A. MULTIPLE CHOICE QUESTIONS (30%)

1	B	11	B
2	D	12	A
3	C	13	D
4	B	14	D
5	D	15	D
6	C	16	B
7	B	17	B
8	C	18	C
9	A	19	D
10	D	20	C

B. TRUE OR FALSE (15%)

1	F	9	T
2	T	10	F
3	F	11	T
4	T	12	F
5	F	13	F
6	F	14	T
7	F	15	F
8	T		

C- Exercises

Exercise I (10%)

Calculate the net borrowing cost that should be capitalized as part of the cost of the new store and the finance cost that should be reported in the statement of profit or loss for the year ended 31 March 2018.

The effective rate is 7.5% so the total cost for the year ended 31 March 2018 is $750,000 ($10 million x 7.5%).

Capitalisation commences from when expenditure is incurred (1 May 2017) and must cease when the asset is ready for its intended use (28 February 2018); in this case a 10 months period.
However, interest cannot be capitalised during a period when development activity is suspended; in this case the two months of July and August 2017. Thus, only eight months of the year's finance cost can be capitalised = $500,000 ($750,000 x 8/12).
The remaining four months finance costs of $250,000 must be expensed.
According to IAS 23 interest earned from the temporary investment of specific loans should be deducted from the amount of finance costs that can be capitalised. However, in this case, the interest was earned during a period in which the finance cost were not capitalised. Thus, the $40,000 interest received would be credited to profit or loss and not to the capitalised finance costs.

In summary:

	$000
Profit or loss for the year ended 31 March 2018	
Finance cost (debit)	(250)
Investment income (credit)	40
Statement of financial position as at 31 March 2018:	
Property, plant and equipment (finance cost element only)	500

Exercise II (10%)

Calculate the amount of research and development expenditure to be recognized as an expense in the year ended 31 March 2018.

The following costs should be written off:

	$
Building depreciation (200,000 x 4%)	8,000
Wages and salaries research staff	1,750,000
Equipment depreciation (30,000 x 50%)	15,000
	1,773,000

Exercise III (15%)

Describe how Delta should treat the above impairments of assets in its financial statements at 1 February 2016 and 1 March 2016.

According to IAS 36 – Impairment of assets, An impairment loss relating to a cash generating unit should be allocated on the following basis:

- First to any obviously impaired assets
- Then to goodwill
- Then to the remaining asset on a pro-rata basis;
- But no asset should be written down to less than its net realizable value

Delta has acquired the car taxi business having a carrying value of $190,000 for $230,000 which implies the existence of goodwill on acquisition for 230,000 - 190,000 = $40,000.

On **1 February 2016**, and due to the theft of three vehicles, Delta has incurred an impairment loss of $45,000 (as per the facts), the loss to be allocated to the CGU elements as follows:

	Carrying Amount $	Impairment Loss Calculation $	Impairment Loss Amount $	New Carrying Amount $
Vehicles	120,000		(30,000)	90,000
Taxi License	30,000	No impairment	-	30,000
Goodwill	40,000		(15,000)	25,000
Trade Receivables	10,000	No impairment	-	10,000
Cash	50,000	No impairment	-	50,000
Trade payables	(20,000)	No impairment	-	(20,000)
	230,000		**(45,000)**	**185,000**

On **1 March 2016**, as a result of the rival taxi operator, the CGU's recoverable amount has decreased to $150,000 which is lower than its carrying amount ($185,000 as calculated), therefore, Delta has incurred an impairment loss of $185,000 - $155,000 = $30,000, to be charged to the statement of profit or loss for the period with the loss to be allocated to the CGU elements as follows:

	Carrying Amount $	Impairment Loss Calculation $	Impairment Loss Amount $	New Carrying Amount $
Vehicles	90,000	No impairment	-	90,000
Taxi License	30,000		(5,000)	25,000
Goodwill	25,000		(25,000)	-
Trade Receivables	10,000	No impairment	-	10,000
Cash	50,000	No impairment	-	50,000
Trade payables	(20,000)	No impairment	-	(20,000)
	185,000		**(30,000)**	**155,000**

D- <u>CASE (20 %)</u>

Prepare the consolidated balance sheet of PIC as at march 20X9

PIC
Consolidated balance sheet at 31 March 20x9

	$000	*$000*
Assets		
Non-current assets		
Property, plant and equipment (W1)	4,896	
Software (W2)	2,400	
Goodwill (W4)	500	
Investments (214+252)	466	
		8,262
Current assets		
Inventories (W5)	1,529	
Trade receivables (629+394)	1,023	
Cash and bank (24+18 cash in transit)	42	
		2,594
		10,856
Equity and liabilities		
Capital and reserves		
Equity shares $1 each		2,400
Reserves		
Share premium	2,400	
Retained earnings (W6)	3,274	5,674
		8,074
Minority interest (W7)		494
		8,568
Non-current liabilities		
Government grants (276+240)		516
Current liabilities		
Trade payables (690+566)	1,256	
Operating overdraft	32	
Provision for income taxes (274+210)	484	
		1,772
		10,856

Workings

(W1) Property, plant and equipment

Consolidation adjustment

	SUN's books $000	*Consolidated figures $000*	*Difference $000*
Cost	240	200	40
Depreciation for year (10% on cost)	(24)	(20)	(4)
NBV at 31 March 20x9	216	180	36

Balance sheet:	$000
Amounts per question (2,544+2,388)	4,932
Unrealised profit	(40)
Depreciation	4
	4,896

(W2) Software	*SUN's books $000*	*Consolidated figures $000*	*Difference $000*
Capitalised amount	2,880	2,880	
	(360)	(480)	120 Additional depreciation
Carrying value 31 March 20x9	2,520	2,400	

(W3) Net assets in subsidiary

	At date of acquisition $000	*At balance sheet date $000*
Share capital	1,800	1,800
Share premium	600	600
Retained earnings	2,640	2,706
	5,040	5,106

(W4) Goodwill	*$000*	*$000*
Cost of investment		5,036
Less: share of net assets acquired: 90% x 5,040 (W3)		4,536
		500

(W5) Inventories	*$000*
Amounts per question (863+672)	1,535
Unrealised profit in inventories (30x25/125)	(6)
	1,529

(W6) Retained earnings	*$000*	*$000*
PIC		3,360
SUN		
At 31 March 20x9	2,706	
Additional depreciation: software	(120)	
Unrealised profit on plant	(36)	
Unrealised profit in inventories	(6)	
	2,544	
At acquisition	(2,640)	
	(96)	
Group share (90%)		(86)
		3,274

(W7) Minority interest	*$000*	*$000*
Share of net assets		
10%x(5,106 (W3) – 120 – 36 - 6)		494

(W8) Elimination of current account	*$000*
SUN's with PIC per question	90
Deduct cash in transit regarding this balance	(18)
Adjusted figure to cancel	72