UGANDA MARTYRS UNIVERSITY, NKOZI CAMPUS

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING & FINANCE

BSC ACC& FIN 3 SEMESTER TWO 2017/18

COURSE UNIT: FINANCIAL REPORTING

DATE: Tuesday, 29th May 2018

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) Section A has one compulsory question carrying 25 marks.
3) Section B has 5 questions and only 3 questions are to be attempted. Each question carries 25 marks.
4) Start every question on a new page
5) Clearly state the question number & sections attempted

Section A:

Question 1: Compulsory question (25 marks)

XYZ plc is a listed company on the Uganda stock exchange and is a retailer of electrical goods. Extracts from the financial statements are set out below:

Statement of the financial performance for the year ended 31st December

	2017	**2016**
	UGX '000'	**UGX '000'**
Turnover	31,800	23,500
Cost of sales	(22.500)	(16,000)
Gross profit	9,300	7,500
Other operating expenses	(5,440)	(4,600)
Operating profit	3,860	2,900
Interest payable : loan notes	(260)	(500)
: overdraft	(200)	(NIL)
Profit before taxation	3,400	2,400
Taxation	(1000)	(800)
Profit for the year	2,400	1,600
Movement on retained earnings		
Opening balance	5,880	4,680
Profit for the year	2,400	1,600
dividends	(600)	(400)
Closing balance	7,680	5,880

Statement of financial position for the year ended 31st December

	2017	2016
Fixed assets (note i)	24,500	17,300
Stock	2,650	3,270
debtor	900	1,950
Bank	200	400
	28,250	22,920
Current liabilities		
Bank over draft	1,050	nil
Trade creditors	2,850	1,980
Dividends	450	280
Taxation	720	630
Warranty provision	500	150
Noncurrent liabilities		
10% loan stock	2000	4,000
Equity		
Share capital	11,500	8,000
Share premium	1,500	2,000
Retained earnings	7,680	5,880
	28,250	22,920

Notes:

(i) The details of the fixed assets are:

	Cost	Accumulated depreciation	Net book value
At 31st December 2016	27,500	10,200	17,300
At 31st December 2017	37,250	12,750	24,500

During the year, there was a major refurbishment of the display equipment. The old equipment that had cost 6 million in 1st January 2015 was replaced with new equipment at a gross cost of 8 million on 31st December 2017. The equipment manufacturer allowed XYZ plc a trade in allowance of 500,000 on the old display equipment. In addition to this, XYZ used its own staff to install the new equipment. The value of staff time spent on the installation has is costed at 300,000 but this has not been included in the cost of the asset. All staff costs have been included

in operating expenses. Display equipment is depreciated at 20% on its cost i.e. useful life of 5 years and a residual life of zero.
(ii) Operating expenses contain a charge of 580,000 for the cost of warranties on the goods sold. The company makes a warranty provision when it sells its products and cash payments for warranty claims are deducted from the provision as they are settled.

Required:
(a) Prepare a cash flow statement for the year ended 31st December 2017 using the direct method**. (20 marks)**
(b) What are the benefits / advantages of statement of cash flows **(5 marks)**

Section B:

Answer any 3 questions from this section

Question 2 (25 marks)
The following is the statement of the financial position of Quincy plc as on 31st .03.2011

	Shs	**shs**
Assets		
Non-current assets		
Land and building	40,000	
Building	160,000	
Plant and machinery	540,000	
patents	40,000	780,000
Current assets		
Inventory	100,000	
Sundry debtors	230,000	
Cash at bank	60,000	390,000
Total asset		**1,170,000**
Equity and liabilities		
Share capital		
14% 4000 preference shares of shs 100 fully paid up		400,000
8,000 equity shares of shs 100 shs 60 paid up		480,000
Profit and loss		(240,00)
Total equity		640,000
Unsecured loan	230,000	
Interest accrued on above loan	32,200	
Loan on the mortgage of land and buildings	150,000	**412,000**
Current liabilities and provision		
Trade payables	30,000	
Wages payables	40,000	
Tax payable	47,800	117,800
Total equity and liabilities		**1,170,000**

On 31. 3.2011, the company went into voluntary liquidation. Dividend on 14% of preference shares was in arrears for one year.

Expected realizable amount and also disposal proceeds of the assets was as following:

	Shs
Land and building	280,000
Plant and machinery	500,000
Patent	50,000
Inventory (stock)	160,000
debtors	200,000

The expenses of liquidation amounted to shs 29,434. The liquidator is entitled to a commission of 2% on all assets realized (except cash at bank) and 2 % on amounts distributed among unsecured creditors. All payments were made on 30.06.2011

Interest on mortgage loan shall be ignored at the time of payment

Required:

(i) Prepare a statement of affairs of Quincy plc **(10 marks)**

(**ii**) Prepare the liquidator's final statement of account **(10 marks)**

(iii) Distinguish between voluntary and involuntary winding up **(3 marks)**

(iv) What is the role of liquidator in a receivership **(2 marks)**

Question 3: (25 marks)

Abacus Co. bought 80% of share capital of Melanin Co. listed company on the Uganda stock exchange on 1st January 2007 at a cost of 120,000sh and the retained earnings at that date stood at 10,000. The fair value of non-controlling on the stock exchange on 1st January 2007 was shs 40,000.

The summarized financial statements of financial position as at 31st December 2008

	Abacus co. (000)	**Melanin co.(000)**
Non-current assets		
Property , plant and equipment	200	80
Investment in Shane	120	
Current assets		
Inventory	400	60

receivable	490	80
Total assets	**1210**	**220**
Share capital (1 per share)	500	100
Retained earnings	400	90
Current liabilities	310	30
Total assets and liabilities	**1210**	**220**

The statement of Profit and & Loss for year ended 31st December 2008

	Abacus co.	**Melanin co.**
sales	200	80
Cost of sales	(80)	34
Gross profit	120	46
Other operating costs	10	20
Dividends received from Shane company	12.6	-
Operating profit	122.6	(26)
Income tax	(40)	(8)
Profit for the year	82.6	18

At acquisition date 1st January 2007, assets and liabilities were fair valued by the Abacus Co. and it is only plant whose fair value exceeded the carrying amount by 20,000 and this is not yet recorded in the books of the Melanin co. The plant remaining useful life at that date was 5 years. Abacus Co. sold goods worthy of 20,000 to Melanin and these were at profit margin of 20% and at the year- end only 50% of the goods remain unsold by Melanin.
Goodwill was found impaired by 60% by 31st December 2008 and this is the first time impairment loss on goodwill was recognized since acquisition.

Required:
Prepare Abacus Co. consolidated Statement of financial position as at 31st December 2008 and also Statement of profit and loss for year ended 31st December 2008

Question 4 (25 marks)

(a) IFRS 15 requires us to understand the contract to understand the performance obligations such that contract price is allocated amongst the performance obligations in the contract such that each contract is recognized separately.

(i) When is revenue recognized **(2 marks)**

(ii) What are the factors that indicate the point in time at which control is passed at a point in time for goods and as such requiring recognition for goods **(3 marks)**

(b) You are newly recruited accountant in Elitab Uganda Ltd, whose most recent financial statements are shown below.

Statement of Financial Position as at 31 May

	2012		**2011**	
Assets:	**Shs million**	**Shs million**	**Shs million**	**Shs million**
Non-current assets:				
Property, plant & equipment	6,650		3,710	
Intangibles	2,800		-	
		9,450		3,710
Current assets:				
Inventory	1,680		910	
Receivables	1,155		595	
Bank	-		2,100	
		2,835		3,605
Total assets		**12,285**		**7,315**
Equity and liabilities:				
Equity:				
Share capital and reserves:				
Ordinary share capital	2,800		2,800	
Share premium	1,050		1,050	
Revaluation reserve	350		350	
Retained earnings	826		700	
Total equity	**5,026**		**4,900**	
Liabilities:				
Non-current liabilities:				
Loans	4,550		1,050	
Current liabilities				
Payables	1,309		1,015	
Taxation	560		350	
Overdraft	840		-	
		2,709		1,365
Total equity and liabilities		**12,285**		**7,315**

Statement of Comprehensive Income for the year ended 31 May

	2012		2011	
	Shs million	**Shs million**	**Shs million**	**Shs million**
Sales revenue		13,202		8,050
Cost of sales		(6,580)		(4,760)
Gross profit		6,622		3,290
Administration costs	2,443		1,561	
Distribution costs	1,295		805	
Interest payable	476	(4,214)	91	(2,457)
Profit before tax		**2,408**		**833**
Taxation		(665)		(385)
Profit for period		**1,743**		**448**

The management of Elitab Uganda Ltd would like to be informed of how well they are they are discharging the stewardship function

Required:

(a) Write a report to the management of Elitab Uganda Ltd analyzing the financial performance and position of the entity **(15 marks)**

(c) Briefly explain any additional information about Elitab (U) Ltd that would help you to interpret the ratios. **(5 marks)**

Question 5: IAS 36 (25 marks)

(a) In the preparation of financial statements, we use accrual accounting basis with the exception of cash flow statement that is prepared under cash basis. In the process of estimation under accrual accounting basis, framework requires that we should be prudent. IAS 36 impairment requires that when the carrying amount of the asset exceeds the recoverable amount, an impairment loss should be recognized in the statement of profit and loss. For IAS 2 inventory, there are certain circumstances that indicate that the cost (carrying amount) has exceeded the net realizable value which is expected selling price less the direct costs to makes the sale.

Required:

(i) State 5 indicators of impairment as mentioned in IAS 36 impairment. **(5 marks)**

(ii) State 3 indicators of reversals of impairment **(3 marks)**

(iii) List 5 circumstances that indicate that the cost (carrying amount) of inventory has exceeded the net realizable amount **(5 marks)**

(b) On 1 January 2000 Multiplex acquired Steam days, a company that operates a scenic railway along the cost of a popular tourist area. The summarized balance sheet a fair values of Steam days on 1 January 2000, reflecting the terms of the acquisition was:

	$000
Goodwill	200
Operating license	1,200
Property- train stations and land	300
Rail track and coaches	300
Two steam engines	1,000
Purchase consideration	3,000

The operating license is for ten years. It was renewed on 1 January 2000 by the transport authority and is stated at the cost of its renewal. The carrying values of the property and rail track and coaches are based on their value in use. The engines and other net assets are valued at their fair value less costs to sell.

On 1 February 2000 the boiler of one of the steam engines exploded, completely destroying the whole engine. Fortunately no one was injured, but the engine was beyond repair. Due to its age a replacement could not be obtained. Because of the reduced passenger capacity the estimated value in use of the whole of the business after the accident was assessed at 2 million.

Required: Calculate the carrying value of the assets of Steam days (in Multiplex's consolidated balance sheet) at 1 February 2000 and 31 March 2000 after recognizing the impairment losses. **(7 marks)**

(c) On 1 March 2008 Yucca acquired a machine from Plant under the following terms:

List price of machine	82,000
Import duty	1,500
Delivery fees	2,050
Electrical installation costs	9,500
Pre-production testing	4,900
Purchase of a five-year maintenance contract with Plant	7,000

In addition to the above information Yucca was granted a trade discount of 10% on the initial list price of the asset and a settlement discount of 5% if payment for the machine was received within one month of purchase. Yucca paid for the plant on.

Required:
Advise on the initial measurement of the above IAS 16 property, plant and equipment on how it be accounted for in the financial statements. **(5 marks)**

Question 6 (25 marks)
The International Accounting Standards Board (IASB) Framework for the Preparation and Presentation of Financial Statements was approved by the International Accounting Standards Committee (IASC) Board in April 1989 for publication in July 1989, and adopted by the IASB in April 2001. The framework was superseded by the Conceptual Framework for Financial Reporting in September 2010 and this was also superseded by conceptual framework 2018. Among other things, conceptual framework contains the definition and recognition criteria for assets and liabilities.

Required:
(a) Define the terms 'assets' and 'liabilities' and explain the important aspects of those definitions. **(5 marks)**
(i) Explain any **2** measurement bases of the IASB's conceptual framework and their suitability. **(5 marks))**
(b) For financial statements to be useful for investment decision, they should possess certain characteristics
Required: State any 3 qualitative characteristics **(5 marks)**
(c) Discuss the IAS 38: intangible assets requirements regarding the recognition of intangible assets **(5 marks)**
(d) XYZ acquired a plant at a cost of 100,000 on 1 January 2000 with a useful life of 10 years and XYZ depreciates the asset on straight line method whereas for tax accounting, URA uses 4 years of depreciating straight line.
Required: Set out the deferred tax implication for first year ended 31st December 2000. **(5 marks)**