AFRICA UNIVERSITY
A United Methodist-Related Institution
"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 203 INTERMEDIATE ACCOUNTING 11

END OF SECOND SEMESTER EXAMINATIONS

APRIL/MAY 2018

LECTURER: I. RARAMI

DURATION: (3 HRS)

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 [27 MARKS]

a). A.U Ltd has a retirement benefit plan for its employees. The plan which is funded, is managed by Old Mutual Pension Fund. A.U Ltd contributes 15% of the gross earnings of each employee. The employees earnings for the year ended 31 December 2017 amounted to $1200000. The following information is provided.

Experience and adjustments	$550000
Past Service	$480000

Additional Information

The past service figure is for:

Existing employees	$400000
Retired employees	$ 80000

The experience adjustments were as follows:

Existing employees	$480000
Retired employees	$ 70000

The average remaining working lives of the existing employees is 8 years and the remaining life of retired employees is 5 years. The tax rate is 35%. The Department of tax will allow any adjustment to contribution in the year in which the expenditure is incurred.

Required:

i). The amount of retirement benefits for the year. **[8 marks]**

ii). Explain clearly the difference between Retirement Benefit Plans and Defined Contribution Plans. **[4 marks]**

b). Accountants generally are worried about the impact of related party transactions on the results of businesses, because related parties may often enter into transactions which unrelated parties would not normally enter into.

i). State any five examples and briefly explain. **[10 marks]**

ii). State the disclosure that are necessary in a related party **[5 marks]**

QUESTION TWO [11 MARKS]

a). Explain the difference between:

i). Contingent liability and provision **[2 marks]**
ii). Legal obligation and constructive obligation **[2 marks]**

b).Included in Revenue in the Trial Balance is an amount of $3 million relating to sales made under a special promotion in the last month of the year. These goods were sold with an accompanying voucher equal to the selling price. Five years after the sale, these vouchers will be exchanged for goods of the customers' choosing. The profit margin on these goods is expected to be 30% of selling price, and market research estimates that 50% of the vouchers will be redeemed. The present value (at the year-end) of $1 at the time the vouchers will be exchanged can be taken as 60c.

Required:

i). What is the provision needed. **[2 marks]**

ii)Show also the Journal entry and thereby the effect on the Financial Statements. **[2 marks]**

iii). Briefly explain the recognition criteria of a provision. **[3 marks]**

QUESTION THREE [25 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. **[10 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. **[6 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 FOUR [25 MARKS]

a). An asset with a useful life of 5 years is to be leased for the 5 years at a cost of $500000 payable annually in arrears. The cash price of the asset is $1716550. The interest rate is 14%.

Calculate the interest and capital repayments of the lease above for the two years. **[5 marks]**

b). Good Morning Investment Ltd leased an asset over a period of 2 years. The cost of the asset was $40 000. An instalment of $11 470 is payable half yearly in advance. The interest rate is 19.976%.

Calculate the interest and capital repayments of the lease above for the two years. **[6 marks]**

c). Green Light Ltd concluded the following lease agreement on plant on 1/1/16. Cost of the plant was $65 329. Instalments of 6 of $15000 each payable biannually on 30 June and 31 December.

Show how much interest should be charged to the income statement, assuming the sum of digits method is used. **[6 marks]**

d). In January 2016, IASB issued another important and long discussed standard IFRS 16 Leases that will replace IAS 17.

i). Why the new lease standard? **[6 marks]**

ii). What is the biggest change in lessee's accounting for leases

[2 marks]

QUESTION FIVE [12 MARKS]

a). Green Ltd grants 60-share options to each of its 200 employees. The individual employees will be entitled to the options if they work for the company over the next four years. The company estimates that the fair value of each option $100. It also estimates that 15% of the employees will forfeit their rights to the option after failing to complete the required period of services.

Required:

Calculate the remuneration expense and the cumulative remuneration expense for each of the four years assuming that the estimates are correct. **[4 marks]**

b). Outline the disclosure requirements for share based payment transactions. Base your answer on IFRS 2. **[8 marks]**

END OF PAPER