**THE INSTITUTE OF FINANCE MANAGEMENT**

**AFU08051: ADVANCED FINACIAL REPORTING**

**ASSIGNMENT**

**INSTRUCTIONS:**

1. THIS ASSIGNMENT SHOULD COMPRISE A GROUP OF AT LEAST 5 STUDENTS AND AT MOST 10 STUDENTS **(ie 5 ≤ GROUP MEMBERS ≤ 10). LESS THAN FIVE SHOULD SEEK PERMISSION FROM THE COURSE INSTRUCTOR.**
2. THIS ASSIGNMENT CARRIES **12%** OF YOUR COURSE ASSESSMENT
3. ALL MEMBERS ARE REQUIRED TO PARCIPATE FULLY IN THE GROUP ASSIGNMENT
4. ANY MEMBER(S) FAILS TO PARCIPATE, SIGNATURES OF **AT LEAST 70% (7 out of 10 members)** OF ALL MEMBERS WILL BE REQUIRED TO DISQUALIFY HIM/HER FROM THE ASSIGNMEMENT AND A ZERO MARK WILL BE REWARDED AS A RESULT
5. THE DEADLINE OF SUBIMISSION IS **WEDNESDAY 31ST JANUARY 2024, 4:00PM**
6. **SUBMIT <u>PDF</u> SCANED COPY VI ELEARNING ACCOUNT (ONLY ONE GROUP MEMBER'S ACCOUNT SHOULD BE USED TO SUBMIT AN ASSIGNMENT SUBMISSION OF MORE THAN ONE INDIVIDUAL IN A GROUP MAY LEAD INTO THE MARKS BEING DIVIDED BUT NUMBER OF SUBMISSIONS MADE. A PAGE OF SIGNED NAMES** TO BE ATTACHED AND SIGNED BY ALL PARTICIPATING GROUP MEMBERS
7. YOUR SUBMISSION SHOULD BE TYPED OR HAND WRITTEN
8. **<u>PLEASE MAKE SURE YOU PARTICIPATE IN SOLVING ALL PROBLEMS, NO FORGOTTEN NAMEs WILL BE ADDED TO ANY GROUP AFTER THE SUBMISSION IS MADE. IF THAT HAPPENS AND ACCEPTED THE WHOLE GROUP WILL LOSE 5 OUT OF 12 MARKS FOR SUCH ACTION.</u>**

## QUESTION ONE

### Eagle, Heron & Sparrow

On 1 October 2016 Eagle plc acquired, for Tzs 316,000,000; 80,000 Tzs 1,000 ordinary shares in Heron Ltd. The profit and loss reserves at the date of acquisition totalled Tzs 250,000,000.

On 30 September 2010 Eagle plc acquired, for Tzs 47,000,000; 20,000 Tzs 1000 ordinary shares in Sparrow Ltd. The profit and loss reserves at the date of acquisition totalled Tzs 35,000,000.

Summarised balance sheets at 30 September 2022, and profit and loss accounts for the year ended on that date were as follows:

| | **Eagle plc** | **Heron Ltd** | **Sparrow Ltd** |
|---|---|---|---|
| | **Tzs '000'** | **Tzs '000'** | **Tzs '000'** |
| **Profit & loss accounts** | | | |
| Operating profit | 147,000 | 54,000 | 51,000 |
| Interest | (20,000) | (5,000) | (4,000) |
| Profit before tax | 127,000 | 49,000 | 47,000 |
| Taxation | (42,000) | (23,000) | (15,000) |
| Profit for the year | 85,000 | 26,000 | 32,000 |
| **Balance sheets** | | | |
| Investments: | | | |
| Subsidiary | 316,000 | - | - |
| Associate | 47,000 | - | - |
| Other net assets | 308,000 | 441,000 | 128,000 |
| | 671,000 | 441,000 | 128,000 |
| Share capital | 220,000 | 100,000 | 50,000 |
| Profit & loss reserves | 451,000 | 341,000 | 78,000 |
| | 671,000 | 441,000 | 128,000 |

1. Following an impairment review of goodwill in 2023, Tzs 9,000,000 of the goodwill relating to Heron was written off.

2. Heron did not pay any dividends during the year to 30 September 2023. Sparrow paid a dividend of Tzs 10,000,000 in 2023.

3. Eagle includes dividends received in operating profit.

4. During the year to 30 September 2023 Sparrow sold goods to Eagle for Tzs 40,000,000. These goods had cost Sparrow Tzs 33,500,000. At 30 September 2023 Eagle had 25% of these goods in stock.

**Required:**
Prepare the Eagle plc's consolidated profit and loss account and consolidated balance sheet for the year ended 30 September 2023

**QUESTION TWO**

You are the group accountant for Marshall plc ('Marshall') and are responsible for the preparation of the group financial statements for the year to 31 December 2022.

Marshall has long-term investments in three companies, Polland Ltd ('Polland'), Holt Ltd ('Holt') and Cumming Ltd ('Cumming'). The initial investment in Polland was made in 2021 but Marshall increased its stake on 31 December 2022. Details of the investments in the three companies are given in **Appendix 1**.

The financial statements of Marshall, Polland, Holt and Cumming for the year to 31 December 2022 have been received and are included in **Appendix 2**. All four companies follow similar accounting policies in the preparation of their accounts.

Additional information regarding the companies is given in **Appendix 3**.

**Required:**

(i) Prepare consolidation journal entries to incorporate Polland, Holt and Cumming into the Marshall group accounts for the year to 31 December 2022;

(ii) Prepare the consolidated income statement for the Marshall group for the year to 31 December 2022 in accordance with IAS 1.

(iii) In what circumstances a parent can be exempted to prepare consolidated financial statements?

**Appendix 1**

Marshall plc ('Marshall') has the following investments.

| **Company** | **Number of Shares** | **Date acquired** | **Cost Tzs '000,000'** |
|---|---|---|---|
| Polland Ltd | 2,000,000 | 2022 | 2,300 |
| Polland Ltd (see note 4) | 100,000 | 2018 | 222 |
| Holt Ltd | 300,000 | 2011 | 1,150 |
| Cumming Ltd | 200,000 | 2013 | 750 |

Additional information on investments.

1. The share capital of the companies is made up of:

| | |
|---|---|
| Marshall | Tzs 250 ordinary shares |
| Polland | Tzs 250 ordinary shares |
| Holt | Tzs 1,000 ordinary shares |
| Cumming | Tzs 500 ordinary shares |

2. The reserves at the date of acquisition of each of the companies was:

| | **Share Premium Tzs 000,000** | **Revaluation Reserve Tzs 000,000** | **Profit and Loss Reserves Tzs 000,000** |
|---|---|---|---|
| Polland (2008) | 700 | 200 | 1,000 |
| Holt | 200 | - | 1,800 |
| Cumming | 1,000 | - | 1,500 |

All other movements in revaluation reserves took place in 2016.

3. Marshall and four other venturers share control of Cumming under a contractual arrangement. Cumming is a separate entity from each of the venturers.

4. On 31 December 2022 Marshall acquired an additional 100,000 ordinary shares of Polland for Tzs 222,000,000. These shares are in addition to the 2,000,000 acquired in 2011. No entries have been made in the records of Marshall for this additional investment.

**Appendix 2**

The financial statements of the companies for 2022 are as follows.

**Profit and loss accounts**
**Year to 31 December 2022**

**(All figures in Tzs '000,000')**

| | **Marshall** | **Polland** | **Holt** | **Cumming** |
|---|---|---|---|---|
| Turnover | 28,000 | 12,500 | 8,000 | 10,000 |
| Cost of sales | (18,000) | (6,800) | (5,000) | (6,000) |
| Gross profit | 10,000 | 5,700 | 3,000 | 4,000 |
| Operating expenses (net) | (3,500) | (2,400) | (800) | (1,200) |
| Operating profit | 6,500 | 3,300 | 2,200 | 2,800 |
| Interest paid | (300) | (400) | (100) | (400) |
| Profit for the year | 6,200 | 2,900 | 2,100 | 2,400 |
| Taxation | (1,800) | (850) | (600) | (500) |
| Profit after tax | 4,400 | 2,050 | 1,500 | 1,900 |

**Balance Sheets**
**As at 31 December 2022**

**(All figures in Tzs '000,000')**

| | **Marshall** | **Polland** | **Holt** | **Cumming** |
|---|---|---|---|---|
| Fixed assets - tangible | 13,500 | 4,000 | 3,500 | 6,000 |
| - investments | 4,200 | - | - | - |
| Current assets | | | | |
| Stock | 1,600 | 600 | 500 | 700 |
| Debtors | 2,800 | 400 | 600 | 800 |
| Bank | 700 | 100 | 300 | 200 |
| | 5,100 | 1,100 | 1,400 | 1,700 |
| Creditors: amounts falling due within one year | (3,000) | (800) | (500) | (600) |
| Net current assets | 2,100 | 300 | 900 | 1,100 |
| Total assets less current liabilities | 19,800 | 4,300 | 4,400 | 7,100 |
| **Creditors:** amounts falling due in more than one year | (3,600) | (200) | (600) | (2,000) |
| | 16,200 | 4,100 | 3,800 | 5,100 |
| **Capital and reserves** | | | | |
| Share capital | 2,000 | 625 | 1,000 | 500 |
| Share premium | 2,100 | 700 | 200 | 1,000 |
| Revaluation reserve | 6,000 | 400 | - | 600 |
| Profit and loss reserve | 6,100 | 2,375 | 2,600 | 3,000 |
| | 16,200 | 4,100 | 3,800 | 5,100 |

**Appendix 3**

Additional information.

1. Marshall includes dividends from investments in arriving at net operating expenses.

2. At 31 December 2022 Polland owed Marshall Tzs 31,000,000. Marshall, however, included Polland as a debtor of Tzs 36,000,000.

   On 28 December Polland Ltd sent a cheque for Tzs 5,000,000 to Marshall but Marshall did not receive and record this item until 4 January 2023.

3. Cumming owed Polland Tzs 40,000,000 at 31 December 2022. Polland included Cumming as a debtor of Tzs 40,000,000 at that date.

4. During the year to 31 December 2022 Cumming sold goods to Marshall. The goods cost

Cumming Tzs 120,000,000 and Cumming achieved a gross margin of 25% on the sale. At 31 December 2022 Marshall had a quarter of these goods in stock.

5. Polland acquired a fixed asset for Tzs 200,000,000 in 2019. During 2022 this asset was sold to Marshall for Tzs 175,000,000. The asset had a useful life of 8 years when acquired. The group policy is to charge a full year's depreciation in year of acquisition and none in the year of disposal and is to depreciate transferred assets over their remaining useful life.

6. Group policy is to review goodwill for impairment annually. Impairment losses relating to goodwill are as follows:

| | **Prior to 2022** | **2022** |
|---|---|---|
| | **Tzs 000,000** | **Tzs 000,000** |
| Goodwill of Polland | 168 | 28 |
| Goodwill of Cumming | 30 | 15 |

No adjustments have been made for these impairments in the individual accounts in Appendix 2. Group policy is to include impairment losses on goodwill in operating expenses.

7. The following dividends were paid by the companies during the year:

| | **Tzs 000,000** |
|---|---|
| Marshall | 2,000 |
| Polland | 1,400 |
| Holt | 800 |
| Cumming | 1,500 |

**QUESTION THREE**

**Gush Ltd**

Gush Ltd acquired 75% of the ordinary shares in Lopo Corporation for £2,000,000 on 1 January 2021. The share capital and reserves of Lopo Corporation were as follows:

| | 1.1.21 | 31.12.21 | 31.12.22 |
|---|---|---|---|
| | Ym | Ym | Ym |
| Share capital – ordinary | 200 | 200 | 200 |
| Profit and loss reserve | 350 | 410 | 460 |
| | 550 | 610 | 660 |

The following rates of exchange existed:

| | |
|---|---|
| 1.1.21 | Y 220 = £ |
| Average for 2020 | Y 230 = £ |
| 31.12.21 | Y 240 = £ |
| Average for 2022 | Y 235 = £ |
| 31.12.21 | Y 228 = £ |

Goodwill is to be impaired by 40% in 2022.

**Required:**

(a) Calculate the translation gains/(losses) arising from share capital and reserves for the years to 31 December 2021 and 2022;

(b) Calculate the translation gains and losses arising from goodwill for the years to 31 December 2021 and 2022; and

(b) Produce relevant journal entries for the translation gains/(losses) required for the preparation of the consolidated accounts for the year to 31 December 2022.

## QUESTION FOUR

(A) **Mwanawane Ltd operates a defined contribution pension scheme. Under the scheme employees pay 3% of pensionable salary and the employer 12%. Mwanawane Ltd pays the monthly pension contribution to the pension scheme on the 19th of the following month.**

**In the year to 31 December 2022 pensionable salaries totalled Tzs 360,000,000 payable in equal monthly instalments.**

**Required:**

**(i)** Calculate the employer's pension cost for the year to 31 December 2022;

**(ii)** Indicate any balance relating to the pension scheme in the balance sheet of Mwanawane Ltd as at 31 December 2022;

**(B)** Usichoke Ltd acquired 70% of the ordinary shares in Usishindwe Ltd for Tzs 200,000,000 on 1 January 2018. The share capital and reserves of Usishindwe Ltd were as follows:

| | **1.1.21** | **31.12.21** | **31.12.22** |
|---|---|---|---|
| | **£'000'** | **£'000'** | **£'000'** |
| Share capital – ordinary | 300 | 300 | 300 |

| | | | |
|---|---|---|---|
| Profit and loss reserve | <u>350</u> | <u>410</u> | <u>460</u> |
| | **<u>650</u>** | **<u>710</u>** | **<u>760</u>** |

The following rates of exchange existed:

| | |
|---|---|
| 1.1.2020 | Tzs 2,100/£ |
| Average for 2021 | Tzs 2,105/£ |
| 31.12.2021 | Tzs 2,110/£ |
| Average for 2022 | Tzs 2,300/£ |
| 31.12.2022 | Tzs 2,380/£ |

Goodwill is to be impaired by 40% in 2022.

**Required:**

**(i)** Calculate the translation gains/(losses) arising from share capital and reserves for the years to 31 December 2021 and 2022;

**(ii)** Calculate the translation gains and losses arising from goodwill for the years to 31 December 2021 and 2022

**QUESTION FIVE**

AB Ltd received a grant of TZS500,000 from provincial government for creating job vacancies, for the individuals in the nearby area, and maintaining them for a period of 3 years. The entity has prepared an expense forecast in respect of this project which is as follows:

| | TZS'000 |
|---|---|
| Recruitment cost in Y1 | 50,000 |
| Expected Salary Expense: | |
| Y1 | 250,000 |
| Y2 | 275,000 |
| Y3 | 300,000 |

Required:
How the receipt of government grant will be accounted for in the financial statements of AB Ltd?

**QUESTION SIX**

AB Ltd purchased an energy saving plant for TZS100,000 on 1 January 2019, having useful

life of 5 years with a residual value of TZS10,000. The entity received a government grant equal to 20% of the cost of the asset, on the condition that plant must be used at least for period of 4 years otherwise a repayment will arise on sliding scale basis i.e. 75% of the grant will be repayable if the asset is sold in the first year and it will diminish by 25% for subsequent years up to year 4. AB Ltd has no intention to sell plant in first four years.
Required:
How the plant and the related government grant will be accounted for in the financial statements of AB Ltd for the year ended 31.12.2019 using
i) Gross Up Method
ii) Net Method

**QUESTION SIX**

**Scotia Plc**

Scotia plc has a 75% owned subsidiary, Nova Scotia Ltd, a company incorporated in the USA. The following information has been extracted from the individual company accounts for 2021:

**Profit and loss accounts for the year ended 31 December 2021**

| | **Scotia plc** | **Nova Scotia Ltd** |
|---|---|---|
| | **£000s** | **$000s** |
| Turnover | 20,000 | 10,080 |
| Cost of sales | (10,000) | (3,960) |
| Gross profit | 10,000 | 6,120 |
| Other operating expenses (net) | (4,000) | (440) |
| Operating profit | 6,000 | 5,680 |
| Taxation | (2,000) | (1,080) |
| Profit for the year | 4,000 | 4,600 |

**Balance sheets as at 31 December 2021**

| | | |
|---|---|---|
| Tangible fixed assets | 48,000 | 32,000 |
| Investment in subsidiary | 16,000 | - |
| Current assets | 9,500 | 7,600 |
| Current liabilities | (3,500) | (5,000) |
| | 70,000 | 34,600 |
| | | |
| Share capital | 50,000 | 28,000 |
| Profit and loss reserve | 20,000 | 6,600 |
| | 70,000 | 34,600 |

Scotia plc acquired Nova Scotia Ltd on 31 December 2020 when its reserves equalled $3,000,000.

Nova Scotia paid a dividend of $1,000,000 in December 2021. Scotia has included its share of the dividend from Nova Scotia, translated using the closing rate, in net operating expenses.

There is no internal trading.
Goodwill is to be impaired by 25% as at 31 December 2021.

Sterling exchange rates were:-

| | $ |
|---|---|
| 31 December 2020 | 2.0 |
| Average rate 2021 | 1.8 |
| 31 December 2021 | 1.6 |

**Required:**
Prepare the draft consolidated profit and loss account of Scotia plc for the year ended 31 December 2021 together with the draft consolidated balance sheet as at that date.

**QUESTION SEVEN**

**Oxford plc**

The draft financial statements of 'Oxford plc' and its Canadian subsidiary, Bonn Inc are set out below.

| **Balance sheets at 31 December 2022** | **Oxford plc** | **Bonn Inc** |
|---|---|---|
| | **£000** | **C$000** |
| Tangible fixed assets | 3,240 | 4,860 |
| Investment in Bonn | 870 | - |
| | | |
| Stocks | 1,590 | 8,316 |
| Debtors | 1,630 | 4,572 |
| Cash | 240 | 2,016 |
| Creditors | (5,030) | (4,356) |
| Loans | (1,920) | - |
| | 620, | 15,408 |
| | | |
| Share capital (£1/C$1) | 118 | 1,348 |
| Profit and loss reserve | 502 | 14,060 |
| | 620 | 15,408 |

**Profit and loss accounts for year ended 31 December 2022**

| | Oxford plc | Bonn Inc |
|---|---|---|
| | £000 | C$000 |
| Turnover | 40,425 | 97,125 |
| Cost of Sales | (35,500) | (77,550) |
| Gross Profit | 4,925 | 19,575 |
| Distribution and administration | (4,400) | (5,850) |
| Investment income | 740 | - |
| Profit before tax | 1,265 | 13,725 |
| Tax | (300) | (4,725) |
| Profit after tax | 965 | 9,000 |

The following additional information is given:

(1) Exchange rates:

| | C$ |
|---|---|
| 31 December 2020 | 4.16 |
| 31 December 2021 | 4.00 |
| 31 December 2022 | 3.60 |
| Average for 2022 | 3.75 |

(2) Oxford acquired 1,011,000 shares in Bonn for £870,000 on 31 December 2020 when Bonn's profit and loss reserve stood at C$ 2,876,000.

(3) Bonn paid an interim dividend of C$ 3,752,000 during 2020. Oxford translated this at C$3.80.

(4) After carrying out an impairment review Oxford plc has decided to write-off 20% of goodwill in the current year.

(5) The translation reserve in the group balance sheet equalled £62,000 at 31 December 2021. This was made up of:

| | £'000 |
|---|---|
| Share capital | 10 |
| Profit and loss reserves | 48 |
| Goodwill | 4 |

**Required:**

(a) Prepare the consolidated balance sheet at 31 December 2022.

(b) Prepare the consolidated profit and loss account for the year ended 31 December 2022.

## QUESTION EIGHT

JVC Company purchased a condominium unit in January 1, 2020 and moved into the building on the same day for TZS 100,000,000. JVC made a down payment of TZS 50,000,000 and the balance is payable annually for TZS 10,000,000 starting December 31, 2020. The implicit borrowing rate for this type of loan is 12%

**Required:** Compute the Capitalizable borrowing costs

## QUESTION NINE

Chonde Company had the following borrowings during 2020. The borrowings were made for general purpose but the proceeds were used to finance the construction of a new building

| | Principal | Interest |
|---|---|---|
| 12% bank loan | TZS 3,000,000 | TZS 360,000 |
| 14%long term loan | TZS 5,000,000 | TZS 700,000 |

The construction began on January 1, 2020 and was completed on December 31, 2020 Expenditures on the building were TZS 2,000,000 on January 1, TZS 2,000,000 on June 30 and TZS 1,000,000 on December 31

**Required:**

a) Provide relevant entries in 2020
b) Determine the capitalizable borrowing cost
c) Determine the carrying amount of the building as of December 31, 2020

## QUESTION TEN

Tipping hater Company had the following outstanding loans during 2019 and 2020

| | | |
|---|---|---|
| Specific Construction Loan | TZS 3,000,000 | 10% |
| General Loan | TZs 25,000,000 | 12% |

The entity began self-construction of a new building on January 1, 2019 and the building was completed on June 30, 2020. The following expenditures were made

| | |
|---|---|
| January 1, 2019 | TZS 4,000,000 |
| April 1, 2019 | TZS 5,000,000 |
| December 1, 2019 | TZS 3,000,000 |
| March 1, 2020 | TZS 6,000,000 |

**Required**

a) Provide the relevant entries in 2019 and 2020
b) Determine the capitalizable borrowing costs in 2019 and 2020
c) Compute the interest expense in 2019 and 2020
d) Determine the carrying amount of the building as of
   (i) December 31, 2019
   (ii) June 30, 2020

## QUESTION ELEVEN

Study the *IFRS 12 Disclosure of Interests in Other Entities* (IFRS 12 — Disclosure of Interests in Other Entities (iasplus.com)) and make a summary of the standard. (Hint focus on objective and scope, key definitions and disclosure required) – at least three pages