THE INSTITUTE OF FINANCE MANAGEMENT

FACULTY OF ACCOUNTING, BANKING AND FINANCE

DEPARTMENT OF ACCOUNTING AND FINANCE

BACHELOR OF ACCOUNTANCY, BACHELOR OF ACTUARIAL SCIENCE

AFU08501: ADVANCED FINANCIAL REPORTING I

FINAL EXAMINATION

SEMESTER I ACADEMIC YEAR 2021/2022

DATE: 26th FEBRUARY 2022 **TIME ALLOWED: 3 HOURS**

RUBRIC: READ WITH CARE

1. There are **FOUR (4)** questions in this paper, attempt **ALL** questions.
2. Marks for each are shown in the respective question, plan your time wisely.
3. Submit all your workings.
4. Be succinct and to the point.
5. **You are reminded to adhere to ALL Institute's Examination Regulations**

QUESTION ONE (25 POINTS)

Write T if the statement is **True** and **F** is the statement is **False (10 Marks)**

(i) A joint venture is an example of a business combination.

(ii) Negative goodwill is recognized by the acquirer as a gain on its consolidated Statement of profit and loss and other Comprehensive income.

(iii) The measurement period is defined as the period prior to the acquisition date when the fair value of the acquiree's assets and liabilities are determined.

(iv) Borrowing costs may include exchange differences arising from foreign currency borrowings and they are regarded as an adjustment to the interest costs.

(v) The disclosure requirements of IFRS 12 apply when an entity has an interest in any of the following: Subsidiaries, Joint operations, Joint ventures, Associates and ordinary investments.

(vi) The objective of IFRS 11 is to prescribe information that a reporting entity discloses regarding its interest in other entities.

(vii) Objective of IAS 10 is to disclose and specify when an enterprise should adjust its financial statements for events occurring before the authorisation of financial statements for issue.

(viii) A joint arrangement has the following characteristics: A presence of contractual arrangement which gives parties joint control and an equal sharing of benefits.

(ix) The main difference between a Joint venture and a Joint operation is that in Joint venture, parties have rights to the assets, and obligations for the liabilities while in Joint operations parties have rights to the net assets of the arrangement.

(x) When consolidating a foreign subsidiary; goodwill is considered as an asset of a foreign operation and is translated using exchange rate at the reporting date.

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(a) Match each item in **Table 1** with an item from **Table 2 (write your answer as eg (i) 4 if item (i) in Table 1 Matches item 4 in Table 2) (15 Mark)**

Table 1

No.	Item in Table 1
(i)	A separately identifiable financial structure, including separate legal entities or entities recognised by statute, regardless of whether those entities have a legal personality
(ii)	It is necessarily takes a substantial period of time to get ready for its intended use or sale
(iii)	enables users of the entity's financial statements to evaluate the nature and effects of those interest on the entity's financial position
(iv)	Event after the reporting date and before date of authorisation of financial statements that is indicative of conditions that arose after the reporting date
(v)	The control is collectively and decisions are unanimously made
(vi)	Bringing together of separate entities into one reporting entity
(vii)	The currency of the primary economic environment in which the enterprise operates
(viii)	its gain/loss is recognized directly in equity any exchange component of that gain/loss should be recognized directly in equity
(ix)	action designed to provide economic benefits when qualifying criteria are met
(x)	The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control
(xi)	A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets
(xii)	interest and other costs incurred by an entity in connection with the borrowing of funds
(xiii)	Assets or liabilities held to be received/paid in fixed or determinable amounts
(xiv)	Assistance in the form of transfers of resources in return for past or future compliance with conditions relating to operating activities
(xv)	The currency in which an enterprise presents its financial statements

Table 2

No	Item in Table 2	No	Item in Table 2
1.	Adjusting event	12.	Government
2.	Joint control	13.	Business Combination
3.	Qualifying asset	14.	Non-adjusting event
4.	Acquisition method	15.	Goodwill
5.	Functional Currency	16.	Monetary item
6.	Associates	17.	Government assistance
7.	Joint operation	18.	Separate vehicle
8.	Non-monetary item	19.	Equity method
9.	Consolidation	20.	Joint arrangement
10.	Presentation Currency	21.	Government grants
11.	Disclosure	22.	Borrowing costs

QUESTION TWO (25 Marks)

(a) Pembampazi Ltd purchases a Meat Processing Machine for TZS 200,000,000. It received a grant towards 40% of the cost of the Meat Processing Machine. The Meat Processing Machine has an expected life of 20 years with an expected nil residual value. Profit for each year is expected to be TZS 150,000,000 (before depreciation).

Requirement:

Show how the grant should be accounted for in the first three years under the two methods allowed by IAS 20 **(10 Marks)**

(b) On 1 January 2021, Asda Plc began to construct a supermarket. It purchased a leasehold interest in the site for TZS 250 million. The construction of the building cost TZS 90 million and the fixtures and fittings cost TZS 60 million. The construction of the supermarket was completed on 30 November 2021 and it was available for use from 1 January 2022.

Asda borrowed TZS 470 million on 1 January 2021 in order to finance this project. The loan carried interest at 10% per annum. The excess amount was deposited to a fixed account at a return of 5% per annum. The loan was repaid on 30 June 2022.

Requirement:

Calculate the total amount to be included in property, plant and equipment in respect of the development as at 31 December 2021. **(7 Marks)**

(c) Achilles Plc, whose year end is 31 December, enters into different transactions involving foreign currencies. The following transactions took place at different times.

1. Purchased a property on 1st January 2021 for $200,000 with the account being settled on 31st December 2021.
2. Buys goods from a foreign company for $180,000 on 30th June 2021. The transaction is settled on 30th September 2021.

Exchange rates at different dates of the year were as follows:

1st January 2021: $1 = TZS 2,318

30th June 2021: $1 = TZS 2,319

30th September 2021: $1 = TZS 2,399

31st December 2021: $1 = TZS 2,306

Requirement: Prepare Journal entries for the transactions indicating either will be shown in the Statement of Financial Position (SFP) or in the Statement of Financial Operations (P/L). **(8 Marks)**

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QUESTION THREE (20 Marks)

Ipanda Ltd is a producer and distributor of paver blocks. The company's year ended is 31 December. The Directors of Ipanda are due to sign the company's financial statements for the year ended 31 December 2021 on 28th February 2022. Below is a Statement of Financial Position as at 31st December, 2021, together with additional information.

STATEMENT OF FINANCIAL POSITION AS AT 31st DECEMBER, 2021

	TZS 000
ASSETS	
Non-current assets	
Property, plant and equipment	234,733
Intangible assets	53,700
Financial assets	106,300
	394,733
Current Assets	
Inventories	24,045
Trade and other receivables	52,036
Financial assets	4,580
Cash and cash equivalents	1,450
	82,111
Total assets	**476,844**
EQUITY AND LIABILITIES	
Capital and reserves	
Share capital	50,000
Share premium account	5,000
Revaluation reserve	40,167
Retained earnings	95,158
	190,325
Non-current liabilities	
Long-term borrowings	80,000
Deferred tax	42,178
Finance lease obligations	8,897
Provisions	27,825
	158,900
Current liabilities	
Bank overdraft	2,000
Trade and other payables	93,556
Current tax payable	25,000
Amounts due to customers under:	
construction contracts	1,500
Finance lease obligations	5,563
	127,619
Total liabilities	**286,519**
Total equity and liabilities	**476,844**

Additional Information:

1. PPE

Property, plant and equipment	Land &Buildings	Plant &Machinery	Vehicles &Equipment	Total
Cost of valuation	TZS 000	TZS 000	TZS 000	TZS 000
At 31/12/2020	150,000	98,000	30,000	278,000
Revaluations	20,000	-	-	20,000
Disposals	-	-25,000	-	-25,000
Additions	-	30,000	10,000	40,000
At 31/12/2021	170,000	103,000	40,000	313,000

Accumulated Depreciation	Land &Buildings	Plant &Machinery	Vehicles &Equipment	Total
	TZS 000	TZS 000	TZS 000	TZS 000
At 31/12/2020	60,000	31,000	10,000	101,000
Revaluations	-60,000	-	-	-60,000
Disposals	-	-6,400	-	-6,400
Impairment	-	15,000	-	15,000
Charge for the year	5,667	13,000	10,000	28,667
At 31/12/2021	5,667	52,600	20,000	78,267

Audit works completed on 15th February 2022, revealed that there were No disposals on Plant &Machinery which were made during the year to December 2021 due to lack of support for such transactions from physical and paper inspections.

2. Financial assets

All financial assets fall under the available for sale category and are re-valued to market value. The market value is easily obtained as these assets are quoted on the Dar es Salaam stock exchange. Gains and losses are taken to the revaluation reserve.

Financial assets	Current Assets	Non-current Assets
	TZS 000	TZS 000
At 31/12/2020	5,865	96,015
Gain/(loss) taken to reserves	-1,785	3,285
Additions	500	7,000
At 31/12/2021	4,580	106,300

The loss taken to reserves in the current assets includes the amount of TZS 205,000 loss made in January 2022 and Additions in non-current assets excludes the amount of TZS 3,000,000 made in January 2022.

3. Construction contracts	TZS 000
	8,000
Contract revenue in the current period	14,000
Costs incurred to date	3,000
Recognised as profits (less recognised losses to date)	**17,000**
	-13,500
Progress billings to date	3,500
	5,000
Due from customers	**-1,500**
Due to customers	

On 15th January 2022 it was confirmed the amount due from customers includes that of Mr Zumbukuku who was declared bankruptcy by the court on 13th January 2022 with the total amount of TZS 700,000.

4. On 31 January 2022, TZS 2,500,000 was paid to Sméagol Oaks as compensation for his removal of Managing Director. Mr Sméagol has been dismissed by the Chairman at the December 2021 Board Meeting as a result of a serious disagreement over marketing strategy for 2022.

5. The company was informed on 1 February 2022 that one of its major customers, Pew Limited, had gone into liquidation. The liquidator indicated that no payments would be made to unsecured creditors. The amount owed by Pew Limited on 1 February 2022 amounted to TZS 5,500,000, of which TZS 3,000,000 related to goods invoiced on 10 December 2021 and TZS 2,500,000 to goods invoiced on 15 January 2022.

6. Trihex grooves paver blocks are included in year end inventory at its original cost of TZS 15,000,000. Audit work carried out in February 2022 indicated that the tea was sold for TZS 11,000,000 in January 2022 due to a fall in demand for such products during 2021.

Requirement:

(a) Apply ***IAS 10 Events after the Reporting Period*** to prepare the statement of financial position as at that 31st December, 2021 which would be discussed and signed by Directors on 24th February 2022. **(17 Marks).**

(b) What are the disclosures required by ***IAS 10 Events after the Reporting Period?*** **(3 Marks).**

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QUESTION FOUR (30 Marks)

The assistant accountant of Mercury plc ("Mercury") has been faced with a task of preparing the consolidated statement of financial position for the Group ("the group") for the year to 31 December 2020.

He was unsure how to deal with different types of investment the company has engaged with including the joint venture that Mercury plc is a member of. Relevant statements of the financial positions as at 31 December 2020 are as follows:

	Mercury Ltd TZS '000'	Venus Ltd TZS '000'	Earth Ltd TZS '000'
Assets Non – Current			
Property, plant and equipment	1,968,000	696,000	900,000
Investment in ~~Mercury~~ Ltd Venus!	1,440,000		
Investment in Earth Ltd	100,000		
	3,508,000	**696,000**	**900,000**
Current assets			
Inventories	480,000	224,000	120,000
Trade and other Receivables	416,000	176,000	230,000
Cash and cash equivalents	192,000	96,000	20,000
	1,088,000	496,000	370,000
Total Assets	4,596,000	1,192,000	1,270,000
Equities and Liabilities			
Equities			
Ordinary share Capital	2,600,000	800,000	400,000
Share premium	688,000	176,000	
Revaluation reserve		112,000	
Retained earnings	1,032,000	560,000	460,000
Total Equities	**4,320,000**	**1,648,000**	**860,000**
Non- Current Liabilities			
Bank Loans	124,000	48,000	200,000
5% Debentures - 2014		8,000	
Total Noncurrent liabilities	**124,000**	**56,000**	**200,000**
Current Liabilities			
Trade and other Payables	152,000	128,000	210,000
Bank Overdraft		80,000	
Total Current Liabilities	152,000	208,000	210,000
Total Equities and Liabilities	4,596,000	1,912,000	1,270,000

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The Following information is relevant to the preparation of group financial statements:

1. Mercury Ltd acquired 70,000 Ordinary shares in Venus Ltd on 30 April 2020 when the books of Venus Ltd showed

	TZS '000'
Ordinary Share Capital	800,000
Share Premium	176,000
Retained Earnings	400,000
Revaluation Reserves	112,000

2. Mercury plc along with 3 other investors set up the joint operation in Earth Ltd on 19th December 2019. Each investor subscribed for 100,000 TZS 1,000 ordinary shares.
3. Control of the Earth Ltd is shared equally amongst the investors. The Earth Ltd carries out a separate business from that of Mercury and other members of the Mercury Group and is a limited company.
4. Prices per share for each company is shown in the table below

Ordinary Share Prices at respective acquisition dates		
Mercury Ltd	**Venus Ltd**	**Earth Ltd**
TZS	**TZS**	**TZS**
12,800	8,000	1,000

5. In February 2020 Venus sold goods for TZS 40,000,000 to Mercury at a mark-up of 25%. Three quarters of the goods were in stock at the year end. In December 2020 Mercury Sold goods to Earth for TZS 40,000,000. Half of these goods were in stock at the year end. The goods were sold at a mark-up on cost of 25%.
6. At 31 December 2020 Earth owed Mercury TZS 35,000,000 and Venus owed TZS 14,400,000 to Mercury. All have been correctly accounted at the year end.
7. Venus acquired a fixed asset for TZS 300,000,000 in 13th Jan 2016. On 23rd July 2020 this asset was sold to Mercury for TZS 198,000,000. Group depreciation policy is to depreciate over 10 years (or remaining useful life if shorter) on a straight line basis, assuming no residual value, and charging depreciation in the month of acquisition but not in the month of disposal.
8. Following an impairment review the directors have decided that 20% is to be written-off the value of goodwill of each company in the current year. This is the first such impairment.
9. During the year to 31 December 2020 Mercury, Venus and Earth paid dividends of TZS 100,000,000, TZS 50,000,000 and TZs 160,000,000 respectively. All dividends have been correctly recorded.

Requirement:

(a) Prepare the consolidated statement of financial position of Mercury Group for the year ended 31 December 2020. **(25 Marks).**

(b) Under what circumstances a Parent can be exempted to prepare consolidated financial statements? **(5 Marks).**

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