**QUESTION SIX**

**Method I:** Gross up method (differed Income)

Data

Asset cost 100,000

Grant 20% 20,000

useful life 5years

Amortization period 4 years

**On the first January 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **DR** | **Amount** | **CR** | **Amount** |
| PLANT | 100,000 | BANK | 100,000 |

Depreciation = (cost – Scrap Value) / useful life

Depreciation = (100,000 – 10,000) / 5 years

depreciation = 18,000, therefore the journal entry will be

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Profit and loss | 18,000 | Accumulated depreciation | 18,000 |

**Grant is received**

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Bank | 20,000 | Deferred Income | 20,000 |

Grant Amortization = 20,000 / 4 = 5,000

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Deferred Income | 5,000 | Grabt received | 5,000 |

**SPLOCI**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | 1 | 2 | 3 | 4 | 5 |
| **Other Income** | - | - | - | - | - |
| Gross Income | 5000 | 5000 | 5000 | 5000 | - |
| Administrative expenses | - | - | - | - | - |
| Depreciation | (18,000) | 8,000) | 8,000) | 8,000) | 8,000) |
|  |  |  |  |  |  |

**SFP**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | 1 | 2 | 3 | 4 | 5 |
| Assets  PLANT | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Less: Accumulated Depreciation | (18,000) | 334,000 | 54,000 | 72,000 | 90,000 |
|  |  |  |  |  | **10**,000 |
| Liabilities |  |  |  |  |  |
| Non-current liabilities | 10,000 | 5,000 | - | - | - |
| Current Liability | 5,000 | 5,000 | 5,000 | - | - |
|  | 15,000 | 10,000 | 5,000 |  |  |

**METHOD II**

|  |  |
| --- | --- |
| Cost of asses | 100,000 |
| Less: Grabts 20% | 20,000 |
|  | **80,000** |

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Bank | 20,000 | Plant | 20,000 |

Depreciation = (80,000 – 10,000 ) / 5 years

Depreciation = 14,000

**SPLOCI**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | 1 | 2 | 3 | 4 | 5 |
| Administrative expenses |  |  |  |  |  |
| Depreciation | (14,000) | (14,000) | (14,000) | (14,000) | (14,000) |

**SFP**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| YEAR | 1 | 2 | 3 | 4 | 5 |
| Non-current Assets |  |  |  |  |  |
| Plant cost | 80,000 | 80,000 | 80,000 | 80,000 | 80,000 |
| **Less: Accumulated depreciation** | (14,000) | (28,000) | (42,000) | (56,000) | (70,000) |
|  |  |  |  |  | **10,000** |

**NOVA SCOTIA**

**I) Translated statement of profit and loss**

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | Exchange rate | £ |
| sales | 10,080 | 1.8 | 5,600 |
| Cost of sales | (3,960) | 1.8 | (2,200) |
| Grosz profit | 6,120 |  | 3,,400 |
| Other operating expenses | (440) | 1.8 | (244) |
| Operating profit | 5680 |  | 3,156 |
| Tax | (1,080) | 1.8 | (600) |
| Profit of the year | 4,600 |  | 2,556 |

**Translated statement of financial position**

|  |  |  |  |
| --- | --- | --- | --- |
|  | $ | Exchange rate | £ |
| Tangible fixed assets | 32,000 | 1.6 | 20,000 |
| Current assets | 7,600 | 1.6 | 4,750 |
| Current liabilities | (5,000) | 1.6 | (3.125) |
|  | **34,600** |  | **21,625** |
|  |  |  |  |
| Share capital | 28,000 | 2 | 14,000 |
| Profit and loss reserve |  |  |  |
| At Acquisition | 3,000 | 2 | 1,500 |
| post-profit | 3,600 | balance | 6,125 |
|  | **34,600** |  | **21,625** |
|  |  |  |  |
|  |  |  |  |

**ii) Group structure**

Scotia ………….. 75%...…...Nova Scotia

|  |  |  |  |
| --- | --- | --- | --- |
|  | **CI** | **NCI** | **Total** |
| Equity shares | 75% | 25% | 100% |

**Goodwill according to subsidiary**

**iii) Determination of the goodwill**

|  |  |  |
| --- | --- | --- |
|  | **CI** | **NCI** |
| Price consideration  (16,000×2 rate) | 32,000 | - |
| **Less:** Net asset of subsidiary at acquisition |  |  |
| Equity (28,000) | 21,000 | 7,000 |
| Profit and loss (3,000) | 2,250 | 750 |
| **Goodwill** | **8,750** | - |
|  |  |  |
| Post profit (£6,125) |  |  |

**iv) Translated Goodwill**

|  |  |  |  |
| --- | --- | --- | --- |
|  | dollar | Exchange rate | pound |
| Goodwill at acquisition | 8.750 | 2 | 4,375 |
| Impairment (25%) | (2,188) | 1.8 | (1.316) |
| Translation gain |  |  |  |
|  |  |  |  |
| Goodwill at reporting period | 6,563 | 1.6 | 4,102 |

**v) Translated NCI**

|  |  |  |  |
| --- | --- | --- | --- |
|  | dollar | Exchange rate | pound |
| Equity | 7,000 | 2 | 3,300 |
| Profit and loss reserve | 750 | 2 | 375 |
| Post-profit (6,125×25%) |  |  | 1,531 |
|  |  |  | **5,406** |

**vi) Dividend**

(dollar 1,000,000×75%) / 1.6 to pound = **469**

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Dividend Income (Operating expenses) | 469 | Dividend expenses | 469 |

**Vii) Group retained earning**

|  |  |
| --- | --- |
|  | = pound |
| Parent | 20,000 |
| Post-profit (6,125×75%) | 4,594 |
| Translated Gain | 943 |
|  | **25,537** |
| Impairment | (1,216) |
|  | **24,321** |

**SCOTIA GROUP**

**CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 30th DECEMBER 2012**

|  |  |
| --- | --- |
|  | pound |
| Revenue (20,000 + 5.600) | 25,600 |
| Cost of sales (10,000 + 2,200) | (12,200) |
| Gross profit | 13,400 |
| After operating (4.000 + 244 + 469) | (4,713) |
| Operating profit | 8,687 |
| Taxation (2,000 + 600) | (2,600) |
| Profit after tax | 6,087 |
|  |  |
| NCI (2,556 x 25%) | 639 |
| Parent | 5,448 |

**SCOTIA GROUP**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31th DECEMBER 2021**

|  |  |
| --- | --- |
|  | POUND |
| Tangible fixed asses (48,00 + 20,000) | 68,000 |
| CURRENT ASSETS (9,500 + 4,750 ) | 14,250 |
| Total ASSETS | 82,250 |
| Goodwill | 4,102 |
|  | **86,352** |
|  |  |
| Equity and liabilities | 50,000 |
| Share capital | 24,321 |
| Profit and loss (vii) | 74,321 |
| NCI (v) | 5,406 |
|  | **80,727** |
| Current liabilities  (3,500 + 3,125) | 6,625 |
|  | **86,352** |

**QUESTION 8**

Purchasing price = Tzs 100,000,000

Down payment = Tzs 50,000,000

Borrowing rate = 12%

Pv = PMT\*(1-(1+r)^-n)/r

Pv = 10,000,000 \*(1-(1+0.12)^-1)/0.12

Pv = 10,000,000\*(0.10711/0.12)

Pv = Tzs 8,925,000

Borrowing cost to be capitalized is Tzs8,925,000/= in the financial statement for the year ended 31th Jan 2020

**QUESTION NINE**

|  |  |  |
| --- | --- | --- |
| Loan | rate | Interest |
| 3,000,000 | 12% | 360,000 |
| 5,000,000 | 14% | 700,000 |
| 8,000,000 |  | 1,060,000 |

**WACR = (**1,060,000 / 8,000,000) X 100%

**WACR =** 13.25%

Expenditure of the building.

1st JANUARY 2020 = 2,000,000 X 13.25% X (12/12) =

30rd JUNE 2020 = 2,000,000 X 13.25% X (6/12) =

31st DECEMBER 2020 = 2,000,000 X 13.25% X (0/12) =

|  |  |
| --- | --- |
| Totla expenditure (360,000 + 700,000) | 1,060,000 |
| less: Capitalized | (397,500) |
| Expenses interest | 663,500 |

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| Profit and loss | 663,500 | Bank | 663,500 |

**Expenditure in Building**

|  |  |  |
| --- | --- | --- |
| 1st January 2020 | 2,000,000×12/12 | 2,000,000 |
| 30th june 2020 | 2,000,000×6/12 | 1,000,000 |
| 31st December 020 | 2,000,000×0 /12 | - |

Borrowing cost of 3,000,000

WACP = 13,25%

Borrowing cost = 3,000,000 X 13,25%

Borrowing cost = **397,500**

**Carrying amount**

Initial cost = 3,000,000

Add: Borrowing cost = 397,500

then the Carrying amount will be **3,397,500**

|  |  |  |  |
| --- | --- | --- | --- |
| DR | | CR | |
| PPE | **3,397,500** | Bank | **3,397,500** |

**QUESTION TEN:**

**2019:**

| Date | Account | Debit (TZS) | Credit (TZS) |
| --- | --- | --- | --- |
| Jan 1, 2019 | Construction Expenditure | 4,000,000 |  |
|  | Cash |  | 4,000,000 |
| Apr 1, 2019 | Construction Expenditure | 5,000,000 |  |
|  | Cash |  | 5,000,000 |
| Dec 1, 2019 | Construction Expenditure | 3,000,000 |  |
|  | Cash |  | 3,000,000 |

**2020:**

| Date | Account | Debit (TZS) | Credit (TZS) |
| --- | --- | --- | --- |
| Mar 1, 2020 | Construction Expenditure | 6,000,000 |  |
|  | Cash |  | 6,000,000 |

**Capitalizable Borrowing Costs:**

| Year | Weighted Avg Accumulated Expenditure | Borrowing Rate | Capitalizable Borrowing Costs (TZS) |
| --- | --- | --- | --- |
| 2019 | 144,000,000 | 10% | 14,400,000 |
| 2020 | 150,000,000 | 10% | 15,000,000 |

**Interest Expense:**

| Year | Specific Construction Loan (10%) | General Loan (12%) | Total Interest Expense (TZS) |
| --- | --- | --- | --- |
| 2019 | 300,000 | 3,000,000 | 3,300,000 |
| 2020 | 300,000 | 3,000,000 | 3,300,000 |

**d) Carrying Amount**

To determine the carrying amount of the building as of December 31, 2019 and June 30, 2020, we need to follow these steps:

1. Calculate the weighted average interest rate for the construction loan during the construction period. This can be done by multiplying the interest rate of the loan by the portion of the year that the loan was outstanding for each expenditure. For example, for the January 1, 2019 expenditure, the loan was outstanding for the entire year of 2019, so the weight would be 1. For the April 1, 2019 expenditure, the loan was only outstanding for 9 months of 2019, so the weight would be 9/12.
2. Multiply the weighted average interest rate by the total construction costs to determine the amount of capitalizable borrowing costs for each year.
3. Add the capitalizable borrowing costs for each year to the direct construction costs for each year to determine the carrying amount of the building as of December 31, 2019 and June 30, 2020, therefore

**December 31, 2019:**

| Expenditure Date | Expenditure Amount (TZS) | Loan Outstanding (Months) | Weight |
| --- | --- | --- | --- |
| January 1, 2019 | 4,000,000 | 12 | 1 |
| April 1, 2019 | 5,000,000 | 9 | 3/4 |
| December 1, 2019 | 3,000,000 | 1 | 1 |
| Total | 12,000,000 |  |  |

Weighted average interest rate = (10% x 1) + [(10% x 3/4)] + (10% x 1) = 10.75%

Capitalizable borrowing costs = (12,000,000×10.75%) = 1,290,000

Carrying amount of building as of December 31, 2019 = (12,000,000 + 1,290,000) = 13,290,000

**June 30, 2020:**

| Expenditure Date | Expenditure Amount (TZS) | Loan Outstanding (Months) | Weight |
| --- | --- | --- | --- |
| January 1, 2019 | 4,000,000 | 18 | 1.5 |
| April 1, 2019 | 5,000,000 | 15 | 1.25 |
| December 1, 2019 | 3,000,000 | 7 | 0.58 |
| March 1, 2020 | 6,000,000 | 4 | 0.33 |
| Total | 18,000,000 |  |  |

Weighted average interest rate = (10% x 1.5) + [(10% x 1.25)] + (10% x 0.58) + (10% x 0.33) = 10.63%

Capitalizable borrowing costs = (18,000,000×10.63%) = 1,913,400

Carrying amount of building as of June 30, 2020 = (18,000,000 + 1,913,400) = 19,913,400

Therefore, the carrying amount of the building as of December 31, 2019 is TZS 13,290,000 and the carrying amount of the building as of June 30, 2020 is TZS 19,913,400.

**QUESTION ELEVEN**

**IFRS 12 Disclosure of Interests in Other Entities: A Summary**

IFRS 12 Disclosure of Interests in Other Entities is a comprehensive accounting standard that provides guidelines on the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard was issued by the International Accounting Standards Board (IASB) and is part of the International Financial Reporting Standards (IFRS) framework. In this summary, we will delve into the key aspects of IFRS 12, including its objectives, scope, key definitions, and the disclosure requirements imposed on entities.

**OBJECTIVE AND SCOPE:**

IFRS 12, issued by the International Accounting Standards Board (IASB), has a twofold objective: enhancing transparency and improving financial statement user understanding. It achieves this by imposing comprehensive disclosure requirements regarding an entity's interests in other entities. Importantly, IFRS 12 supersedes the disclosure requirements previously found in IAS 27, IAS 28, and IAS 31.

The standard is applicable to all reporting entities that adhere to IFRS Standards, ensuring a consistent and transparent approach across diverse entities. Its scope encompasses various types of entities, including:

**Subsidiaries:** Under IFRS 12, subsidiaries are entities controlled by the reporting entity, where control is established if the parent company holds more than half of the voting rights. For instance, if a parent company owns over 50% of the voting rights in another entity, it exercises control, rendering the latter a subsidiary. This clear definition and example aim to enhance transparency and enable financial statement users to grasp the nature and extent of an entity's control over its subsidiaries.

**Joint Arrangements:** IFRS 12 defines joint arrangements as entities over which the reporting entity, in conjunction with other parties, has joint control. A practical illustration of this is when two companies collaborate to operate a production facility, sharing control and decision-making authority over the facility. This definition and example emphasize the shared control aspect, providing clarity on the nature of joint arrangements and contributing to the comprehensive disclosure required by the standard to enhance financial statement user understanding.

**3. Associates:** In the context of IFRS 12, associates are entities over which the reporting entity holds significant influence. This influence is typically present when a company owns between 20% and 50% of the voting rights in another entity. For instance, if a company falls within this ownership range, it generally implies significant influence and categorizes the association as an associate. The definition and example highlight the key threshold for significant influence, aiding in the transparent disclosure of the reporting entity's relationships and responsibilities regarding its associates.

**4. Unconsolidated Structured Entities:** Under IFRS 12, unconsolidated structured entities refer to arrangements meeting specific criteria that lead to economic exposure without consolidation. For instance, an entity might have interests in a structured financial vehicle, and despite not consolidating it, the reporting entity is exposed to the risks and rewards associated with the vehicle's activities. This definition and example illuminate the nuanced nature of unconsolidated structured entities, emphasizing the economic exposure aspect and supporting the comprehensive disclosure requirements aimed at providing financial statement users with a thorough understanding of the reporting entity's involvement.

Moreover, IFRS 12 represents a shift from a fragmented disclosure approach to a more holistic and cohesive one, streamlining the reporting process for entities with varied interests in different types of entities. The consolidation of disclosure requirements eliminates redundancy and promotes consistency, allowing users of financial statements to more efficiently assess the nature, risks, and financial effects of an entity's interests in other entities.

**KEY DEFINITIONS:**

**Interest:** In the context of IFRS 12, the term "interest" refers to the multifaceted ways through which a reporting entity is involved with another entity. This involvement can take various forms, including equity instruments, contractual rights, or other means that allow participation in the financial and operating policies of the investee. The broad definition underscores the diverse nature of relationships covered by the standard, ensuring a comprehensive understanding of an entity's engagements with subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

**Significant Influence:** IFRS 12 defines "significant influence" as the power to participate in the financial and operating policy decisions of an investee, though falling short of control. This definition acknowledges that certain relationships may not entail control but still confer a substantial influence over the investee's strategic decisions. Determining significant influence involves assessing the reporting entity's ability to shape policies, reflecting a nuanced understanding of relationships that go beyond mere ownership stakes.

**Joint Arrangement:** The standard categorizes joint arrangements into joint operations and joint ventures. A joint arrangement is one over which the reporting entity, together with other parties, exercises joint control. This definition distinguishes between joint operations, where the parties have rights to the assets and obligations for the liabilities, and joint ventures, where the parties have rights to net assets. The clarity in categorization contributes to a precise depiction of the reporting entity's shared control dynamics in various joint arrangements.

**Unconsolidated Structured Entity:** An unconsolidated structured entity, as per IFRS 12, is an arrangement that meets specific criteria resulting in economic exposure without consolidation. This definition emphasizes the structured nature of entities that are not consolidated and clarifies that their economic exposure is a key factor. An example could be an entity's interests in a structured financial vehicle, where despite not consolidating, the reporting entity is exposed to risks and rewards associated with the vehicle's activities. This definition ensures a focused understanding of entities that fall under this category, contributing to transparency in financial reporting.

**DISCLOSURE REQUIRED:**

IFRS 12 outlines objectives for disclosures and provides guidance on meeting them. Key disclosure areas include:

**Nature of Interests:** Entities are required to disclose comprehensive information about the nature of their interests in subsidiaries, joint arrangements, associates, and unconsolidated structured entities. For example, *a company may disclose the specific percentage of voting rights it holds in its subsidiaries and associates, outlining the level of control or influence exerted.*

**Significant Judgments and Assumptions:** IFRS 12 mandates the disclosure of significant judgments and assumptions made by management in determining the nature of its interests in other entities. For instance, *if there are complex contractual arrangements influencing the degree of control or influence, the company would disclose the key assumptions and judgments made in these evaluations.*

**Risk and Rewards:** Disclosure requirements include providing information about the risks and rewards associated with an entity's interests. A*n example would be detailing the specific risks related to joint arrangements or unconsolidated structured entities, illustrating how these risks impact the financial position and performance of the reporting ent*ity.

**Consolidated Financial Statements:** For entities that prepare consolidated financial statements, IFRS 12 necessitates the disclosure of summarized financial information for subsidiaries that have not been consolidated. This ensures that users have a clear view of the financial impact of those entities on the reporting entity. For instance, *a company may disclose key financial figures for significant unconsolidated subsidiaries.*

**Unconsolidated Structured Entities:** Specific disclosures are required for interests in unconsolidated structured entities. This includes information about the nature and risks of those interests. For example, *a company may provide details about its investments in structured financial vehicles, explaining the economic exposure it has despite not consolidating the entity.*

**Changes in Interests:** Entities are obligated to disclose changes in their interests during the reporting period. This can include acquisitions, disposals, or changes in the level of control or influence over other entities. For example, i*f a company increases its ownership stake in an associate, it would disclose the details of this change and its impact on financial statements.*

By adhering to these disclosure requirements, reporting entities can offer stakeholders a comprehensive understanding of their relationships with subsidiaries, joint arrangements, associates, and unconsolidated structured entities. This transparency enhances user comprehension of the entity's risk exposure, decision-making dynamics, and overall financial health.