UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

BSC ACC & FIN III SEMESTER TWO 2022/2023

COURSE UNIT: FINANCIAL REPORTING

DATE: Monday, 22nd May 2023

Time allowed: 9:30am -12:30pm

Instructions to Candidates:
Read the following before answering the examination questions.

1. Do not write anything on this question paper.
2. Write neatly and show all workings clearly.
3. Start every question on a new page
4. Clearly state the question number & sections attempted.
5. Answer **FOUR** Questions in All.
6. Question **ONE** is COMPULSORY
7. Marks are indicated against each Question

SECTION A:

Question One: [Compulsory]

The draft statements of financial position of Pink Co and Peace Co on 30 June 2020 were as follows.

PINK CO.
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	$	**$**
Assets		
Non-current assets		
Property, plant and equipment	50,000	
20,000 ordinary shares in Peace Co at cost	30,000	
		80,000
Current assets		
Inventory	3,000	
Receivables	16,000	
Cash	2,000	
		21,000
Total assets		**101,00**
Equity and liabilities		
Equity		
Ordinary shares of $1 each	45,000	
Revaluation surplus	12,000	
Retained earnings	26,000	
		83,000
Current liabilities		
Owed to Peace Co	8,000	
Trade payables	10,000	
		18,000
Total equity and liabilities		**101,00**

PEACE CO.

Assets		
Property, plant and equipment		40,000
Current assets:		
Inventory	8,000	
Owed by Pink Co	10,000	
Receivables	7,000	
		25,000
Total assets		**65,000**
Equity and liabilities		
Equity		
Ordinary shares of $1 each	25,000	

Revaluation surplus	5,000	
Retained earnings	28,000	
		58,000
Current liabilities		
Trade payables		7,000
Total equity and liabilities		**65,000**

Pink Co acquired its investment in Peace Co on 1 July 2019 when the retained earnings of Peace Co stood at $6,000. The agreed consideration was $30,000 cash and a further $10,000 on 1 July 2021 if Peace Co attained certain profit targets. Pink Co's cost of capital is 7%. Peace Co has an internally-developed brand name – 'Peaceo' – which was valued at $5,000 at the date of acquisition. There have been no changes in the share capital or revaluation surplus of Peace Co since that date. At 30 June 2019 Peace Co had invoiced Pink Co for goods to the value of $2,000 which had not been received by Pink Co.
There is no impairment of goodwill. It is group policy to value non-controlling interest at full fair value. At the acquisition date the non-controlling interest was valued at $9,000.

Required:

a) Prepare the consolidated statement of financial position of Pink Co as at 30 June 2020. ***[20 marks]***

b) IFRS.5 Gives conditions for classification of Non Current Asset as "Held for Sale". Explain at-least five of these conditions. ***[5 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 2021.

Details	**DR. (000)**	**CR. (000)**
Property, Equipment and Motor vehicles Net Book Values at 31st December 2020	24,460	
Inventory at 31st December 2020	520	
Trade Receivables	360	
Provision for bad debts as at 2nd December 2021		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 2020		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:

i) 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 2021, the finance Director is adopting the revaluation model. The market value is sh. 30,000,000 at the end of the year.

ii) The provision for bad debts appearing in the financial statements above was made on 2nd December 2021. However, on 31st December 2021, 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.

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

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

v) Preference dividends were proposed before the year end. For the ordinary shareholders a dividend of 10 cents per share was declared in march 2022 after the financial statements had been audited.

vi) Included in the operating expenses is rent of sh. 200,000 paid on 1st July 2021 covering a period of 12 months.

Required: Prepare the following financial statements for the year ended 31st December 2021 according to the guidelines provided by IAS 1:

a) Statement of Comprehensive income ***[10 marks]***

b) Statement of Financial Position ***[10 marks]***

c) Statement of Changes in Equity ***[5 marks]***

Question Three:

PRIME Ltd is a company which manufactures and sells plastics. A number of new products have been developed and market share has increased. PRIME Ltd's accounting department is finalizing its accounting statements for the year ended 31 Dec 2021. These statements will be presented to the forthcoming 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 target ratios as agreed with the company's bankers.

The target ratios set out in the contractual arrangements between PRIME Ltd and the bank are as follows:

Quick ratio	1.1:1
Current (working capital) ratio	1.5:1
Interest cover	9.5 times
Gross profit margin	27%
Net (PBIT) profit margin	8%
Gearing (debt:equity) ratio	0.5:1

Income Statement for the year ended Dec	**2021 (000)**	**2020 (000)**
Revenue	51,300	43,350
Cost of sales	-36,000	(30,375)
Gross profit	15,300	12,975
Distribution costs	-2,500	(1,600)
Administration expenses	-5,180	(3,350)
Finance costs	-780	(675)
Profit before tax	6,840	7,350
Taxation	-1,950	2,100
Profit for the period	4,890	5,375

Statement of Financial Position as at 31 December:

	2021	2020
Property, plant and equipment	38,895	26,820
Available-for-sale investments	9,300	8,100
Current assets		
Inventories	6,750	5,400
Trade receivables	6,450	7,800
Cash and cash equivalents		180
Total assets	**61,395**	48,300
Equity and liabilities		
Share capital (1 ordinary shares)	15,000	15,000
Revaluation reserve	6,300	1,650
Other reserves	2,700	1,500
Retained earnings	11,190	6,300
Total equity	35,190	24,450
Non-current liabilities		
Loan repayable December 2021	8,100	7,800
Other loans	9,000	9,000
Total non-current liabilities	17,100	16,800
Current liabilities		
Trade and other payables	7,000	4,950

Bank overdraft	155	
Taxation	1,950	2,100
Total current liabilities	9,105	7,050
Total liabilities	26,205	23,850
Total equity and liabilities	61,395	48,300

Required

(a) Calculate the four ratios identified in the covenants given to the bank, and calculate other ratios that are relevant when assessing the financial performance and position of PRIME Ltd

(18 marks)

(b) Prepare a report for the board of directors of PRIME Ltd that explains the company's financial performance and position based on the ratio calculated. ***(7 marks)***

Question Four:

Set out below are the financial statements of Emma Co. You are the financial controller, faced with the task of implementing IAS 7 *Statement of cash flows.*

EMMA CO; INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

	$'000
Revenue	2,553
Cost of sales	(1,814)
Gross profit	739
Other income: interest received	25
Distribution costs	(125)
Administrative expenses	(264)
Finance costs	(75)
Profit before tax	300
Income tax expense	(140)
Profit for the year	160

EMMA CO

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER

Assets	*2021*	*2020*
Non-current assets	$'000	$'000
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	–	25
Current assets		
Inventories	150	102
Receivables	390	315
Short-term investments	50	–

Cash in hand	2	1
Total assets	1,222	948
Equity and liabilities		
Equity		
Share capital ($1 ordinary shares)	200	150
Share premium account	160	150
Revaluation surplus	100	91
Retained earnings	260	180
Non-current liabilities		
Long-term loan	170	50
Current liabilities		
Trade payables	127	119
Bank overdraft	85	98
Taxation	120	110
Total equity and liabilities	1,222	948

The following information is available.

(a) The proceeds of the sale of non-current asset investments amounted to $30,000.

(b) Fixtures and fittings, with an original cost of $85,000 and a net book value of $45,000, were sold for $32,000 during the year.

(c) The following information relates to property, plant and equipment.

	31.12.2021	*31.12.2020*
	$'000	$'000
Cost	720	595
Accumulated depreciation	340	290
Net book value	380	305

(d) 50,000 $1 ordinary shares were issued during the year at a premium of 20c per share.

(e) The short-term investments are highly liquid and are close to maturity.

(f) Dividends of $80,000 were paid during the year.

Required

Prepare a statement of cash flows for the year to 31 December 2021 using indirect Method in strict compliance with IAS 7. **(25 marks)**

Question Five:

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 recognized and the point at which the element is recognized 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 recognized 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, 2019 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 Six:

a) N Limited, purchased a Non-current asset of $ 12,000 on 1st January 2018. The company has got a policy to depreciate NCA of this type at a rate of 12% on reducing balance basis. Its expected that the asset will have zero residual value on disposal and the cost of marketing the asset for disposal purposes is $ 50. During the year ending 31st December 2020, the asset was disposed off at $ 5,000.

Prepared the depreciation schedule according to IAS.16 and advise management on the carrying value/amount and also state whether the disposal was at a loss or profit. ***(12 marks)***

b) IAS.16, gives guidance on the initial measurement of the cost of property, plant and equipment. State and explain the components of costs which can be capitalized under IAS.16. **(5 marks)**

c) Arturo Co receives a government grant representing 50% of the cost of a depreciating asset which costs $40,000. How will the grant be recognized under IAS.20 if Arturo Co depreciates the asset. The residual value is nil. The useful life is four years.

(i) over four years on straight line basis; ***(4 marks)***

(ii) at 40% reducing balance? ***(4 marks)***

End of the exam paper