THE INSTITUTE OF FINANCE MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

AFU 08605: ADVANCED FINACIAL REPORTING II

TUTORIAL SET 3 – IAS23 & IAS10- BORROWING COSTS & REPORTING EVENTS AFTER REPORTING PERIOD

TUTORIAL EXERCISE 1

a) What is a qualifying asset?

b) What do you understand by the term borrowing cost as applied in IAS 23?

c) What is an event after a balance sheet date

d) With examples explain the two categories of the after balance sheet event

TUTORIAL EXERCISE 2*

On 1 October 20X1, Aberdeenshire Co borrowed TZS 6,000,000 for a term of one year, exclusively to finance the construction of a new piece of production equipment.

The interest rate on the loan is 6% and is payable on maturity of the loan.
The construction commenced on 1 November 20X1 but no construction took place between 1 December 20X1 to 31 January 20X2 due to employees taking industrial action.

The asset was available for use on 30 September 20X2 having a construction cost of $6m.

Required:
What is the carrying amount of the production equipment in Aberdeenshire Co's statement of financial position as at 30 September 20X2?

TUTORIAL EXERCISE 3

On 31 January 2016 Tucson Co Borrowed TZS 1,500,000,000 to finance the production of assets, both of which were expected to take a year to build. Work started during 2016. The loan facility was drawn down and incurred in 1 January 2016, and was utilised as follows, with the remaining funds invested temporarily.

	ASSET A	**ASSET B**
	TZS'000	TZS'000
1 January 2016	250,000	500,000
1 July 2016	250,000	500,000

The loan rate was 9% and Tucson Co invested surplus funds at 7%.

Required:
Ignoring compound interest, calculate the borrowing cost which may be capitalized for each of the assets and consequently the cost of each asset as at 31 December 2016

TUTORIAL EXERCISE 4*

Wakutingwa Co had the following loans in place at the beginning and end of 2016

	1 January 2016	**31 December 2016**
	TZS'000,000	TZS'000,000
10% Bank loan repayable 2018	120,000	120,000
9.5% Bank loan repayable 2019	50,000	80,000
8.9% debenture repayable 2017	-	150,000

The 8.9% debenture was issued to fund the construction of a qualifying asset (ie piece of mining equipment). Construction of which began on 1 July 2016.

On 1 January 2016, Wakutingwa Co began construction of a qualifying asset, a piece of machinery for a hydroelectric plant, using existing borrowings. Expenditure drawn down for the construction was TZS 30,000,000,000 on 1 January 2016, TZS 20,000,000,000 on 1 October 2016.

Required:
Calculate the borrowing costs that can be capitalised

TUTORIAL EXERCISE 5

An entity already has a number of general loan arrangements

	Amount (TZS'000)	**Interest (%)**
Loan 1	800,000	9
Loan 2	2,000,000	8
Loan 3	400,000	7

The entity commissioned a new printing press to be a new printing press to be constructed on its behalf. The total cost will be TZS 800,000,000 and the entity will be able to fund the purchase from its existing borrowings since it has arranged for stage payments to be made. The construction takes six months.

Required:
Calculate the borrowing costs that can be capitalised and the total cost of the printing press

TUTORIAL EXERCISE 6*

An entity borrowed $m million to fund the construction of a new building. Interest is payable on the loan at 8%. Stage payments were due throughout the construction period and therefore excess funds were reinvested during that period. By the end of the project investment income of $150,000 had been earned and the construction took twelve months to complete.

Required:
Calculate the borrowing costs that can be capitalised and the total cost of the building

TUTORIAL EXERCISE 7

Lamya Plc, a geared company has the following loan arrangements as at 1st January 2019

Loan type	Amount (TZS'000)	Interest (%)
Loan notes	550,000	7
Loan notes	1,100,000	8
Debentures	850,000	12
Bank loan	1,500,000	10

On 1st January 2019, the company commenced the construction of a new office factory. The construction will cost TZS 1,000,000,000 and the company funded the construction with the existing borrowings. The factory was completed on 31st August 2019 but was not available for use until 1st December 2019 as a result of minor modification. During the construction period, active work was interrupted and the building construction was stopped for two months as a result of adverse weather conditions:

Required:

Calculate the borrowing costs that can be capitalised and the cost of the building to be recognised upon initial recognition.