UGANDA MARTYRS UNIVERSITY: NKOZI CAMPUS DAY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

CODE: ACC3110. ADVANCED ACCOUNTING

Date: 12Th DECEMBER, 2023

Time allowed: Time allowed: 3 hours

9:30 am-12.30 pm

Instructions to candidates:

Read the following before answering the examination questions

1) Section **A** has one compulsory question carrying 25marks
2) Section **B** has five numbers and only three are to be attempted. Each question carries 25marks

   Relevant tables are provided on **LAST** pages
3) Writ your answer to each question on a fresh page in your answer booklet
4) Any malpractices will **LEAD** to the **CANCELLATION** of the RESULTS

Question 1

The management of Jewelry Enterprises Limited (JEL), dealers in jewelry have recently experienced tremendous increase in the demand for jewelry, and are therefore considering expanding their distribution network. In their recent meeting, they resolved to acquire a bank loan to finance the expansion whereupon the bank has requested them to submit their financial statements for the year ended 30 June, 2018 to assess JEL's eligibility for the loan facility

The management have availed you the following list of balances extracted from the ledger accounts of JEL for the year ended 30 June, 2023

	Shs '000'
Motor expenses	15,000
Distribution costs	44,000
Rent & rates paid	48,000
Ordinary share capital Shs 100,000 per share	280,000
Share premium	14,000
Retained earnings	12,500
Directors fees paid	10,000
Sales	498,000
Bank overdraft interest charges	9,000
Trade & other receivables	115,000
Salaries & wages	75,000
Postage &mailing expenses	5,000
Motor vehicles at cost	110,000
Trade payables	45,000
Cash at bank	35,000
Cash in hand	16,000
Fixtures & fittings at cost	42,000
Accumulated depreciation 1 July, 2022:	
Furniture & fittings	10,500
Motor vehicles	44,000
Buildings	25,000
Inventory on 1 July, 2022	25,000
Purchases	187,000
Land &buildings at cost	193,000

Additional information:

1. On 1January, 2018 JEL imported jewelry from a supplier in Turkey and its cost of sale Shs. 188,500

2. During the year ended 30 June, 2023, two members of staff who had been terminated due to gross misconduct sued JEL on grounds of unlawful termination and demanded compensation totaling to Shs 50 million. The staff had each obtained and signed JEL operational guidelines that defined and spelt out the consequences of gross misconduct. The company lawyers have advised management that there is no possibility of loss of the law suit.

3. During the annual general meeting for the year ended 30 June, 2023, the directors proposed a 10% dividend on ordinary shares.

4. JEL pays annual rent and rates in advance on a calendar year basis. The amount of rent and rates paid is for the calendar year ending 31December, 2023.There has been no change in the rent and rates payable for the last three years. Salaries amounting to Shs 10 million were outstanding by 30 June, 2023 and were not included in the balances provided above.

5. JEL depreciates their non-current assets on straight-line basis, per annum, as follows:

Asset Rate	(%)
Furniture & fittings	12.5
Motor vehicles	20
Buildings	5

6. Included in the balance for land and buildings is freehold land that cost Shs130.5 million on which the buildings sit. At the beginning of the year, a revaluation of buildings was done and they were established to have a value of Shs 30 million. There was no change in the expected useful life of the buildings. No adjustment of the revaluation was made in the books of account.

7. On 30 June, 2023 jewelry worth Shs 23.5 million whose realizable value was

Shs 27 million was still in stock.

Required:

As the consultant contracted by JEL, and in accordance with IAS 1:

Presentation of Financial Statements, prepare for JEL for the year ended

30 June, 2023 a statement of:

(i) Profit or loss and other comprehensive income. **(10 marks)**

(ii) Financial position as at 30 June 2023. **(10 marks)**

b) Explain any five key concepts to guide preparers of financial statements in accordance with IAS 1: Presentation of financial statements **(5marks)**

(Total 25marks)

Question 2

(a) IAS 40: Investment Property defines investment property as property (land or buildings or part of the building or both) held to earn rentals or for capital appreciation or both. It further specifies the conditions for recognition and measurement of assets classified as investment property.

Required:

Discuss the conditions that should be satisfied for an investment property to be recognized as an asset in the financial statements and exceptions of assets that should not be classified under investment property. **(6 marks)**

(b) KWA Ltd acquired two properties of land one for Shs 100 million on 1January, 2020 and another on 31 December, 2020 for Shs 80 million. During the year ended 31 December, 2021 KWA Ltd constructed its head offices valued at Shs 120 million on the land whose cost was Shs 80million and nothing has yet been decided on what it should use the land that cost Shs 100 million. The prices of land in Uganda and Kampala in particular are increasing day by day because of high demand and inflation. Experts estimate that the average inflation rate of the prices of land is 15% per annum.

Required:

(i) Discuss the two measurement bases used in ascertaining the value of an investment property in accordance with IAS 40. **(4 marks)**

(ii) Given that the two properties of land are located in Kampala and that KWA Ltd uses fair value measurement in valuing its land, and depreciates its building at the rate of 5% annually on straight-line basis; show how the above transactions will be recognized in the financial statements for the year ended 31 December, 2021 giving extracts of the financial statements. **(15 marks)**

(Total 25 marks)

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Question 3

Tukole Uganda Limited (TUL) deals in the distribution of general merchandise in Kampala. The company has been growing over the years and has expanded to neighboring districts of Kampala. Included in the inventory of TUL on 31 March, 2021 are goods that cost Shs 51.2 million. The prices of these goods on the open market fluctuate frequently.TUL established that the cost price of these goods on 31 March, 2021 was Shs 55.2million.The new CEO of TUL is of the view that this type of inventory was undervalued and was not treated in accordance with international financial reporting standards (IFRS). You have been requested by the CEO to explain the different accounting measurement bases used in determining values of the different elements of financial statements.

Required:

(a) Discuss, giving examples, the significance of each the following accounting measurement bases used in preparing financial statements.

(i) Historical cost. **(3 marks)**

(ii) Current cost. **(3 marks)**

(iii) Realizable (settlement) value **(3 marks)**

(iv) Present Value significance **(3marks)**

(b) Advise on the value at which TUL should record inventory in the financial statements for the year ended 31 March, 2021 given that TUL can sell the above inventory for Shs 62 million, and incur selling costs amounting to Shs 4 million.

c) The accountant of TUL is aware that inventory is measured in accordance to IAS 2: Inventories, but is not sure of the disclosure requirements.

Required:

Discuss the disclosures required in the financial statements relating to inventory according to IAS 2: Inventories. **(4 marks)**

d) Platinum Co Limited has a construction contract (performance obligations satisfied over time) in progress whose details as at 31st December 2021 are provided below

	Shs. Millions
Total contract price	959,000
Costs incurred to date	325,000
Estimated costs to completion	333,000

Payments invoiced and received 287,000

The proportion of the contract asset is to be apportioning by 30:70 in the next financial year.

Required

I. Calculate the amounts to be recognized for the contract in the statement of profit or loss and statement of financial position assuming the amount of performance obligation satisfied is calculated using the proportion of costs incurred method as per IFRS 15 **(6marks)**

II. Describe the conditions that must be fulfilled for contracts with customers to be recognized in the financial statements as per requirements of IFRS 15 **(4marks)**

(Total 25 marks)

Question 4

IAS 23: Borrowing costs defines borrowing costs as the interest expense in case of financial instruments, finance charges in case of finance leases or exchange differences arising from foreign currency borrowings and adjusted to interest costs incurred by an entity in connection with the borrowing of funds to be applied to acquire, construct or produce an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (qualifying asset)

Required

Explain the criteria for recognizing and disclosing borrowing costs in the financial statements according to IAS 23 **(12marks)**

b) The directors of WKR Ltd resolved to take a 15% bank loan of shs. 355 million to finance the construction of coffee processing plant that was expected to take 12 months to build. The loan facility 14th February 2022.

WKR Ltd had the following balances on its loan accounts on the specified dates

	1st February ,2022 Shs.000"	31 February 2022 Shs.000"
14% Bank loan	150,000	150,000
15% bank loan	-	355,000

The 14% loan was obtained to finance the construction of the coffee processing plant whose estimated cost as per the bill of quantities was 450million. On 2nd February Shs. 90million was transferred to the constructed construction firm Landmark Holdings Ltd and an additional shs. 250million was transferred on 3rd June 2022

Required

Prepare a schedule of the borrowing costs to be capitalized for the coffee processing plant for the year ended 31st December 2022 **(8 marks)**

c) With reference to IAS 23: borrowing costs

i) Discuss how the amount of borrowing cost eligible for capitalization is determined when a qualifying asset is financed by a combination of borrowings that are specific to the asset and by general borrowings **(5marks)**

(Total 25 marks)

Question 5

The objective of IFRS 10, consolidated Financial Statements is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities

Required:

Accordance with the standard, explain the term "Investment entity" and the conditions that need to be satisfied for an investor to have control over an investee **(5marks)**

b) Donald Ltd has been a subsidiary of Bakira Ltd since its incorporation on 2st January 2019.The two companies draft financial statements as at 30th June 2021 are shown below.

	Bakira Shs	**Donald Shs**
Assets		
Non-current assets	10,943,100	1,134,000
Investment in Donald	396,900	
	11,340,000	1,134,000
Current Assets		
Inventories	2,835,000	680,400
Trade receivable	3,685,500	226,800

Bank and cash	2,211,300	765,450
	8,731,800	1,672,650
Total Assets	20,071,800	2,806,650
Equity and liabilities		
Equity		
Share capital	11,340,000	567,000
Retained earnings	2,835,000	1,360,800
	14,175,000	1,927,800
Liabilities		
Trade payables	5,159,700	737,100
Tax	737,100	141,750
	5,896,800	878,850
Total equity and liabilities	20,071,800	2,806,650

i. The retained earnings of Donald Ltd are after a dividend paid of shs. 39.2 million, for the year ending 30th June 2021. However, these have not yet been recorded in the books of Bakira Ltd

ii. It is the group policy to value the on controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.

Required:

Prepare a consolidated group statement of financial position as at 30th June 2022 as per IFRS 3 and 10.

(10marks)

c) FULD Limited has a wholly owned foreign subsidiary, TULD limited that is treated as cash generating unit. On 31st December 2022, there was an accident (Gas explosion) that caused damage to some of TULD limited's plant. The assets of TULD limited immediately after the gas explosion were

	Shs. Millions
Good will	1,800
Patents	1,200
Factory building	4,000
Plant	3,500
Receivables and cash	1,500
	12,000

As a result of the accident, the recoverable amount of TULLD limited is shs. 6.7million. the explosion destroyed an item of plant that had a carrying amount of shs. 500million.

TULLD limited has an open offer from the competitor of shs. 1 million for its patents. The receivables and cash are already stated at their fair values less cost to sell

Required:

I. Determine the carrying amount of TULD limited's assets as at 31st December 2022 after applying any impairment loss **(7marks)**

II. Discuss the disclosure requirements for an individual impairment loss reversal if material in the financial statements as per IAS 36 **(3marks)**

(Total 25 marks)