INSTITUTE OF FINANCE MANAGEMENT

AFU08501: ADVANCED FINANCIAL REPORTING I

BACC3, BAIT3 AND BAS3 (2023/2024)

REVIEW QUESTIONS – TUTORIAL SET 1

QUESTION 1

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance sets out the requirements for recognizing as income any grants received from government agencies, together with any repayments of such grants.

On 1 January 2020, Gilmartin Plc (Gilmartin) applied to a government agency for a grant to assist with the construction of a factory in Portlaoise. The proposed construction cost of the factory was TZS 520 million and the company projected that 350 people would be employed on its completion. The land was already owned by Gilmartin.

On 1 March 2020, the government agency offered to grant a sum amounting to 25% of the factory's construction cost to a maximum of TZS 130 million. The grant aid was to be payable on completion, and would be repayable on demand if total employment at the factory fell below 300 people within 5 years of completion.

At the financial year end, 31 March 2020, Gilmartin had accepted the offer of grant aid, and had signed contracts for the construction of the factory at a total cost of TZS 520 million. Construction work was due to commence on 1 April 2020. By 31 March 2015, the factory had been completed on budget, 400 people were employed ready to commence manufacturing activities, and the government agency agreed that the conditions necessary for the drawdown of the grant had been met.

On 1 April 2021, the factory was brought into use. It was estimated that it would have a ten-year useful economic life. On 1 June 2021, the government agency paid over the agreed TZS 130 million. In addition, the company sought and was paid an employment grant of TZS 12 million as employment exceeded original projections. This is expected to be payable annually for 5 years in total, at a rate of TZS 120,000 per additional person employed over 300 in each year. There are no repayment provisions attached to the employment grant. The directors of Gilmartin expect employment levels to exceed 350 people for at least 4 further years from 31 March 2022.

Required:

(a) Explain how Gilmartin Plc should record the above transactions and events in its financial statements for years ended 31 March 2020, 2021 and 2022. **(14 Marks)**

(b) Advise what accounting adjustments which would be necessary should it become apparent at 31 March 2023 that employment at the factory would soon drop below 300 people. **(6 Marks)**

QUESTION 2

In March 2022, Duyan Plc installed and paid for TZS 500,000,000 of property, plant and equipment (PPE) on a farm. The PPE will be depreciated over twenty-five years. In July 2022, the government provided a grant of 40% to the company towards this PPE. The company's depreciation policy is to charge a full year's depreciation in the year of purchase and none in the year of sale.

Required:

(a) Outline the two methods of presenting a government grant in the financial statements in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance **(4 Marks)**

(b) For each method of presenting a Government Grant in financial statements as referred to in your answer to (a) above, provide the journal entries based on the above information. **(6 Marks)**

QUESTION 3

IAS 23 - Borrowing Costs sets out the conditions that must be met in order to capitalize borrowing costs incurred by entities purchasing or constructing non-current assets.

(i) Henry Ltd commenced construction of a non-current asset on 1 June 2022. On 1 July 2022, it borrowed TZS 500 million at an annual interest rate of 8% to finance the development. On 15 November 2022, the workers went on strike and no work was done until the dispute was settled on 15 December 2022. The project was still in progress at 31 March 2023. Interest was paid monthly in arrears.

(ii) Georgina Ltd drew down a loan of TZS 200 million on 1 April 2022 to part-finance the construction of a new building. The rate of interest applicable was 6% per annum. Building commenced on 1 April 2022, but no money was spent until 30 June 2022 when the construction company was paid their first installment of TZS 120m. The TZS 2m borrowed was invested for 3 months (April – June) in government bonds carrying an annual interest rate of 2%. Once the construction company was paid, the remaining TZS 80m was placed with a bank on deposit at a rate of 3% per annum. This was withdrawn on 30 September 2022 and spent on the development. The asset was completed on 30 November 2022.

Required:
Journalize the above transactions. Show your calculations and explanations. **(12 marks)**

QUESTION 4

Careforall PLC, a manufacturer and supplier of mobility devices for the elderly, has recently established a new facility in Iloganzala, Co. Mwanza. To help in this new operation, Careforall PLC have secured a number of grants from US and EU sources and are unsure how the grants are to be accounted for in the financial statements. The company has a year end 31 December 2022 and all the following transactions took place at the beginning of 2022.

(i) Careforall PLC has received a grant for € 80,000, to be received over three years, in respect of providing employment in a deprived area.

(ii) Careforall PLC received a € 5,000 grant from the EU for the initial training of the new employees.

(iii) The company also received a grant of € 120,000 from the European Social Economic Fund towards the cost of a € 600,000 machine. The machine has a useful economic life of 8 years and an estimated residual value of € 60,000. Depreciation is on the straight line basis.

(iv) The company extended its premises to house the new machine at a cost of € 340,000. It financed this new build with a five-year loan at 8% annual interest. The extension was completed in seven months.

Required:

Explain how each of the above should be accounted for in the financial statements of Careforall PLC for the year ended 31 December 2022, in accordance with IAS 20 and IAS 23 **(16 Marks)**

QUESTION 5

In relation to IAS 10 Events After the Reporting Period

i. Explain the term "Events after the reporting period" defining clearly the period within IAS10 requires events to occur in order to be considered as such
ii. Distinguish clearly between adjusting and non-adjusting events and explain the accounting treatment and disclosure required in each case

QUESTION 6

An Entity 's current year ends 30th June 2022. Its financial statements were authorized for issue by its directors on 6th October 2022.The following matters have been brought to your attention;

i. On 10th July 2022, an entity sold some inventory for TZS 80,000,000. This inventory had been included in the year-end inventory count at cost of TZS 100,000,000
ii. On 15th July 2022, an entity received information that one of their largest customers had gone bankrupt. At 30th June 2022, this customer owed the entity TZS 235,000,000
iii. The directors of the entity wish to propose on 15th July 2022 a dividend was paid in August 2022. The amount of dividend is TZS 60,000,000

iv. On 5th August 2022, an entity entered into an agreement to acquire another entity. The acquisition was planned to close on 15th August 2022

v. An entity has investment worth TZS 1,000,000,000 on its financial statements at 30thJune 2022. Due to continuing recession, the investment reduced in value to TZS 900,000,000 by 15th July 2022

vi. On 18th November 2022 the government announced tax changes which have the effect of increasing the entity's deferred tax liability by TZS 6,500,000 as at 30th 2022

vii. 0n 30th June 2022 an employee of the entity fell and injured her back at work. This employee has commenced legal action. The solicitor for the entity informed the entity on 10th August 2022 that it is probable they will be found liable and have to pay this employee TZS 33,000,000. The employee has worked for the entity for the past four years.

viii. An entity purchased a motor vehicle on 29 June 2022 and paid a nonrefundable deposit of TZS 5,000,000 on that date. It also wrote a cheque on that date for the balance of TZS 20,000,000 which it posted to the seller. The seller received and cashed the cheque on 3July 2022

ix. On 12th September 2022 a fire completely destroyed the company's largest warehouse and the inventory it contained. The carrying amount of the warehouse and inventory were TZS100,000,000 and TZS 60,000,000 respectively. It appears that the company has not updated the value of its insurance cover and only expects to be able to recover a maximum of TZS 90.000,000 from its insurers. The entity's trading operations have been severely disrupted since the fire and it expects large trading losses for some times to come.

Required:
Explain the required treatment of the item (i) to (ix) by the entity in its financial statements for the year ended 30th June 2022

QUESTION 7

IAS 10 Events After the Reporting Period set out guidance or dealing with events which occur after the reporting date but which may have implications for the financial statements up to the reporting date. It distinguishes between adjusting and non-adjusting events.

Maunge Plc is in the process of finalizing its financial statements for the year ended 31st march 2022. The draft statements were completed on 14 April 2022, and the audit is currently in the process. The financial statements are expected to be approved by the board of directors on 15th May 2022 and published on 20th May 2022. The following matters have come to light during the audit and your advice is requested. No adjustment has yet been made for any of the following;

i. Closing inventory at 31st March 2022 included 100 items carried at cost TZS 5,000,000 each. New safety regulations were announced on 5th April 2022 with immediate effect. The item of inventory does not comply with these regulations. As result the net realizable value of the inventory is only TZS 4,500,000 each.

ii. An investment in unquoted equity instrument was held by Maunge Plc at 31st march 2022 at an amount of TZS350 million. This was its fair value on 30th September 2016, the most recent reporting date. Due to unavailable professional

iii. valuers, an updated fair value was not available until April 2022. On this date, the valuer provided an estimate of fair value of TZS 280 million.

iv. Maunge Plc was being sued on 31st March 2022. At that date the case had been heard, but the judgement was only handed down on 20th April 2022. The outcome was that Maunge was found liable for damages and costs totaling TZS31million. On 21st April 2022, Maunge filed claim with its insurers and on 28th April 2022, was notified that the insurer would cover TZS 26 million of the loss.

v. On 30th March 2022. Maunge paid TZS 500,000 for a raffle ticket to support a local charity. On 3rd April 2022, the company was notified that it had won first prize of TZS 100,000,000. The draw took place on 31st March 2022

Required:
In each case (i) to (iv) above, prepare a briefing note advising on the accounting treatment and/ or disclosure required as a result of the events after the reporting period.

QUESTION 8

The following issues have arisen in Dingi ltd a pharmaceutical company whose financial year end 31st December:

i. On 20th December 2022, Dingi ltd was involved in a court case with a customer who sued the company for delivering products where there was a dispute over the exact ingredients included in the products manufactured by Dingi. These products were delivered to the customer in October 2022. The details of the case were heard by 22th December but the judge decide to reserve his judgement until 8th January 2023. On 8th January 2023, the judge ruled in favour of the customer, awarding it damages of TZS 100,000,000

ii. On 8th January 2023, one of the accountants left the company suddenly. On further investigation, Dingi ltd realized that this employee has been paying himself money from the bank account in relation to false rental invoices. The amount of the over payment was found to be TZS 86,000,000. With the help of the police, the accountant was tracked down and repaid all the money on 18th January 2023

iii. A single class of inventory held at another warehouse was valued at its cost of TZS 460,000,000 AT 31st March 2021. In April 2021, 70% of this inventory was sold for TZS 280,000,000 on which Dingi's sales staff earned a commission of 15% of the selling price.

Required:

Prepare a briefing note for management in which you outline the proper accounting treatment of each of the above issues(i) to(iii), so as to ensure that the financial statements are prepared in accordance to IFRSs.