required:

Provide extracts for disclosures on the face and notes of the following components of Financial Statements for Arumando Ltd, in relation to the sausage-making machine.

- (i) Statement of Profit or Loss & Other Comprehensive Income.
- (ii) Statement of Financial Position. **(15 marks)**

NB: Show all relevant calculations and explanations.

PART B (15 MARKS)

You are provided with the following two scenarios:

Scenario 1

Ximena Ltd, Yaure Ltd and Zani Ltd are parties to an arrangement. The contractual arrangement specifies that decisions relating to the relevant activities require parties with at least 60% of the voting rights to agree. Ximena Ltd holds 40% of the voting rights, Yaure Ltd holds 35% and Zani Ltd holds 25%.

Scenario 2

Danai Ltd and Erasmus Ltd are parties to an arrangement that each hold 26% of the voting rights in the arrangement, while the remainder of the voting rights are widely dispersed. The contractual arrangement specifies that decisions relating to the relevant activities require parties with at least 51% of the voting rights to agree. The contractual arrangement further specifies that decisions about the relevant activities of the arrangement require both Danai Ltd and Erasmus Ltd to agree. A private limited company have been formed to handle the arrangement and the parties have rights to the net assets and obligations of the arrangement.

Required

- (a)** State and explain whether joint control exist in both Scenario 1 and Scenario 2 above. **(5 marks)**
- (b)** State and describe the accounting method and treatment of the above arrangements. Your discussion should include the relevant disclosures necessary. **(10 marks)**

PART C (15 MARKS)

The following information relates to the operating segments of Hurudza Ltd, a Zimbabwean registered company with branches in Zimbabwean, South Africa and Botswana. The company deals in agricultural equipment. You are provided with the following information in relation to year ended 31 December 2020.

	Zimbabwe	South Africa	Botswana	Total
	ZWL\$000	ZWL\$000	ZWL\$000	ZWL\$000
Sales				
External Customers	18,000	60,000	6,000	84,000
Other Segments	20,000	20,000	4,000	44,000
Profit/(Loss)	(10,000)	4,000	2,000	(4,000)
Assets	30,000	40,000	6,000	76,000

Required:

(a) Determine, with supporting calculations and explanations, whether each of the above country branches is a reportable segment or not.

(10 marks)

(b) Draw up an extract to the financial statements of Hurudza Limited showing the relevant disclosures required in relation to the operating segments above.

(5 marks)

QUESTION 2 (60 MARKS)

PART A (15 MARKS)

Faustina Limited had its head office located in Mutare, Zimbabwe. During a cyclone on 30 June 2021, a building nearby, which it was renting to Chimani Limited, was destroyed. As Chimani Limited was a valued customer, Faustina Limited decided to lease 80% of the head office to them as a replacement.

1. The head office was purchased on the 1 January 2021 for ZWL\$600,000 (total useful life: 10 years).
2. On the 30 June 2021, the fair value of the head office was ZWL\$800,000. There was no change in fair value at 31 December 2021.
3. Faustina Ltd uses:
 - (i) The Fair Value Model to measure its Investment Property; and,
 - (ii) The Cost Model to measure its Property, Plant and Equipment.

Required:

(i) Explain the accounting implications of the transactions above citing applicable standards. **(5 marks)**

(ii) Provide the journal entries in the books of Faustina Ltd to record the above transactions for the year ended 31 December 2021.

(10 marks)

NB: Use a single account to record movements in the head office's carrying amount.

Ignore tax but provide journal narrations.

PART B (25 MARKS)

(a) Lemulani Ltd is a company started by three Chinhoyi University of Technology Information Technology Students with exceptional data processing skills and registered patents. The company's relevant activities are the development of data processing and analysis software, which will come in very handy with the amount of data streams that the scientists at another company; Lungile Ltd are creating.

Lemulani Ltd's share capital consists of 100 issued ordinary shares. Each share carries one voting right. Lungile Ltd acquired 49 of the ordinary shares of Lemulani Ltd on 1 January 2020. The Stavo Consortium holds the remainder of the voting rights.

An extract of the shareholders' agreement between Lungile Ltd and the Stavo Consortium is as follows:

- (a)** Lungile Ltd and the Stavo Consortium each have the right to appoint two of the four directors.

- (b) Lungile Ltd has the right to establish Lemulani Ltd's operating and capital decisions and policies.
- (c) The Stavo Consortium has the right, as a lender and provider of funds, to seize Lemulani Ltd's assets if Lemulani Ltd fails to meet the specified loan repayment conditions.

Required:

Discuss, in terms of IFRS 10 *Consolidated Financial Statements*, whether Lemulani Ltd should be consolidated in the consolidated financial statements of Lungile Ltd for the year ended 29 February 2021.

(10 marks)

(b) You are provided with the following financial statements for Tenga Ltd and Bangira Ltd for the year ended 31 March 2020.

Statement of Financial Position as at 31 March 2020

	Tenga Ltd	Bangira Ltd
	ZWL\$	ZWL\$
Non-Current Assets		
Property, Plant & Equipment	1,250,000	450,000
Investment in Bangira Ltd	450,000	
Current Assets		
Inventory	125,000	25,000
Receivables	130,000	90,000
Cash	89,000	100,000
Total Assets	2,044,000	665,000
Equity & Reserves		
ZWL\$1 Ordinary Shares	500,000	100,000
Share Premium	25,000	50,000
Retained Earnings	1,096,000	366,000
Non-Current Liabilities		
Loan	320,000	50,000
Current Liabilities		
Trade Payables	78,000	89,000
Tax	25,000	10,000
Total Equity & Liabilities	2,044,000	665,000

Additional Information

1. Tenga Ltd acquired 75,000 ordinary shares of Bangira Ltd on 1 April 2018 and at that date the retained earnings of Bangira Ltd was ZWL\$250,000.
2. At acquisition, the fair value of Bangira Ltd's Property, Plant and Equipment was ZWL\$95,000 above the book value. This has not been reflected in the financial statements. The additional depreciation on this would be ZWL\$3,000 per year.
3. Tenga Ltd is accounting for the non-controlling interest by valuing it at fair value. The fair value of the goodwill attributable to the non-controlling interest is ZWL\$18 250.
4. Included within the receivables of Tenga Ltd is ZWL\$45,000 that is owed by Bangira Ltd.
5. At the year end the directors decide that the goodwill relating to Bangira Ltd needs to be impaired by ZWL\$35,000.

Required:

Prepare the Consolidated Statement of Financial Position for the Tenga Group at 31 March 2020. **(15 marks)**

PART C (20 MARKS)

Ericanel (Pvt) Ltd (Ericanel) is a company registered in Zimbabwe. The Zimbabwean Dollar (ZWL\$) is the functional currency and the Zimbabwean economy has been confirmed by the Public Accountants and Auditors Board (PAAB) in Zimbabwe to be hyperinflationary. Ericanel was incorporated on 31 December 2019 when it issued shares in exchange for cash and land (the land is classified as property, plant and equipment).

Ericanel's Statement of Financial Position as at 31 December 2019 was as follows:

	2019
	ZWL\$
Property, Plant and Equipment: Land	100,000
Cash and Cash Equivalents	<u>50,000</u>
Total Assets	<u>150,000</u>
Share Capital	<u>150,000</u>
Total Equity and Liabilities	<u>150,000</u>

During 2020 Ericanel entered into the following transactions:

Date	Description
30 June 2020	Recognition of revenues of ZWL\$15,000 from services rendered during the first half of the year, due on 31 December 2020
30 June 2020	Payment of expenses of ZWL\$19,000 incurred during the first half of the year.
31 December 2020	Cash receipt of revenues of ZWL\$15,000 earned in the first half of the year.
31 December 2020	Recognition of revenues of ZWL\$18,000 from services rendered due on 31 January 2021
31 December 2020	Payment of expenses of ZWL\$9,000 incurred during second half of the year.

Consequently, the Unrestated Statement of Profit or Loss for year ended 31 December 2020 is as follows:

Ericanel Unrestated Statement of Profit or Loss for the year ended 31 December 2020

	ZWL\$
Revenue	33,000
Expenses	<u>28,000</u>
Profit for the year	<u>5,000</u>

The relevant general price index is as follows:

Date	General price index
31 December 2019	1.00
Average first half-year	1.50
30 June 2020	2.00
Average second half-year	3.00
31 December 2020	4.00

Required:

(i) In relation to IAS 29 **Financial Reporting in Hyperinflationary Economies** and the Zimbabwean economy, discuss whether its appropriate to classify the economy as Hyperinflationary. **(5 marks)**

(ii) Prepare Ericanel's Statement of Profit or Loss for the year ended 31 December 2020. **(15 marks)**

Stated in terms of the measuring unit that is current at 31 December 2020.

QUESTION 3 (60 MARKS)

PART A (15 MARKS)

(a) The Holiday Inn is constructing a hotel in Masvingo. Construction began in 2020 and was not yet complete at 31 December 2021. Borrowing costs of ZWL\$300,000 were incurred during 2021. All of these borrowing costs were incurred on a loan that was raised on 1 January 2021 with its purpose being specifically for the construction of the hotel.

Required:

Discuss how much of the interest may be capitalised during Holiday Inn's year ended 31 December 2021 assuming that:

- (i) The builders go on strike for a period of two months, during which no progress is made. **(5 marks)**
- (ii) The builders of the hotel had to wait for a month for the cement in the foundations to dry. **(5 marks)**

(b)

You are provided with the following two scenarios relating to Warinda Ltd.

Scenario 1

Warinda Ltd had used two factories to manufacture office equipment. A general shrink in the economy has resulted in a reduced demand for such equipment. As a result, the company has decided to move all the production facilities to one of the factories but keep the now empty factory. This is in the hope that there will be an upturn in demand and that will require the return to two-factory output.

Scenario 2

In addition to the manufacture of office equipment, Warinda Ltd supplied office stationery to private education institutions. In order to raise the much-needed cash, the office stationery supply business was sold. The office stationery supply business was operated separately from the manufacturing activities.

Required:

Discuss whether these situations meet the definition of discontinued operations as per the relevant IFRS. **(5 marks)**

PART B (15 MARKS)

The following Statements of Profit or Loss and Other Comprehensive Income are given for the Pamire Group for the year ended 31 December 2020.

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

	Pamire Ltd	Rusere Ltd	Chasima Ltd
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	ZWL\$	ZWL\$	ZWL\$
Revenue	120,000,000	90,000,000	84,000,000
Cost of Sales	(60,000,000)	(45,000,000)	(42,000,000)
Gross Profit	60,000,000	45,000,000	42,000,000
Other Operating Expenses	(18,000,000)	(9,000,000)	(4,200,000)
Profit from Operations	42,000,000	36,000,000	37,800,000
Investment Income	18,600,000	4,500,000	
Finance Costs	(6,000,000)	(4,500,000)	(2,100,000)
Profit before tax	54,600,000	36,000,000	35,700,000
Taxation	(15,200,000)	(11,000,000)	(4,800,000)
Profit for the year	39,400,000	25,000,000	30,900,000

Additional Information

1. Pamire owns all the shares in Rusere and 40% of the shares in Chasima.
2. Pamire has provided each company with a loan of ZWL\$10 million at an interest rate of 10%. Both loans have been outstanding throughout the period.
3. When Pamire acquired Rusere, the fair value of its net assets was ZWL\$1,000,000 higher than its carrying value. This related to a building which had an estimated future useful life of 5 years at the date of acquisition.
4. Pamire supplies a component which is used as a raw material by Rusere and Chasima. During the year ended 31 December 2020, sales of such components by Pamire to Rusere were ZWL\$800,000 and by Pamire to Chasima ZWL\$600,000. The inventories of the above-mentioned raw material were included in the accounts of Rusere at 31 December 2020 at cost to Rusere of ZWL\$600,000. Chasima Ltd held no inventory purchased from Pamire at the year end. Pamire marks up all sales to Rusere and Chasima by 25%.
5. During the year there was no impairment of goodwill or intra-group dividends paid.

Required:

Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020 for the Pamire Group.
(15 marks)

PART C (30 MARKS)

Anali (Pvt) Ltd, a Zimbabwean Registered Company based in Bulawayo ordered inventory to the value of ZAR900,000 from a South African Company, Malema Pty on 16 January 2021. The transaction date was 5 February 2021.

The year-end is 31 March 2021. The relevant exchange rates are as follows:

Date	Spot rates (ZWL\$: ZAR)
16 January 2021	ZWL\$1: ZAR2.2
5 February 2021	ZWL\$1: ZAR2.5
31 March 2021	ZWL\$1: ZAR2.25
5 April 2021	ZWL\$1: ZAR3.0

Required:

Show all journal entries and show the balances in the trial balance of Anali (Pvt) Ltd as at 31 March 2021 assuming in the following 3 scenarios that the Anali (Pvt) Ltd paid Malema Pty on:

- (i) 5 February 2021 **(5 marks)**
- (ii) 31 March 2021 **(12 marks)**
- (iii) 5 April 2021 **(13 marks)**

NB: Narrations and calculations are required

END OF PAPER