UGANDA MARTYRS UNIVERSITY

FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT

DEPARTMENT OF ACCOUNTING AND FINANCE

ACADEMIC YEAR: 2023/2024 SEMESTER: ONE

COURSE CODE: ACC3110

COURSE NAME: ADVANCED ACCOUTING

BAM III

DATE: Wednesday, 22nd May 2024

Time allowed: 3 Hours (9:30am 12:30pm)

INSTRUCTIONS:

Read the following before answering the examination questions

- Do not write anything on this question paper.
- Attempt Four (4) questions with **Question one** compulsory
- No writing should be done on the Question Paper.
- All questions carry equal marks.
- Mobile phones are not allowed in the Examination Room
- Refer to other rules on the examination answer booklet

Question One

The following information has been extracted from the books of Equaflight Ltd of companies for the year to end 31st March 2022

	UGX	UGX
Ordinary shares @Shs. 100		1,000,000
Inventory at 1st January 2022	2,400,000	
Administrative costs	2,206,000	
Non- current asset at cost:		
Buildings	10,000,000	
Furniture and fittings	1,400,000	
Motor vehicle	320,000	
Distribution costs	650,000	
Suspense		1,500,000
Bank	100,000	
Accumulated depreciation		
Buildings		4,000,000
Furniture and fittings		480,000
Motor vehicle		120,000
Retained earnings		560,000
Trade receivables and payables	876,000	1,050,000
Purchases	4,200,000	
Dividend paid	200,000	
Revenues		11,752,000
Sales tax payable		1,390,000
Share premium		500,000
	22,352,000	22,352,000

Additional information

1) Inventory at 31st December 2022 was valued at Ugx. 1,600,000, while doing the inventory count, errors in the previous year's inventory count were discovered. The inventory brought forward at the beginning of the year should be as per IAS 2 Ugx .2, 200,000 and Ugx 2, 4000,000
2) Depreciation is to be provided as follows
    - Buildings at 5% straight line, charged to administration expenses
    - Furniture and fittings at 20% on the reducing balance basis, charged to cost of sales
    - Motor vehicle at 25% on the reducing balance basis, charged to distribution costs
3) No final dividend is being proposed

4) A customer has gone bankrupt owing Ugx. 75,000. This debt is not expected to be recovered and an adjustment should be made. An allowance for receivable of 5% is to be set up
5) 1 million new ordinary shares were issued at Ugx. 1.50 on 1st December 2023. The proceeds have been left in a suspense account

Required

a) Prepare the income statement for the year 31st December 2023, statement of changes in equity and a statement of financial position at that date in accordance with the requirement of international financial reporting standards. Ignore taxation.
(15marks)
b) Explain any **four** measurement bases of the IASB's conceptualframework and their suitability**(5marks)**

(Total 20 Marks)

Question Two

On 1st January 2023 Amacha Ltd acquired its shares in Supab when Supab had retained losses of Shs 112,000. And also acquired its shares in Supa on 1st January 2023 when Supa had retained earnings of Shs 280,000. The draft financial statements of the three companies as at 31st December 2023 are as follows;

	Amacha	**Supab**	**Supa**
Non-Current Assets	**Shs'000**	**Shs'000**	**Shs'000**
Tangible Assets	2,240	1,960	1,680
Investments:			
1,344,000 shares in Supab	1,288	0	0
336,000 shares in Supa	448		
	3,976	1,960	1,680
Current Assets:			
Inventory	760	1,280	380
Receivables	380	620	200
Cash	70	116	92
Total assets	**5,186**	**3,976**	**2,352**
Equity and Liabilities:			
Ordinary shares Shs 1	2,240	1,680	1,120

Retained Earnings	2,464	1,204	896
	4,704	2,884	2,016
Current Liabilities			
Trade payables	300	960	272
Taxation	182	132	64
Total Equity and Liabilities	5,186	3,976	2,352

Additional Information

- An impairment review at year end showed that good will in Supab is impaired by Shs 14,000 and that the investment in Supa is impaired by Shs 5,600
- The Amacha group Values NCI (Non-Controlling interest at full value and for this case the fair value of NCI on 1st January 2023 was Shs 314,000.
- During the year Amacha Ltd sold goods to Supab at a selling price of Shs 200, 000. These goods had cost Amacha Ltd Shs 160,000. Supab ltd had Shs 80,000 (at cost to Supab) of these goods still in inventory at year end.
- There are no intra group payables and receivables.

Required

a) Prepare a consolidated Statement of Financial Position for the year ended 31st December 2023 for Amacha Ltd and its subsidiary incorporating its associated company in accordance with IAS 28. **(20 marks)**

b) Explain circumstances that give rise to negative good will and how negative goodwill should be treated in the consolidated financial statements. **(5 marks)**

Question Three

Elalan Construction Company Uganda Ltd (ECCL) is a construction company that deals in a wide range of construction activities in Uganda. On 1 November 2020, ECCL entered into a contract with DangoteUganda Ltd (DUL) to construct for DUL a building within Jinja at total contract price Shs 5,500 million. On 31 October, 2021:

i. ECCL had incurred costs totaling to Shs 2,240 million on the project and estimated to incur additional costs of Shs 2,400 million to complete the project.

ii. ECCL had invoiced Shs 2,750 million for the work done but had only received payments totaling to Shs 2,500 million. ECCL's performance obligation to the contract is satisfied over time and is measured using the proportion of costs incurred.

Required:

(a) In accordance with IFRS 15: Revenue from Contracts with Customers, define a performance obligation and explain the circumstances that must exist for a performance obligation to be regarded as satisfied over time.**(6marks)**

(b) In accordance with relevant standard(s), explain how the above transactions (1-2) should be accounted for in the financial statements of ECCL for the year ended 31 October 2021 giving financial statements extracts.**(8marks)**

c).Manila Electric Company Ltd (MECL) procured an asset at a cost of Shs. 150,000 on January 2019 and depreciated it straight line over 10 year. The assets residual value is nil and depreciation is charged on pro-rate on a monthly basis. On 30th November, 2022(MECL) Ltd classified the asset as anon current asset held for sale in accordance with the rule of IFRS 5 Discounted operations and noncurrent asset held to sale. At that date the fair value of asset was shs. 85,000 and the cost to sell were Shs. 17,000. The asset had not been sold by the 31st Dec 2022 reporting date

Prepare extracts from the financial statement for the year ended 31st December 2022

(11marks)

Question Four

a) IAS 16 Property, Plant and Equipment sets out the accounting treatment of tangible non-current assets.

Required

In accordance with IAS 16, explain the accounting treatment allowed for the measurement of Property, Plant and Equipment:

i) At initial measurement**(3 Marks)**

ii) Subsequent measurement **(3 Marks)**

iii) Explain how revaluation increases or decreases are accounted for under IAS 16 **(4 Marks)**

b) JB Fittings has incurred the following costs in building a new factory:

	Ugx
Land	12,000,000
Materials	24,000,000

Labour	30,000,000
Architect's fees	250,000
Surveyor's fees	150,000
Stamp duty fees	3,000,000
Administrative overheads	1,500,000
Ground rent for first year	120,000

Note:

1. Materials costs were greater than anticipated. On investigation, it was found that materials costing Shs 4 million had been spoiled and therefore wasted and a further Shs 6 million was incurred as a result of faulty design work.
2. As a result of these problems, work on the Factory ceased for a fortnight during October 2023 and it is estimated that approximately Shs 4 million on the labour costs relate to this period. The Factory was completed on 1 July 2023 and occupied on 1 September 2023.

Required;

Compute the total amount to be capitalized in respect of the factory in accordance with IAS 16 Property, Plant and Equipment?**(15 Marks)**

Question Five

(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:

(a) KWA Ltd acquired two properties of land one for Shs 200 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 200 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. **(6 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.

(11 marks)

b.)Accounting plays a critical role in corporate governance by providing essential information which supports general operations of any business entity in this modern era. Briefly explain the key contributions of accounting in corporate governance

Question Six

Hyundai Ltd has a wholly owned foreign subsidiary, LG Chem ltd that is treated as a cash generating unit. On 31st December 2020, there was an accident (fire explosion that caused damage to some of LG Chem Ltd's plant. The assets of LG Chem Ltd immediately after fire explosion were:

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

As a result of the accident, the recoverable amount of LG Chem Ltd is Shs. 6.7 billion. The explosion of fire destroyed an item of plan that has a carrying amount of Shs. 500 million. LG Chem Ltd has an open offer from the competitor of Shs. 1 billion for its patents. Plant had an impairment loss of Shs. 1,700 million and the receivables and cash are already state at their fair values less cost to sell.

Required

a) Determine the carrying amount of LG Chem Ltd's asset as at 31st December 2020 after applying any impairment loss **(7marks)**

b) Discuss what LG Chem Ltd is required to disclose in its financial statements for the year ended 31st December 2020 as per IAS 36 **(3marks)**

c) Briefly explain the concept of onerous contracts under IAS 37: provision, contingent assets and contingent liabilities and the requirements of the standard in regards to recognition of provisions, contingent liabilities and contingent assets

(6 marks)

d) IAS 23: Borrowing costs; provides for the circumstances for the capitalization of interest costs. It also identifies situations for cessation of capitalization is suspension of capitalization of borrowing costs.

The directors of POSCO Ltd resolved to take a 13% bank loan of shs. 255 million to finance the construction of a milling plant that was expected to take 12 months to build. The loan facility was drawn on 14th January 2023

	1/1/ 2023	Dec-23
12% bank loan	85,000	
13% bank loan	0	255,000

Additional information

The 12% loan was obtained to finance the construction of the milling plant whose estimated cost as per the bill of quantities was Shs. 350 million. On 2nd Feb, 2023 shs.70million was transferred to the contracted construction of BrookfieldLtd and an additional Shs. 150 Million was transferred on 3rd June, 2023

Required:

a) Prepare a schedule of the borrowing costs to be capitalized for the milling plant for the year ended 31st December 2023 **(6marks)**

b) Identify the conditions to be met for the capitalization of borrowing costs **(3marks)**

(Total 25 marks)

Question Seven

In a bid to enhance the capacity of the new members of the Finance Committee, KPL organised an in-house seminar on the International Accounting Standards Board (IASB) Conceptual Framework for Financial Reporting. During the seminar, one of your colleagues who was the lead presenter said, "The IASB Conceptual Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users and one of its purposes is to assist users of financial statements to interpret the information contained in the financial statements prepared in compliance with International Financial Reporting Standards (IFRS). The Framework emphasizes that information must have certain characteristics in order for it to be useful for decision making." June 2022

Required:

a) Describe the advantages of a conceptual framework? **(10 marks)**

b) Explain to the participants the qualitative characteristics of financial information. **(15 marks)**