**THE STATE UNIVERSITY OF ZANZIBAR (SUZA)**

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**SCHOOL OF BUSSINESS (SOB)**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**TUNGUU MAIN CAMPUS**

**COUSE CODE: 2107**

**COUSE NAME: PRINCIPLE OF ACCOUNTING II**

**TYPE OF WORK: GROUP ASSIGNMENT**

**INSTRUCTOR NAME: DR. AHMED RAMADHAN ABEID**

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| **STUDENTS NAME** | **REGISTRATION NUMBER** |
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QUESTION 1

The BITAM LTD has a NONCURRENT ASET with a carrying value of TZS 76,000,000, expected future cash flows of TZS 70,000,000, present value of expected future cash flows of TZS 60,000,000, and a market value of TZS 73,000,000. What amount of impairment loss should BITAM LTD record for this asset?

Given:

carrying value = 76,000,000

Expected future cash flows = 70,000,000

Present value of expected future cash flows = 60,000,000

Market value = 73,000,000

Impairment loss =?

Solution

Impairment Loss = Carrying Value−Recoverable Amount

Recoverable Amount= higher fair value and value in use

= 73,000,000

Impairment Loss = 76,000,000 - 73,000,000

= 3,000,000 TZS

BITAM LTD will record impairment loss 3,000,000 TZS for the asset.

QUESTION 2

Hafsa &Lydia Ltd has identified the need to assess its assets for impairment. The following information is available:

Intangible Assets:

Patent:

Carrying amount of TZS 150,000, recoverable amount of TZS 100,000.

Trademark:

Carrying amount of TZS 300,000, recoverable amount of TZS 230,000.

Non-Current Assets:

Machine: Carrying amount of TZS 900,000,000, recoverable amount of TZS 400,000,000.

Building: Carrying amount of TZS 890,120,000. recoverable amount of TZS 480,100,000.

Equipment: Carrying amount of TZS 250,000,000 recoverable amount of TZS 145,000.

Required:

1. Calculate the total impairment loss to be recognized.

2. Prepare the journal entry to record the impairment loss.

3. How will the impairment loss be presented in the financial statements?

Solution

1. **impairment loss**

|  |  |  |  |
| --- | --- | --- | --- |
| Assets | Carrying amount | Recoverable amount | Impairment Loss |
| **Patent** | 150,000 | 100,000 | 50,000 |
| **Trademark** | 300,000 | 230,000 | 70,000 |
| **Machine** | 900,000,000 | 400,000,000 | 500,000,000 |
| **Building** | 890,120,000 | 480,100,000 | 410,020,000 |
| **Equipment** | 250,000,000 | 145,000 | 249,855,000 |

**Total Impairment Loss =** 50,000 + 70,000 + 500,000,000 + 410,020,000 + 249,855,000

**Total Impairment Loss** =1,159,995,000TZS.

1. Journal entry

|  |  |  |
| --- | --- | --- |
| **Account** | **Debit (TZS)** | **Credit (TZS)** |
| **Impairment Loss** | 1,159,995,000 |  |
| **Accumulated Impairment – Patent** |  | 50,000 |
| **Accumulated Impairment – Trademark** |  | 70,000 |
| **Accumulated Impairment – Machine** |  | 500,000,000 |
| **Accumulated Impairment – Building** |  | 410,020,000 |
| **Accumulated Impairment – Equipment** |  | 249,855,000 |

3. Financial statements

The impairment loss will be presented in the financial statements as follows:

1. **Statement of Profit or Loss**:

The total impairment loss of **TZS 1,159,995,000** will be recognized as an **expense** in the **Profit or Loss** section, reducing the company's profit for the period.

1. **Statement of Financial Position (Balance Sheet)**:

The carrying amounts of the affected assets (Patent, Trademark, Machine, Building, Equipment) will be adjusted down by the impairment amounts.

The assets will now be reflected at their **recoverable amounts** (i.e., the lower of carrying amount or recoverable amount).

QUESTION 3.

A. Calculate the Impairment Loss

1. Total Carrying Amount of All Assets:

Total Carrying Amount = 100,000,000 + 80,000,000 + 200,000,000 + 150,000,000 + 50,000,000

= 580,000,000 ZS

2. Recoverable Amount of the Asset Group:

Recoverable Amount = 350,000,000TZS

3. Impairment Loss:

solution

Impairment Loss = Total Carrying Amount -Recoverable Amount

Impairment Loss = 580,000,000 - 350,000,000 = 230,000,000 TZS

B. Allocate the Impairment Loss

All intangible assets (Patent, Trademark, and Goodwill).

Impairment on Intangible Assets:

100,000,000 + 80,000,000 + 50,000,000 = 230,000,000

The total impairment is 230,000,000 TZS and all of it can be allocated to intangible assets, there is no remaining impairment loss to allocate to other assets.

C. Carrying Amounts Before and After Impairment Loss

|  |  |  |  |
| --- | --- | --- | --- |
| Asset type | Carrying amount before(TZS) | Impairment loss(TZS) | Carrying Amount After(TZS) |
| Parent | 100,000,000 | 100,000,000 | 0 |
| Trade mark | 80,000,000 | 80,000,000 | 0 |
| Goodwill | 50,000,000 | 50,000,000 | 0 |
| Property, Plant, and Equipment | 200,000,000 | 0 | 200,000,000 |
| Investment Proper | 150,000,000 | 0 | 150,000,000 |
| Total | 580,000,000 | 230,000,000 | 350,000,000 |

The total impairment loss is 230,000,000 TZS.

All of this impairment is allocated to intangible assets (Patent, Trademark, and Goodwill), which are now fully written off.