**QUESTION 1**

On 1 January, 2020, Opuni Ltd commenced the construction of a new factory. The were made during 2020

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **GH¢** |
| 31st January |  |  | 200,000 |
| 31st March |  |  | 450,000 |
| 30th June |  |  | 100,000 |
| 31st October |  |  | 200,000 |
| 30th November |  |  | 250,000 |

following payments

The first payment on 31st January was funded from the company’s pool of debt. However, the company succeeded in raising a medium-term loan for an amount of GH¢800,000 at 31st March 2020 with simple interest of 9% per annum, calculated and payable monthly in arrears. These funds were specifically used for this construction. Excess funds were temporarily invested at 6% per annum monthly in arrears and payable in cash. The pool of debt was again used to an amount of GH¢200,000 for the payment on 30 November which could not be funded from the medium-term loan.

The construction project was temporarily halted for three weeks in May due to substantial technical and administrative work being carried out.

It is assumed that management of Opuni Ltd adopted the accounting policy of capitalizing borrowing costs.

The following amounts of debt were outstanding at the statement of financial position date, 31st December 2020

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **GH¢** |
| Medium-term loan (see above) | | |  |  | 800,000 |
|  |  |  |  |  |  |
| Bank overdraft |  |  |  |  | 750,000 |
| (the weighted average amount outstanding during | | | | |  |
| the year was GH¢750,000 and total interest charged | | | | |  |
| by the bank amounted to GHC33,800 for the year | | | |  |  |
|  |  |  |  |  |  |
| A 10%, 7-year note dated 1st October 2019 with simple | | | | | 9,000,000 |
| interest payable annually at 31st December | | | |  |  |

Required:

Calculate the amount of borrowing cost to capitalize.

QUESTION 2

On December 1, 2020, Prince Ltd began construction of homes for those families that were hit by the flood disaster in Accra. The construction is expected to take 3.5 years. It is being financed by issuance of bonds for GHS¢7 million at 12% per annum. The bonds were carry a 1.5% issuance cost. The project is also financed by issuance of share capital with a 14% cost of capital. Prince Ltd wishes to comply fully with IAS 23.

Required:

Compute the borrowing costs that need to be capitalized under IAS 23.

**QUESTION 3**

Pamela Yvonne Ltd had the following loan liability in place during 2020.

1. GH¢2,000,000 at 20% per annum
2. GH¢6,000,000 at 24% per annum

The company installed a new bottling plant costing GH¢1,800,000 in 2020, the project of which was financed from the pool of loan funds. The project commenced in the first week of January 2020 and was completed on 30 September 2020. The plant was commissioned and put to use on November 2020.

Required:

How much borrowing costs can be capitalized as part of the cost of the bottling line?

QUESTION 4

Collins Ltd revalues its building and decides to incorporate the evaluation into the financial statements. The following information is relevant:

Extract from the statement of financial position at 31st December 2020

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  | **GH¢** |
| Building at cost |  |  | 30,000 |
| Accumulated Depreciation | |  | 9,000 |
|  |  |  | 21,000 |

Depreciation has been provided at 2% per annum on a straight line.

The building is revalued at 30th June 2021 at GH¢ 27,600. There is no change in the remaining estimated future life.

**Required:**

Show the relevant extracts from the financial statements at 31st December 2021.

NEXT BATCH OF ASSIGNMENT – SHOULD BE DONE IN GROUPS

QUESTION 1

A company that extracts natural gas and oil has a drilling platform in the Caspain Sea. It is required by legislation of the country concerned to remove and dismantle the platform at the end of its useful life. Accordingly, the company has included an amount in its accounts for removal and dismantling costs, and is depreciating this amount over the platform’s expected life.

The company is carrying out an exercise to establish whether there has been an impairment of the platform. Its carrying amount in the statement of financial position is GH¢3m. The company has received an offer of GH¢2.8m for the platform from another oil company. The bidder would take over the responsibility (and loss for dismantling and removing the platform at the end of its life).

The present value of the estimated cash flows from the platform’s continued use is GH¢3.3m. The carrying amount in the statement of financial position for the provision for dismantling and removal is currently GH¢0.6m

***You are required to***

What should be the value of the drilling platform in the statement of financial position, and what, if anything, is the impairment loss?

**QUESTION 2**

Pearl Ltd, a manufacturer and supplier of cashew products, has recently established a new facility in Damongo. To help in this new operation, Tango Ltd has secured support from the Government of Ghana and is unsure how the grants are to be accounted for in the financial statements. The company has a year-end of 30 April 2021, and all the following transactions took place on 1 May 2020.

1. A grant of GH¢150,000 was paid to a company to allow it to settle its outstanding accounts payable and prevent it from going into liquidation.
2. A grant of 50% tax relief, the net effect of which is estimated at GH¢85,000 per annum, for establishing a manufacturing company in the area was to provide employment for the youth.
3. Tango Ltd receives a grant of GH¢300,000 towards the acquisition of a machine costing GH¢500,000. The machine has a useful life of five years.

***You are required to***

Explain how each of the above should be accounted for in the financial statements of Tango Ltd for the year ended 30 April 2021, in accordance with IAS 20: Accounting for Government Grants and Disclosure of Government Assistance.

QUESTION 3

On 1 January 2017, Angela Ltd entered into an agreement to lease a boat. The fair value of the boat was GH¢36,000 and the term of the lease was four years. Annual lease payments of GH¢10,000 are payable in advance. The interest rate implicit in the lease is 7.5%.

***You are required to***

Show how this lease would be presented in the statement of profit or loss of Angela Ltd for the year ended 31 December 2017 and the statement of financial position as at the date. Detail disclosure notes are not required.

TRIAL QUESTION

In accordance with IFRS 5:

Non-current Assets Held for Sale and Discontinued Operations, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

On 1st April 2019, Chartered Ltd purchased an equipment at a cost of GH¢450,000. It is being depreciated on a straight line basis over its useful economic life of 15 years. The reporting date of Chartered Ltd is 31st March. At 31st December 2023, the equipment was no longer needed by the entity. It was decided that the asset should be sold, and a buyer was being sought. The asset is advertised for sale at a price of GH¢275,000, which was a reasonable reflection of its fair value. It is anticipated that a transportation cost of GH¢30,000 will be incurred to deliver the item to the buyer. The sale is expected to occur within one year.

***You are required to***

Demonstrate how to account for the above transaction on 31st March 2023 in accordance with IFRS 5.