UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

BSC ACC & FIN III

SEMESTER TWO 2021/2022

COURSE UNIT: FINANCIAL REPORTING

CODE: CPA(U)12

DATE: 18TH JULY, 2022

TIME: 9:30 PM – 12:30 PM

Instructions:

- Answer FOUR Questions in All.
- Question One is COMPULSORY
- Marks are indicated against each Question
- Silent, non-programmable calculators may be used in this examination. Whether you use it or not, you must show your calculations.
- Don't write anything on the question paper.

Question One [Compulsory]

Omega paid shs. 265,000,000 to acquire 70% of the equity shares of Beta on 1st January 2019. Beta 's retained earnings at the date of acquisition were shs. 50,000,000. The market price of Omega's shares on 1st January 2018 was shs. 4/= each. The market price of Beta's shares was shs. 2.50 each. The statement of financial position for the two companies at the close of business on 31st December 2019 were as follows;

	Omega (Shs,000)	Beta (shs,000)
Non- Current Asset:		
Intangible Non Current Assets	-	30,000
Tangible Non Current Assets	500,000	70,000
Investments	290,000	60,000
	790,000	**160,000**
Current Assets:		
Inventory	100,000	50,000
Trade Receivables	150,000	100,000
Cash and Cash equivalents	30,000	20,000
	280,000	**170,000**
Total Assets	**1,070,000**	**330,000**
Equity and Liabilities:		
Ordinary shares of shs.1 each	700,000	100,000
Share Premium	140,000	50,000
Retained Earnings	100,000	100,000
	940,000	**250,000**
Current Liabilities:		
Trade Payables	90,000	60,000
Accruals	40,000	20,000
	130,000	**80,000**
Total Equity and Liabilities	**1,070,000**	**330,000**

Additional Information:

a) At the date of acquisition, 1st January 2019, Beta owned a piece of land that had a fair value of sh,20,000,000 in excess of its book value. The Fair value adjustments have not been reflected in the individual financial statements of Beta.

b) One-half of Goodwill arising on acquisition is impaired.

c) During the year to 31st December 2019, Omega sold goods to Beta for shs.20,000,000 (at a markup of 20% on cost). Beta had One-half of these goods in its inventory at 31st December 2019.

d) Intangible Assets of Beta are all of a type whose recognition would not be permitted under IAS.38, IAS.38 is to be followed in preparing the Consolidated Financial Statements. When Omega made investments in Beta on 1st January 2019 intangible Assets of Beta included shs. 10,000,000 on what would not qualify for recognition under IAS.38.

e) Creditors reported by Beta include sh.10,000,000 owed by Omega; where as the corresponding amount in Omega books is sh,15,000,000. The difference in inter-company balances is due to cash in transit.

f) It's the group's policy to value non-controlling interest at the date of acquisition at its proportionate share of the Fair value of its subsidiary's net assets. The non-controlling interest in Beta is to be valued at its full fair value. For this purpose, Beta's share price at that date of acquisition can be taken to be indicative of its Fair value of the shareholding of the Non-controlling interest at the date of acquisition.

Required:

a) Prepare Consolidated statement of Financial Position for Omega at 31st December 2019. ***[30 marks]***

b) IFRS.5 Gives conditions for classification of Non Current Asset as "Held for Sale". Explain at-least five of these conditions. ***[10 marks]***

Question Two:

You are the newly appointed Financial Accountant of HOPE plc, a successful company that prepares its financial statements to the 31st December each year. HOPE plc whose core business is the installation of in-car entertainment systems and related products commenced trading approximately seven years ago and have experienced rapid growth during the last two years. HOPE plc's trial balance is shown below for the financial year ending 31st December 2017.

Details	DR. (000)	CR. (000)
Property, Equipment and Motor vehicles Net Book Values at 31st December 20169	24,460	
Inventory at 31st December 2016	520	
Trade Receivables	360	
Provision for bad debts as at 2nd December 2017		100
Trade payables		3,020
Bank		70
10% Debenture Note		4,600
10% of sh.1 Preference Shares		1,000
50 cents Ordinary Shares		2,250
Share Premium account		5,000
Revaluation Reserves		600
Retained Earnings as at 31st December 2016		3,905
Revenue		9,850

Purchases	3,750	
Operating Expenses	1,250	
Debenture Interest	45	
Other Finance Cost	10	
Total	**30,395**	**30,395**

Additional Information:

a) Included in the property is Land which costs sh. 10,000,000. It had been carried at cost since acquisition and at the end of year 31st December 2017, the finance Director is adopting the revaluation model. The market value is sh. 30,000,000 at the end of the year.

b) The provision for bad debts appearing in the financial statements above was made on 2nd December 2017. However, on 31st December 2017, a customer with a balance of sh. 50,000 for which a provision of sh. 30,000 had been made was declared bankrupt. Advise from the lawyer indicates that the entire amount of sh. 50,000 may not be recovered.

c) Inventory at the end of year with a cost of sh. 300,000 had a realizable value of sh.200,000

d) The tax charge for the year is estimated at sh.100,000.

e) Preference dividends were proposed before the year end. For the ordinary shareholders a dividend of 10 cents per share was declared in march 2018 after the financial statements had been audited.

f) Included in the operating expenses is rent of sh. 200,000 paid on 1st July 2017 covering a period of 12 months.

Required: Prepare the following financial statements for the year ended 31st December 2017 according to the guidelines provided by IAS 1:

a) Statement of Comprehensive income ***[8 marks]***

b) Statement of Financial Position ***[8 marks]***

c) Statement of Changes in Equity ***[4 marks]***

Question Three:

a) The Conceptual Framework for Financial Reporting defines the recognition of the elements of financial statements as the process of incorporating in the financial statements an item that meets the definition of an element and it is probable that future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability.

Required:

Explain the recognition criteria for assets, liabilities, income, and expenses indicating the statement in which the element is recognised and the point at which the element is recognised in that statement. ***[7 marks]***

b) The measurement of the elements of financial statements is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of comprehensive income.

Required:
Identify and explain any **four** bases of measurement of the elements of financial statements. ***[8 marks]***

c) "IAS 37: Provisions, Contingent Liabilities and Contingent Assets aims to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to the financial statements to enable users understand their nature, timing, and amount".

XYZ Ltd gives warranties at the time of sale to customers of its products.
Under the terms of the sale contracts, XYZ Ltd undertakes to refund the customers for the costs of repairs of any manufacturing defect which becomes apparent within the first six months of purchase. For the period ended 31 march, 2016 XYZ Ltd sold equipment for Shs 100 million and by the end of the period there was a 40% probability of defects.

Required: Explain how the transaction should be treated, and state the relevant disclosures that should be made in the financial statements in accordance with IAS 37. ***[5 marks]***

Question Four:

Crest tank Ltd is a company which manufactures and sells plastic furniture. The directors have pursued a policy of rapid expansion since April 2015. A number of new products have been developed and market share has increased.

Crest tank accounting department is finalizing its accounting statements for the year ended 31 March 2017. These statements will be presented to the forth coming meeting of the board of directors where the financial results for the year will be assessed. When reviewing the accounts, the directors will study four targets ratios identified in loan covenants given to Crest tank's bankers.

The target ratios set out in the contractual arrangement between Crest Tank and the bank are as follows:

RATIO	TARGET
Current Ratio	1.5:1
Acid test ratio	1.1:1
Interest cover	9.5 times
Gearing (debt: equity ratio)	0.5:1

The draft accounts are as follows:

Statement of Comprehensive Income for the year ended 31 March		
	2017	**2016**
Revenue	102,600	86,700
Cost of sales	-72,000	-60,750
Gross profit	**30,600**	**25,950**
Distribution costs	-5,000	-3,200
Administration expenses	-10,360	-6,700
Finance costs	-1,560	-1,350
Profit before tax	**13,680**	**14,700**
Taxation	-3,900	4,200
Profit for the period	**9,780**	**10,500**

Statement of Financial Position as at 31 March	**2017, (000)**	**2016, (000)**
Assets:		
Non-current assets		
Property, plant and equipment	77,790	53,640
Available –for –sale investments	18,600	16,200
	96,390	**69,840**
Current Assets:		
Inventories	13,500	10,800
Trade receivables	12,900	15,600
Cash and cash equivalent	-	360
	26,400	**26,760**
Total Assets:	**122,790**	**96,600**
Equity and Liabilities		
Share capital (£1 ordinary shares)	30,000	30,000
Revaluation reserve	12,600	3,300
Other reserves	5,400	3,000
Retained earnings	22,380	12,600
Total Equity	**70,380**	**48,900**
Non-current liabilities		
Loan repayable December 2018	16,200	15,600
Other loans	18,000	18,000
Total Non-Current Liabilities	**34,200**	**33,600**
Current liabilities		
Trade and other payables	14,000	9,900
Bank overdraft	310	-
Taxation	3,900	4,200
Total Current Liabilities	**18,210**	**14,100**
Total liabilities	52,410	47,700
Total Equity and Liabilities	**122,790**	**96,600**

Required:

a) Calculate the four ratios identified in the covenants given to the bank, and calculate four other ratios including Debtors collection period, Creditors payment period, Gross profit margin and the Return on capital employed that are relevant when assessing the financial performance and position of Crest Tank. ***[12 marks]***

b) Prepare a report for the board of directors of Crest Tank that explains the company's financial performance and position. The report should be based on the ratios calculated under part (a) and should include consideration of any other issues relevant to the future financing of Crest Tank. ***[8 marks]***

Question Five:

a) IAS 11: Construction Contracts provides that revenue and costs associated with a contract should be recognised according to the stage of completion of the contract at the end of the reporting period, but only when the outcome of the activity can be estimated reliably. A reliable estimate of the outcome of a construction contract can only be made when certain conditions have been met.

Required:
Set out the conditions that should be met for the outcome of the activity of a construction contract to be estimated reliably for fixed price and cost plus contracts. ***[5 marks]***

b) During the reporting period ended 31 March, 2016 A Ltd worked on a contract to construct a building according to specific customer design. The following information relates to the contract:

Commencement date: 1 April, 2015.
Original estimate of completion date: November, 2016.
Contract price: Shs 480 million.
Proportion of work certified as satisfactorily completed and invoiced up to 31 March, 2016: Shs 339.6 million
Progress payments from customer: Shs 300 million.

Costs up to 31 March, 2016:	sh. millions
- Wages	182
- Materials sent to site	72
- Other contract cost	36

Plant and equipment transferred to site at book value on 1 April, 2015 was Shs 36 million. The plant and equipment is expected to have a book value of Shs 6 million when the contract is completed. Depreciation is charged on a straight line basis.

Inventory of materials on site on 1 March, 2016 was Shs 6 million.

Expected additional costs to complete the contract: wages Shs 20 million, materials (including stock on 31 March, 2016) Shs 24 million, other overheads Shs 16 million.
At 31 March, 2016 it was estimated that work at a cost value of Shs 38 million had been completed but not included in the certificates

Required:

i) Determine the expected profit attributable to the contract. ***[4 marks]***

ii) Prepare extracts of the statement of comprehensive income for the year ended 31 March, 2016. ***[6 marks]***

iii) Prepare extracts of the statement of financial position as at 31 March, 2016. ***[5 marks]***

Question six:

The following issues have been risen in relation to the accounts for the year ended 13 December 2019.

a) XYZ received from a customer during 2019 an advance payment of 3,000,000 for the supply of goods and services over the next three years. The directors plan to include this entire amount as revenue. Would they be correct given the guidance of IAS.18. Revenue Recognition. ***[5 marks]***

b) A car manufacturer sell cars to car dealer on the following terms:-
   i) The price charged by the dealer is the price at the original date of delivery.
   ii) The dealer is charged interest at 4% on cost during the period from delivery to payment.
   iii) The dealer has right to return the cars to the manufacturer anytime but in practice this rarely happens.
   iv) Legal title passes either on sale of cars to the public or when the car is used as a demonstration model.
   v) At the Statement of Financial Position date the dealer has 15 cars in the show room.

Required. Explain how the car dealer should account for the 15 cars in the show room, under IAS. 17 - Accounting for Leases. ***[5 marks]***

c) XYZ owns a machine with a carrying value of sh. 50,000 at 31st December 2019 which is now obsolete. The directors have discovered that the machine could be sold to South Sudan in January 2020 at 50,000. It would cost XYZ sh. 62,000 to transport it to South Sudan. The directors are unsure whether the machine should be treated as an asset in accounts or not. Advised on the treatment under IFRS.5. ***[5 marks]***

d) IAS 10: Even
sheet d

d) IAS 10: Events after the reporting period (revised) replaced IAS 10: Events after the balance sheet date following the changes in terminology made by IAS 1: presentation of financial statement s in 2007. The standard sets out when entities should adjust their financial statements for events after the reporting period and the disclosures that should be made abut the date when the financial statements were authorized for issue.

Required: Explain why events occurring after the reporting period may be of importance; and describe the circumstances where the financial statements should and should not be adjusted. ***[5 marks]***