INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - DECEMBER 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 1
COURSE CODE: ACC 3102
NAME: ADVANCED ACCOUNTING(ACCOUNTING)

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

COMPULSORY QUESTION

Question 1:

The draft statements of financial position of Pink Co and Peace Co on 30 June 2020 were as follows.

PINK CO.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	$	$
Assets		
Non-current assets		
Property, plant and equipment	50,000	
20,000 ordinary shares in Peace Co at cost	30,000	
		80,000
Current assets		
Inventory	3,000	
Receivables	16,000	
Cash	2,000	
		21,000
Total assets		101,000
Equity and liabilities		
Equity		
Ordinary shares of $1 each	45,000	
Revaluation surplus	12,000	
Retained earnings	26,000	
		83,000

Current liabilities		
Owed to Peace Co	8,000	
Trade payables	10,000	
		18,000
Total equity and liabilities		101,000
PEACE CO.		
Assets		
Property, plant and equipment		40,000
Current assets:		
Inventory	8,000	
Owed by Pink Co	10,000	
Receivables	7,000	
		25,000
Total assets		65,000
Equity and liabilities		
Equity		
Ordinary shares of $1 each	25,000	
Revaluation surplus	5,000	
Retained earnings	28,000	
		58,000
Current liabilities		
Trade payables		7,000
Total equity and liabilities		65,000

Pink Co acquired its investment in Peace Co on 1 July 2019 when the retained earnings of Peace Co stood at $6,000. The agreed consideration was $30,000 cash and a further $10,000 on 1 July 2021 if Peace Co attained certain profit targets. Pink Co's cost of capital is 7%. Peace Co has an internally-developed brand name – 'Peaceo' – which was valued at $5,000 at the date of acquisition. There have been no changes in the share capital or revaluation surplus of Peace Co since that date. At 30 June 2019 Peace Co had invoiced Pink Co for goods to the value of $2,000 which had not been received by Pink Co.

There is no impairment of goodwill. It is group policy to value non-controlling interest at full fair value. At the acquisition date the non-controlling interest was valued at $9,000.

Required:

a) Prepare the consolidated statement of financial position of Pink Co as at 30 June 2020. ***[30 marks]***

b) IFRS.5 Gives conditions for classification of Non Current Asset as "Held for Sale". Explain at-least five of these conditions. *[10 marks]*

Question 2:

One 1 April 2022, petrol acquired 130 million shares in Tank, paying cash of Shs. 200 million and issuing 4 shares for every 3 acquired when the shares of petrol had a market price of sh. 1.6 per share. Petrol has not recorded the share exchange. Tank's retained earnings at the date of acquisition stood at shs. 200 million.

Also on 1st April 2022, Petrol acquired 42 million shares in Axle in exchange for 75 million shares of its own shares and making a cash payment of shs. 90 million. This share exchange has not been recorded by Petrol. Axle's retained earnings at the date of acquisition stood at shs. 210 million.

Summarized Statement of Financial Position as at 31st March 2023

	Petrol	**Tank**	**Axle**
	Sh m.	**shs.m**	**shs.m**
Non Current Assets:			
Property, plant and Equipment	633	446	210
Investments	290	20	0
	923	**466**	**210**

Current Assets:			
Inventory	142	170	153
Receivables	95	88	65
Bank	5	39	78
	1,165	**763**	**506**
Equity Shares of sh.1 @	500	200	120
Share premium Account	100	150	15
Retained Earnings	160	260	286
	760	**610**	**421**
Non Current Liabilities:			
10% Loan Notes	150	10	15
Current Liabilities:			
Payables	200	135	55
Others	55	8	15
	1,165	**763**	**506**

Additional Information:

1- Petrol's policy is to value the Non-controlling Interest at Fair values. The Directors of Petrol assess the Fair value of the Non Controlling Interest in Tank at the date of Acquisition to be Shs. 240 million.

2- There has been no Impairment to goodwill or to the value of the investment in Axles

3- At the date of Acquisition, Tank owned Land carried at its cost of Shs. 85 million. The Fair value of this land at acquisition was shs. 135 million and by the reporting date, this value had increased to shs. 145 million.

4- For many years, Tank has been selling products under the brand name of "fuelclean". This brand is not included in Tank's statement of Financial Position. At the date of Acquisition, the directors of petrol valued the brand at shs. 30 million with a remaining life of 15 years. The fair value of all other identifiable assets and liabilities of Tank were equal to their carrying amounts at the date of acquisition. Investment of Tank are debt instruments purchased during the current year and carried at amortized cost.

5- The inventory of Tank at 31st March 2023 includes goods supplied by Petrol for sh.30 million. This transaction was invoiced at a mark up of 50% on cost. There are no Intra-group receivables or payables at 31st March 2023.

Required:

Prepare the Consolidated statement of Financial Position as at 31st March 2023, clearly showing the necessary adjustments. ***[40 marks]***

SECTION B

Attempt any Three Questions From Section B

Question 1:

You are the newly appointed Financial Accountant of HOPE plc, a successful company that prepares its financial statements to the 31st December each year. HOPE plc whose core business is the installation of in-car entertainment systems and related products commenced trading approximately seven years ago and have experienced rapid growth during the last two years. HOPE plc's trial balance is shown below for the financial year ending 31st December 2021.

Details	DR. (000)	CR. (000)
Property, Equipment and Motor vehicles Net Book Values at 31st December 2020	24,460	
Inventory at 31st December 2020	520	
Trade Receivables	360	
Provision for bad debts as at 2nd December 2021		100
Trade payables		3,020
Bank		70
10% Debenture Note		4,600
10% of sh.1 Preference Shares		1,000
50 cents Ordinary Shares		2,250
Share Premium account		5,000
Revaluation Reserves		600
Retained Earnings as at 31st December 2020		3,905
Revenue		9,850
Purchases	3,750	

Operating Expenses	1,250	
Debenture Interest	45	
Other Finance Cost	10	
Total	30,395	30,395

Additional Information:

i) Included in the property is Land which costs sh. 10,000,000. It had been carried at cost since acquisition and at the end of year 31st December 2021, the finance Director is adopting the revaluation model. The market value is sh. 30,000,000 at the end of the year.

ii) The provision for bad debts appearing in the financial statements above was made on 2nd December 2021. However, on 31st December 2021, a customer with a balance of sh. 50,000 for which a provision of sh. 30,000 had been made was declared bankrupt. Advise from the lawyer indicates that the entire amount of sh. 50,000 may not be recovered.

iii) Inventory at the end of year with a cost of sh. 300,000 had a realizable value of sh.200,000

iv) The tax charge for the year is estimated at sh.100,000.

v) Preference dividends were proposed before the year end. For the ordinary shareholders a dividend of 10 cents per share was declared in march 2022 after the financial statements had been audited.

vi) Included in the operating expenses is rent of sh. 200,000 paid on 1st July 2021 covering a period of 12 months.

Required: Prepare the following financial statements for the year ended 31st December 2021 according to the guidelines provided by IAS 1:

a) Statement of Comprehensive income ***[8 marks]***

b) Statement of Financial Position ***[7 marks]***

c) Statement of Changes in Equity ***[5 marks]***

Question 2:

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, 2018:

Ledger account:	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, 2017:	
Furniture & fittings	10,500
Motor vehicles	44,000
Buildings	

25,000	
Inventory on 1 July, 2017	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 worth US dollars (USD) 50,000 on credit. At 30 June, 2018, 50% of this jewelry was unsold and unpaid for. The unsold amount was not included in the balances referred to under note7 below whereas the unpaid amount was not included in the purchases balance listed above.

   The USD exchange rates to the shilling during the year were as follows:

Date	Rate (Shs)
1 July, 2017	3,450
1 January, 2018	3,650
30 June, 2018	3,745

2. During the year ended 30 June, 2018, 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, 2018, 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 31 December, 2018.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, 2018 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	(%)
Furniture & fittings	12.5
Motor vehicles	20
Buildings	5

6. Included in the balance for land and buildings is freehold land that cost Shs 130.5 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, 2018jewelry 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, 2018 a statement of:

(i) profit or loss and other comprehensive income. ***[10 marks]***

(ii) financial position as at 30 June. ***[10 marks]***

Question 3:

Express Travel Limited (ETL) is a company that provides transport service in Uganda. The company owns a fleet of vehicles used to transport passengers and cargo. The company's vehicles are also hired out at an agreed fee. The company owns a fleet of 10 buses that provide passenger transport and 15 trucks for cargo. Each vehicle operates independently from others and generates independent individual cash flows.

The following transactions took place during the year ended 31 December, 2022 and were brought to the attention of ETL's management.

1. On 2 April 2022, one truck was involved in an accident while transporting goods from Kampala to Gulu. The truck was towed and parked at Karuma police post. The carrying value of the truck at the time of accident was Shs 95 million however, an assessment done on 31 December 2022 showed that the truck could no longer be used and could only be disposed of as scrap. The truck could be sold for Shs 52 million having incurred related costs of disposal Shs 5 million.

2. On 1 June 2022, the accident victims and the cargo owners sued ETL or compensation in respect for damages caused by the accident. As of

the 31 December 2022, ETL's had received communication that the cargo owners would be compensated Shs 40 million. The amount of compensation for the accident victims was yet to be established and communicated.

3. ETL owns an online booking Application "Uga-Travel" developed and launched effective 1 January, 2019. The application was capitalised at a total cost of Shs 240 million and was to be written off over the useful life of 8 years. An impairment test done on 31 December, 2022 revealed that the recoverable amount of the application was Shs 90 million and the useful life remained unchanged.

Management of Express Travel Limited (ETL) has approached you for advice on how the above transactions should be treated in the financial statements.

Required:

i). Explain to management of ETL, the conditions that must exist for a provision to be made in accordance with IAS 37: Provisions, Contingent Liability and Contingent Assets *.[3 marks]*

ii) In accordance with relevant financial reporting standards, explain how each of the above transactions should be treated in the financial statements of ETL for the year ended 31 December 2022, giving financial statement extracts. *[17 marks]*

Question 4:

The Statements of financial position and profit or loss for Ocean Motors are set out below.

	2022	2021
	UShs '000	UShs '000
Non-current assets:		
Land and building		
Cost	1,600	1,450
Depreciation	(200)	(150)
	1,400	1,300
Plant and machinery:		
Cost	600	400
Depreciation	(120)	(100)
	480	300
	1,880	1,600
Current assets:		
Inventory	300	100

Receivables	400	100
Total assets	700	200
	2,580	1,800
Equity:		
Share capital-UShs 1 ordinary shares	1,200	1,200
Retained earnings	310	220
	1,510	1,420
Current liabilities:		
Bank overdraft	590	210
Payables and accruals	370	70
Taxation liability	110	100
	1,070	380
	2,580	**1,800**

Statement of Profit or Loss for Ocean Motors

	2022	2021
	‘000	‘000
Sales revenue	1,500	1,000
Cost of sales	(700)	(300)
Gross profit	800	700
Administration and distribution	(400)	(360)
Net profit before tax	400	340
Income tax expense	(200)	(170)
Net profit after tax	200	170

The dividend for 2021 was UShs 100,000 and for 2022 was UShs 110,000.

Required:

Calculate the following ratios for Ocean Motors and prepare a report on the liquidity position of Ocean Motors: ***[20 marks]***

i) Gross profit margin.

ii) Operating profit margin.

iii) ROCE.

iv) Net asset turnover.

v) Current ratio.

vi) Quick ratio.

vii) Inventory collection period.

viii) Accounts receivable collection period.

ix) Accounts payable payment period.

Question 5:

Bavaayo Football Club (BFC) participates in Ugandan football tournaments, the club prepares financial statements at the end of every period ending 31 December. During the year ended 31 December 2022, BFC was involved in the following transactions:

1. In March 2022, BFC collected cash related to season tickets for the football season of July 2022 to March 2023 comprising of 18 matches amounting to Shs 900 million. Each ticket entitles the holder to watch all the 18 matches of the season. BFC plays its games in a stadium with capacity of 5000 ticket paying seats, and recognises revenue every time a match is played based on full capacity. Each ticket is sold at Shs 180,000 and by 31 December 2022, BFC had only played 10 matches with the stadium at full capacity.
2. On 1 May, 2022, BFC received a grant of 300 million from KCCA towards the purchase of the clubs' bus. The bus was purchased on 1 June, 2022 at a cost of 450 million and is estimated to have a useful life of 15 years with no scrap value. Similarly, on 1 July 2022, BFC received notification that National Council of Sports would contribute Shs 25 million for BFC fans' party held in May 2022. Analysis of the BFC's bank statement revealed that this money was credited on 15 January, 2023.
3. On 30 November 2022, BFC completed the construction of own stadium that had commenced 1 January 2021, the total costs incurred to complete the stadium amount to Shs 8,000 million including the cost of land of Shs 1,500 million and motel of Shs 1,000 million. The motel is to generate revenue for the club and can be leased-out, managed and sold separately, from the stadium if BFC's management decides to do so. BFC depreciates its property, plant and equipment at a rate of 5% per annum.

Management of BFC is preparing its financial statements for the period ended 31 December 2022, and is not sure on how the above transactions should be treated.

Required:

In accordance with relevant International Accounting and Financial Reporting Standards, discuss how each of the transactions should be treated in the financial statements' of BFC, clearly giving financial statement extracts where applicable. ***[20 marks]***

Question 6:

On 1 January 2020 Stremans Co borrowed $1.5m to finance the production of two assets, both of which were expected to take a year to build. Work started during 2020. The loan facility was drawn down and incurred on 1 January 2020, and was utilised as follows, with the remaining funds invested temporarily.

Asset A *Asset B*

	$'000	$'000
1 January 2020	250	500
1 July 2020	250	500

The loan rate was 9% p.a and Stremans Co can invest surplus funds at 7%. P.a. The amount which was utilised on 1st July 2020 was temporarily invested and the interest earnings were made.

Required.

a) Basing on IAS 23, calculate the borrowing costs which may be capitalised for each of the assets and consequently the cost of each asset as at 31 December 2020. (7 marks)

b) IAS.16, gives guidance on the initial measurement of the cost of property, plant and equipment. State and explain the components of costs which can be capitalized under IAS.16. **(5 marks)**

c) Arturo Co receives a government grant representing 50% of the cost of a depreciating asset which costs $40,000. How will the grant be recognized under IAS.20 if Arturo Co depreciates the asset. The residual value is nil. The useful life is four years.

(i) over four years on straight line basis; ***(4 marks)***

(ii) (ii) at 40% reducing balance? ***(4 marks)***

Question 7:

Set out below are the financial statements of Emma Co. You are the financial controller, faced with the task of implementing IAS 7 *Statement of cash flows*.

EMMA CO; INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER	2021	
		$'000
Revenue		2,553
Cost of sales		(1,814)
Gross profit		739
Other income: interest received		25
Distribution costs		(125)
Administrative expenses		(264)

Finance costs		(75)
Profit before tax		300
Income tax expense		(140)
Profit for the year		160
		-
EMMA CO		
STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER		
	2021	*2020*
Assets	$'000	$'000
Non-current assets		
Property, plant and equipment	380	305
Intangible assets	250	200
Investments	–	25
Current assets		
Inventories	150	102
Receivables	390	315
Short-term investments	50	–
Cash in hand	2	1
Total assets	1,222	948
Equity and liabilities		
Equity		
Share capital ($1 ordinary shares)	200	150
Share premium account	160	150

Revaluation surplus	100	91
Retained earnings	260	180
Non-current liabilities		
Long-term loan	170	50
Current liabilities		
Trade payables	127	119
Bank overdraft	85	98
Taxation	120	110
Total equity and liabilities	1,222	948
The following information is available.		

(a) The proceeds of the sale of non-current asset investments amounted to $30,000.

(b) Fixtures and fittings, with an original cost of $85,000 and a net book value of $45,000, were sold for $32,000 during the year.

(c) The following information relates to property, plant and equipment.

	31.12.2021	*31.12.2020*
	$'000	$'000
Cost	720	595
Accumulated depreciation	340	290
Net book value	380	305

(d) 50,000 $1 ordinary shares were issued during the year at a premium of 20c per share.

(e) The short-term investments are highly liquid and are close to maturity.

(f) Dividends of $80,000 were paid during the year.

Required

Prepare a statement of cash flows for the year to 31 December 2021 using indirect Method in strict compliance with IAS 7**. (20 marks)**

Question 8:

a) The Conceptual Framework for Financial Reporting defines the recognition of the elements of financial statements as the process of incorporating in the financial statements an item that meets the definition of an element and it is probable that future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability.

Required:

Explain the recognition criteria for assets, liabilities, income, and expenses indicating the statement in which the element is recognised and the point at which the element is recognised in that statement***. [7 marks]***

b) The measurement of the elements of financial statements is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the statement of financial position and statement of comprehensive income.

Required:

Identify and explain any four bases of measurement of the elements of financial statements. ***[8 marks]***

c) "IAS 37: Provisions, Contingent Liabilities and Contingent Assets aims to ens ure that appropriate recognition criteria and measurement bases are appl ied to provisions, contingent liabilities and contingent assets and that sufficient i nformation is disclosed in the notes to the financial statements to enable users understand their nature, timing, and amount".

XYZ Ltd gives warranties at the time of sale to customers of its products. Under the terms of the sale contracts, XYZ Ltd undertakes to refund the custo mers for the costs of repairs of any manufacturing defect which becomes apparent within the first six months of purchase. For the period ended 31 marc h, 2019 XYZ Ltd sold equipment for Shs 100 million and by the end of the period t here was a 40% probability of defects.

Required: Explain how the transaction should be treated, and state the relevant disclosures that should be made in the financial statements in accordance with IA S 37. ***[5 marks]***

Question 9:

a) N Limited, purchased a Non-current asset of $ 12,000 on 1st January 2018. The company has got a policy to depreciate NCA of this type at a rate of 12% on reducing balance basis. Its expected that the asset will have zero residual value on disposal and the cost of marketing the asset for disposal purposes is $ 50. During the year ending 31st December 2020, the asset was disposed off at $ 5,000.
Prepared the depreciation schedule according to IAS.16 and advise management on the carrying value/amount and also state whether the disposal was at a loss or profit. ***(12 marks)***

b) IAS.16, gives guidance on the initial measurement of the cost of property, plant and equipment. State and explain the components of costs which can be capitalized under IAS.16. **(8 marks)**

Question 10:

The following are the summarized financial statements of Burley and Braces as at, and for the year ended 31st March 2021.

Statements of Financial Position

	Burley - $	Braces - CD
Property, Plant and Equipment	447,000	200,000
Intangible Assets	50,000	25,000
Investments	60,000	-

Current Assets	250,000	220,000
	807,000	**445,000**
Ordinary Share Capital	240,000	60,000
Premium Shares	25,000	5,000
Revaluation Reserve	71,000	-
Retained Earnings	350,000	264,500
	686,000	**329,000**
Non Current Liabilities	45,000	105,000
Current Liabilities	76,000	10,500
	807,000	**445,000**

Statement of Comprehensive Income

Year Ended 31 March 2021

	Burley - $	**Braces - CD**
Revenue	500,000	370,000
Operating Costs	(350,000)	(175,000)
Finance Costs	(18,000)	(6,000)
Interest Income	2,000	-
Tax	(25,000)	(32,000)
Profit for the Year	109,000	157,000
Other Comprehensive Income:		
Revaluation Gains	15,000	----------
Total Comprehensive income	**124,000**	**157,000**

Burley acquired 80% of the share capital of Braces on 01.04.20 for a consideration of CD 290,000. Burley has the $ as its functional currency. The policy is to value the NCI at fair value and at acquisition that value was assessed to be 70,000 CD. *Net assets at the date of acquisition*

was 40,500 $.

At the date of acquisition the fair value of Braces property exceeded book value by CD 30,000. The remaining useful life of that asset at that time was three years.

During the current financial year Braces borrowed long dated funds of $15,000 from an investment house. This is included within the statements of Brace translated as at the date those funds were cleared, when the exchange rate was CD 4:$ 1. Interest costs on the loan have been correctly accounted for.

During the financial year Braces purchased materials from Burley for a total of $20,000 when the exchange rate was CD 3:$1.

When the invoice was settled the exchange rate had moved to CD 4 : $1. Any exchange difference arising on settlement is still contained within the current liabilities of Braces. Half of the goods purchased remain in inventory, which were transferred at a margin of 20%.

A review of goodwill shows it requiring a write down of 10% of its original value.

Exchange Rate:

- As at 01/04/2020 CD 5 : $ 1
- Average for the year CD 4 : $ 1
- As at 31st /03/ 2021 CD 3 : $ 1

Required:

Prepare the Burley Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income, as at and for the year ending 31 March 2021. ***[20 marks]***

Question 11:

PRIME Ltd is a company which manufactures and sells plastics. A number of new products have been developed and market share has increased. PRIME Ltd's accounting department is finalizing its accounting statements for the year ended 31 Dec 2021. These statements will be presented to the forthcoming meeting of the board of directors where the financial results for the year will be assessed. When reviewing the accounts, the directors will study four target ratios as agreed with the company's bankers.

The target ratios set out in the contractual arrangements between PRIME Ltd and the bank are as follows:

Quick ratio	1.1:1	

Current (working capital) ratio	1.5:1	
Interest cover	9.5 times	
Gross profit margin	27%	
Net (PBIT) profit margin	8%	
Gearing (debt:equity) ratio	0.5:1	

Income Statement for the year ended Dec

	2021 (000)	2020 (000)
Revenue	51,300	43,350
Cost of sales	(36,000)	(30,375)
Gross profit	15,300	12,975
Distribution costs	(2,500)	(1,600)
Administration expenses	(5,180)	(3,350)
Finance costs	(780)	(675)
Profit before tax	6,840	7,350
Taxation	(1,950)	(2,100)

Profit for the period

	4,890	5,375

Statement of Financial Position as at 31 December:

	2021	2020
Property, plant and equipment	38,895	26,820
Available-for-sale investments	9,300	8,100
Current assets		
Inventories	6,750	5,400

Trade receivables	6,450	7,800
Cash and cash equivalents		180
Total assets	61,395	48,300
Equity and liabilities		
Share capital (1 ordinary shares)	15,000	15,000
Revaluation reserve	6,300	1,650
Other reserves	2,700	1,500
Retained earnings	11,190	6,300
Total equity	35,190	24,450
Non-current liabilities		
Loan repayable December 2021	8,100	7,800
Other loans	9,000	9,000
Total non-current liabilities	17,100	16,800
Current liabilities		
Trade and other payables	7,000	4,950
Bank overdraft	155	
Taxation	1,950	2,100
Total current liabilities	9,105	7,050
Total liabilities	26,205	23,850
Total equity and liabilities	61,395	48,300

Required

(a) Calculate the four ratios identified in the covenants given to the bank, and calculate other ratios that are relevant when assessing the financial performance and position of PRIME Ltd (15 marks)

(b) Prepare a report for the board of directors of PRIME Ltd that explains the company's financial performance and position based on the ratio calculated. (5marks)

Question 12:

a) IAS 11: Construction Contracts provides that revenue and costs associated with a contract should be recognised according to the stage of completion of the contract at the end of the reporting period, but only when the outcome of the activity can be estimated reliably. A reliable estimate of the outcome of a construction contract can only be made when certain conditions have been met.

Required:

Set out the conditions that should be met for the outcome of the activity of a construction contract to be estimated reliably for fixed price and cost plus contracts. ***[5 marks]***

b) During the reporting period ended 31 March, 2016 A Ltd worked on a contract to construct a building according to specific customer design. The following information relates to the contract:

Commencement date: 1 April, 2015.

Original estimate of completion date: November, 2016.
Contract price: Shs 480 million.
Proportion of work certified as satisfactorily completed and invoiced up to 31 March, 2016: Shs 339.6 million

Progress payments from customer: Shs 300 million.

Costs up to 31 March, 2016: sh. millions

- Wages 182
- Materials sent to site 72
- Other contract cost 36

Plant and equipment transferred to site at book value on 1 April, 2015 was Shs 36 million. The plant and equipment is expected to have a book value of Shs 6 million when the contract is completed. Depreciation is charged on a straight line basis.

Inventory of materials on site on 1 March, 2016 was Shs 6 million.

Expected additional costs to complete the contract: wages Shs 20 million, materials (including stock on 31 March, 2016) Shs 24 million, other overheads Shs 16 million.
At 31 March, 2016 it was estimated that work at a cost value of Shs 38 million had been

completed but not included in the certificates

Required:

i) Determine the expected profit attributable to the contract. ***[4 marks]***

ii) Prepare extracts of the statement of comprehensive income for the year end ed 31 March, 2016***. [6 marks]***

iii) Prepare extracts of the statement of financial position as at 31 March, 2016. ***[5 marks]***