

**UGANDA MARTYRS UNIVERSITY: NKOZI, AND RUBAGA
CAMPUS DAY**

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

CODE: ACC3110. COURSE: ADVANCED ACCOUNTING

Date: 20th JANUARY 2022

Time allowed: Time allowed: 3 hours 15 minutes.

9:30 am-12.45 pm (3 hours 15 minutes)

Instructions to candidates:

Read the following before answering the examination questions

- 1) Attempt **FOUR** Questions
 - 2) Question **ONE** is **COMPULSORY**
 - 3) All questions carry equal marks
 - 4) Indicate the questions attempted at the top of the page
 - 5) Any malpractices will **LEAD** to the **CANCELLATION** of the **RESULTS**
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QUESTION ONE

a) The following information has been extracted from the books of Picklette for the year to 31st March 2021

	Shs.'000'	Shs'000'
Administrative expenses	170	
Interest paid	5	
called up share capital (ordinary shares of shs.1 each)		200
Dividend	6	
Cash at bank	9	
Income tax (from previous year)	10	
Warranty provision		90
Distribution costs	240	
Land and buildings at cost (land Shs. 110, building-100)	210	
Accumulated depreciation (at April 2020)		48
Plant and machinery at cost	125	
Accumulated depreciation (at April 2020)		75
Retained earnings (at April 2020)		270
10% loan (issued in 2019)		80
Sales		1,300
Purchases	470	
Inventory (at 1st April 2020)	150	
Trade payables		60
Trade receivables	740	
	2,135	2,135

Additional information

- I. Inventory at 31st March 21 was valued at Shs. 260,000
- II. Building, plant and machinery are depreciated on a straight-line basis (assuming no residual values) at the following rates: Building 5% and Plant and equipment 20%
- III. Land at cost Shs. 120,000 and building Shs. 110,000
- IV. There were no purchases of sales on non-current assets during the year to 31st March 2020
- V. Depreciation charges for the year 31st March 2021 are to be apportioned as follows; Cost of sales 50%, distribution costs 30% and administrative expenses 20%
- VI. Income taxes to 31st March 2021 (at a rate of 30%) are estimated to be shs.135,000
- VII. The loan is repayable in five years
- VIII. The year-end provision for warranty claims has been estimated at Shs. 75,000. Warranty costs are charged to administrative expense.

Required

a) Prepare Picklette Ltd statement of profit or loss for the year ended 31st march 2021, property plant and equipment schedule and a statement of financial position that comply with IAS 1 as at that date [20 Marks]

b) IAS 12 covers the general principles of accounting for tax. Income tax consists of three elements Current tax expense over/under provision of tax charged the previous period and deferred tax. As finance specialist in tax explain to the management of CBS Ltd accounts assistants the concept of **Temporary** and **Permanent difference** in accordance with IAS 12 [5 Marks]

QUESTION TWO

a) As one of the new graduate with a specialized in accounting and finance, as an employee of BBW Ltd, the finance manager requests you to explain the concept of regulatory framework and its key objectives to the business entity [5 Marks]

b) PIKOLI year-end inventory amounted to Shs 162,800,000 valued at cost. Included in this amount is some equipment which has been damaged by fire and is beyond repair. The cost of this damaged inventory was Shs.6, 650,000. PIKOLI Ltd sold it to a local automatic company for Shs.2, 300,000 and incurred transport costs of Shs.340, 000

Required:

i. Compute the closing inventory in accordance with IAS 2 to be shown in statement of financial position and P&L account & other comprehensive income [4Marks]

ii. Clearly show the accounting entries [4 Marks]

c). IAS 2: Inventories prescribes the accounting treatment of several aspects of inventory of an entity.

Required: Explain the presentation and disclosure requirement in relating to inventory IAS 2. [4Marks]

d).Explain the concept of capitalization and derecognition accordance with IAS 16

[4Marks]

e) YAKA Group of companies bought an item of property plant and equipment for Shs.80m on January 2015. The asset had a zero residual value and it's to be depreciated over its estimated useful life of 20years on 1stJanuary 2018 the asset was revalued to its useful value of Shs. 95m

Required: Calculate the amount to be shown on YAKA group of companies' financial statement in accordance with IAS 16 for the year ended 31st December 2018 [5 Marks]

QUESTION THREE

a). It is often not possible to estimate the recoverable amount of an individual asset because assets frequently generate cash when working together rather than singly. When this is the case, an entity should determine the recoverable amount of the CGU to which the asset belongs. Briefly explain concept of A cash generating unit and value in use of an asset according to IAS 36 [4 Marks]

b). Fenton Limited holds 100% equity share capital of Denella company a wholly owned subsidiary

The assets on the reporting date of Denella were as follows:

Goodwill	5,400
Factory Buildings	9,000
Plant & equipment	8,200
Other intangibles	5,000
Receivables and cash	3,400
	31,000

Additional information

- i. On the reporting date a fire within one of However Denella's buildings led to an impairment review being carried out.
- ii. Recoverable amount of the business was determined to be Shs 16.8m. Some of the Plant and equipment was destroyed by fire with a carrying value of Shs 3.2m and the company decided to scrap it
- iii. The other intangibles consist of a license to operate Denella's plant and equipment following a scrapping of some of the plant and equipment and one of the competitors offered Shs. 2.5m purchase for patent
- iv. The receivables and cash are both stated at their realizable value and do not require impairment

Required:

- i. Show how the impairment loss in Denella is allocated amongst the assets

[5 Marks]

- ii. Explain the disclosure requirement of IAS 36 in the preparation of financial statements

[3 Marks]

- c. IAS 20: Accounting for Government Grants and disclosure of Government Assistance was formulated to remedy instances where entities would increase their profits using the grants received without disclosure. Distinguish between government grants and government assistance as laid out in IAS 20

[4 marks]

- d) QYZ Ltd, a company operating in the agribusiness and acquired equipment for Shs. 96m paying by cheque on 1st October, 2020 and received a government grant of Shs. 19.2m towards the cost of the equipment. The company's policy is to treat grants as deferred income. The useful life of the equipment is estimated at 10 years. The company time apportions depreciation where applicable

Required Show the:

- a) Accounting entries to record the equipment and receipt of the government grant on 1st October 2020

[4 Marks]

- b) Accounting entries to record the depreciation of the equipment and recognition of the grant income as at 31st December 2020

[4 Marks]

- c) Extracts of the statement of profit or loss and statement of financial position to indicate the disclosure for the asset and the grant upon acquiring the asset as at 31st December 2020

[4 Marks]

QUESTION FOUR

- a. ABC Ltd has just offered a position of finance officer, and the head of finance department has charged you the responsibility to explain junior members of the department the concept of **Investment property** and **owner-occupied property** in accordance with IAS 40 and stating why most businesses hoped for such arrangement.

[5 Marks]

- b. IAS 40 investment property provides a list of examples of items to be considered as investment property.

Required:

Give the examples of investment property in accordance with IAS 40

[4 Marks]

- c. BWB Ltd group of companies Ltd is owns a building which it has been using as a head office, in order to reduce costs; on 30th June 2009 it changed its office functions to one of its warehouses and is not hire out its head office. The company policy is to use the fair value model for investment property. The building had an original cost of 1st January 2000 of Shs. 350,000 and was being depreciated over 50 years. At 31st December 2009 its fair value model for investment property.shs.450, 000

Required

Calculate the fair value of the investment property according IAS 40 and how it will be treated in financial statements as at 31st December 2019 [6 Marks]

- d.) Japan Motor Manufacturing company profit and loss and other comprehensive income for the year ended 2019

	2020	2019
	Shs.	Shs
Revenues	900	850
Cost of sales	(400)	(360)
Gross profit	500	390
Distribution costs	(200)	(80)
Administration costs	(80)	(70)
Profit from operations	80	240

During the year the entity ran down a material business operation with all activities ceasing on 30th March 2019

The operations for 2019 and 2018 were as follows

	2020	2019
	Shs.	Shs
Revenues	80	90
Cost of sales	(50)	(55)
Distribution costs	(15)	(25)
Administration costs	(20)	(12)
loss from operations	-5	-2

The entity made a gain of Shs. 10,000 on disposal of non-current assets of discontinued operation 2020. This has been netted against administrative expenses Prepare profit and loss and other comprehensive income for the year ended 31/12/2020 Japan Motor Manufacturing complying with the provision of IFRS 5 disclosing information on the face of statement of profit or loss other comprehensive income. Ignore taxation

Required: Compute profits for the year under continuing and discounted operations in comply with IFRS 5 [5 Marks]

e). Explain the conditions for classification of an asset as Held for Sale by an entity as predetermined by the IFRS 5 with examples [5 Marks]

QUESTION FIVE

- a) IFRS 3: Control is the power to govern the financial and operating policies of an entity or business so as to obtain economic benefits from its activities. Explain to the management concept of Identifiable assets, controlling and non-control interest and state what shows evidence of control over the subsidiary

[9 marks]

- b) Jojo acquires a subsidiary on 1 January 2021. The fair value of the identifiable net assets of the subsidiary was Shs 2,170m. Jojo acquired 70% of the shares of the subsidiary for Shs 2.145m. The NCI was fair valued at Shs.683m.

Required:

Compute and compare the value of goodwill under the partial and full methods according to IFRS 3. **[6marks]**

- c.) The following are the draft balance sheets of Papa and Kako on 31st December 2020

	Shs.'000 P	Shs'000 K
Non- current Assets	90,000	100,000
Investment in Kako at cost	110,000	
	200,000	
Current assets	50,000	30,000
Total assets	250,000	130,000
Equity and Liabilities		
Capital and Reserve		
Ordinary share capital Shs. 1	100,000	100,000
Retained profits	120,000	20,000
Current liabilities	30,000	10,000
Total equity and liabilities	250,000	130,000

Additional information

Papa had bought 80% of the ordinary shares of Kako on 1st January 2020 when the retained profits of Samuel had a balance of Shs. 10,000. No impairment of goodwill has occurred to date.

Required:

Prepare a consolidated statement of financial position at 31st December 2020 according to IFRS 10 assuming that the Papa group values the non-controlling interest using the proportion of the asset's methods. **[10 marks]**

QUESTION SIX

- a) Explain the concept of "Performance Obligation" and briefly What are the conditions that must be met for contracts with customers to be recognized as per requirements of IFRS 15 [7 Marks]
- b) IFRS 15 sets out rules for the recognition of revenue based on transfer of control to the customer from entity supplying the goods or services. As a finance officer of an entity explain the step model under IFRS 15, showing their contribution to revenue recognition on contracts from customers [5 Marks]
- c) Explain the following concepts under IAS 41; Agricultural activity, agricultural produce, with practical examples [4 Marks]
- d) MRCA dairy a government research institute rears cows on their farm. A herd of ten 2-year-old animals was held at 1st January 2021. one animal aged 2.5 years was purchased on 1st July 2021 for Shs. 1,180,000 and one animal was born on 1st July 2021. No animals were sold or disposed of during the period. The per unit fair values less cost to sell were as follows.

	Shs '000'
2-year-old animal at 1 st January 2021	1,100
New born animal at 1 st July 2021	800
2.5-year-old animal at 1 st July 2021	1,180
New animal at 31 st December 2021	820
0.5-year-old animal at 31 st December 2021	900
2-year-old animal at 31 st December 2021	1,150
2.5-year-old animal at 31 st December 2021	1,210
3-year-old animal at 31 st December 2021	1,300

Required:

[9 Marks]

In accordance with IAS 41: Agriculture, determine

- Increases in fair value less costs to sell due to price change
- Increases in fair value less cost to sell due to physical change
- Fair value less cost to sell of the herd at 31st December 2021.
- Prepare a reconciliation statement of the carrying amounts of dairy

Livestock of MRCA Dairy farm

Success!