EDO UNIVERSITY, IYAMHO
EDO STATE, NIGERIA

DEPARTMENT OF ACCOUNTING AND ECONOMICS
FACULTY OF ARTS, MANAGEMENT AND SOCIAL SCIENCES
PROGRAMME: B.Sc. ACCOUNTING

COURSE CODE: ACC311
COURSE TITLE: INTERMEDIATE FINANCIAL ACCOUNTING I
NUMBER OF UNITS: 3 Units
COURSE DURATION: Three hours per week

COURSE LECTURERS: Dr. Godwin OHIOKHA, Mr. Christian IYAFEKHE and Mr. Agbonrha-Oghoye IYOHA

COURSE DETAILS

Week 1-2*: A review of financial accounting topics (ACC211 & ACC 221)*

Week 3*: Partnership accounts including admission, dissolution and liquidation*

Week 4-5*: Joint Venture*

Week 6-7: *Contract Account*

Week 8-9: *Departmental and Branch Accounts*

Week10-11*: Treatment of equivalent IAS and IFRS of SAS 5, 6, 7*

Week 12: *Revision*

RESOURCE

- *Lecturer's Office Hours:*
- *Dr. Ohiokha, G., Mondays 10:00am-1:00pm*
- *Mr. Iyafekhe, C., Tuesdays 10:00am-1:00pm*
- *Mr. Iyoha, A. I., Wednesdays 10:00am-1:00pm*
- *Course lecture notes: http://www.edouniversity.edu.ng/oer/acct/acc311.pdf*
- *Books:*
  - *Financial Accounting Made Simple (volume 1 & 2), 6th edition, IFRS compliant by R.O. Igben (2016)*
  - *ICAN study text on Corporate Reporting*
  - *Basic Business Accounting by Professor Dabor, E.L. (2008).*
  - *Wiley, 2013: Interpretation and Application of International Financial Reporting Standards*

ASSESSMENT

- *Continuous assessment shall be 30% of final grade which comprised of Mid semester test, Class work, Home work etc*
- *Examinations:*
  -Final, comprehensive (according to University schedule): 70% of final grade

ACADEMIC ETHICS

- *All class and home work must be done independently, unless explicitly stated otherwise.*
- *You may discuss general approaches to problems, but must write up the solution yourself and independently of any other person.*
- *No late home work is accepted:*
  -Turn in what you have at the time it's due
  -All home works are due at the start of class
  -If you will be away, turn in the homework early
- *All students should be seated in class ten (10) minutes before the commencement of the class*

MODULE ONE (WEEK 1-2)

The pre-requisite for Intermediate Financial Accounting I (ACC 311) is a review of financial accounting topics in year two, ACC211 & ACC 221. The following topics will be reviewed:

FINANCIAL ACCOUNTING I. (ACC 211)
The topics that the students need to know as a pre-requisite for ACC 311 are listed below

(1) Revision of trial balance, correction of errors and suspense accounts,
(2) Revision of end of year adjustment adjustments and the preparation and presentation of final accounts.
(3) Control Accounts, Incomplete Records, and Single Entry
(4) Account of Clubs and Societies, Farmers' Accounts, Voyage & Solicitors' Accounts,
(5) Inventory valuation and Bills of Exchange,
(6) Detailed treatment of SAS 3, SAS 4 and equivalent IAS, IFRS etc

FINANCIAL ACCOUNTING II (ACC 221)
The topics that the students need to know as a pre-requisite for ACC 311 are listed below

(1) Manufacturing accounts
(2) Consignments, goods on sale or return
(3) Royalties, containers, hire purchases and sinking funds.
(4) Introduction to the analysis and interpretation of financial statements:
- *ratio analysis-uses, limitations, standards of comparison; trend, percentage, common-size financial statements, vertical, horizontal, industry, intra and inter-firm analyses, factors to consider in firms analysis*

(5) Cash flow statement
(6) Hire purchase
(7) Treatment of SAS 18 and the equivalent IAS and IFRS

PRACTICING QUESTIONS

Giving that the above serve as pre-requisites for ACC 311, the following questions in some selected topics above will be of help and should be practiced.

QUESTION ONE

(a) Briefly indicate how the following expenses/income are treated in both statement of financial performance and statement of financial position:
   (i) Prepaid expenses
   (ii) Accrued expenses
   (iii) Income received in advance
   (iv) Accrued income

(b) A summary of the bank statement of Obadan Club as at 31st December, 2016 is given below:

	#		#
Bal b/d	10,595	Rates	11,800
Bank deposits	201,700	Electricity	7,950
		Telephone	3660
		Repairs	3,740
		Exp in relation to machine rental	26,800
		Other expenses	19,115
		Furniture & Fittings	8,170
		Bal c/d	131,070
	212,305		212,305

The following information is also obtained:

(1) The club has a register of members totalling 15,600 as at 31st December 2016. Of these members, 30 had not paid for subscription for 2016, while 10 had already paid for 2017. At the beginning of 2016, 15 members were in arrears with their subscription. The annual subscription fee per member is #35.
(2) The proceeds from the machine rental for the year amounted to #90,970
(3) 10% depreciation is charged on furniture and fittings on a straight line basis
(4) Assets and liabilities (other than subscription) were as follows:

	2016	**2015**
Rates prepaid	3235	2,695
Accrued expenses (Telephone)	760	680
Accrued expenses (Electricity)	1,395	1255
Accrued expenses (machine rental)	2,435	2,115
Accrued expenses (repairs)	720	540
Prepaid expenses (Other expenses)	320	450

Required:

(a) Effect the adjustments to the necessary accounts above.
(b) Give an extract of statement of financial performance for the year ended 31st December, 2016 and statement of financial position as at 31st December, 2016.

QUESTION TWO

(a) The main function of the trial balance is to prove that our debit and credit entries have correctly adhered to the principle of double entry. This implies that the total of all debit entries will be equal to the total of all credit entries. However, the agreement of both sides of the trial balance does not mean there are no errors in the entries. Premised on the above, identify five (5) types of errors that could lead to this situation and thereafter vividly describe each.

(b) On 1st April 2017, Chief Okon started his business with #92,500 as capital paid into the bank. The following transactions occurred during the month:

April 2: Paid for premises #15,000, furniture #20,000 and motor van #25,000
April 3: Purchased goods by cheque #27,000
April 4: Cash sales #5,500
April 5: Purchased goods from Okoro #3,400 on credit
April 15: Chief Okon took goods valued #1,300 for personal use
April 20: Paid #300 cash for furniture repair
April 21: Cash sales #6,100
April 23: Credit sales #4,100 to Mr. Ola
April 24: Paid #9,400 cash into bank
April 26: Paid Mr. Okoro by cheque to settle him
April 27: Mr. Ola sent us cash of #3000 as part payment
April 28: Withdrew #7000 cash from bank for office use
April 29: Paid salaries #1200, electricity bill #600, rent #1100 all by cash
April 30: Cash purchased #3600

You are required to open the accounts in the ledger of Chief Okon to record the transactions and extract a trial balance.

QUESTION THREE

(a) Identify five accounting features of non-profit making organizations
(b) Udo Town Club Treasurer maintains a cash book where all the transactions are entered. On January 1st 2015, the assets and liabilities were as follows:

	#
Club premises	250,000
Club building	50,000
Cash at bank	42,000
Subscription due but not yet paid	6,000
Subscription paid in advance for the year	14,000

The following transaction were also recorded in respect of Udo Town Club Bar operations: Bar purchases by cash#261,600; Bar opening and closing inventory #21,970 and 32,410 respectively; Bar purchases opening and closing creditors balances #15,370 and #14,050 respectively and Bar wages of #23,910. The Bar earns an average gross profit of 20% on cost of sales.

The Treasurer has also produced receipts and payments account for the club as shown below:

Udo Town Club

Receipts	#	Payments	#
Opening cash balance	42,000		
Subscription	250,000	Rent	10,000
Book launched proceed	40,000	Wages & Salaries paid to staff	25,000
Registration fee	5,000	Purchase of Office Equipment	60,000
		Donations to charity	100,000
		Closing Cash balance	142,000
	337,000		337,000

Additional information:

(a) Subscription paid in advance for next year #25,000

(b) Accrued wages and salaries for the year #5,000

You are required to prepare the following Club financial statement:

(a) Bar trading account for the year ended 31st December, 2015

(b) Accumulated fund account

(c) Income and Expenditure account for the year

(d) Statement of financial position as at 31st December, 2015

QUESTION FOUR

(e) In a period of rising prices, the First-In-First-Out (FIFO) method of inventory valuation understates cost of goods sold but overstates both closing inventory value and gross profit while the Last-In-First-Out Method (LIFO) overstates cost of goods sold but understates both closing inventory value and gross profit. Juxtapose the above feature of both methods using the information of TAYO Enterprises, dealer in electrical items below:

(f) 1st January: Purchased 90 pieces at #1300 each

(g) 2nd January: Purchased 120 pieces at #1500 each

(h) 5th January: Sold 60 pieces at#1200

(i) 10th January: Sold 100 pieces at # 1300

(j) 15th January: Purchased 80 pieces at #1650

(k) 20th January: Sold 70 pieces at #1700

(l) 22nd January: Sold 50 pieces at #1500

(m) 27th January: Purchased 70 pieces at #1700

(n) 31st January: Sold 70 pieces at #1800

QUESTION FIVE

(A) What is a bill of exchange?
(B) Enumerate the various type of bills of exchange
(C) Enumerate the option available to the holder of a bill of exchange
(D) Differentiate between an incomplete record and a single entry
(E) Explain the term suspense account
(F) Explain the term control account
(G) Explain the term trial balance
(H) i. Differentiate between margin and mark-up
ii. Giving that margin is 30%, what is mark-up? Similarly, giving that mark-up is 20%, what is margin?

QUESTION SIX

The cash price of office equipment is #100,000. Hire purchase agreement was undertaken in respect of the disposal of the assets for a period of five years with an initial deposit of #55,000, five year instalment totalling #70,000 payables on 31st December, each year. The initial cost of the office equipment is #75,000.

Required:

(a) Calculate the hire purchase interest payable each year using both the equal instalment and sum of the digits methods
(b) Show the relevant accounts in the books of the seller using the hire purchase interest suspense account method assuming the hire purchase interest each year was computed using the equal instalment method.

QUESTION SEVEN

(A) ODA limited holds the patent rights for a new rechargeable lantern and on 1st January 2014, granted a licence to UZI limited to manufacture and sell the lanterns for a royalty of #30 per lantern manufactured subject to a minimum royalty of #150,000 per annum. Short workings could be recouped within the next two years following the year they occur. The output of UZI limited were as follows:

Year	Output
2014	2200 units
2015	2800 units
2016	3900 units

All sums due were received and paid on the 31st of December each year, the accounting year-end of UZI limited

Required:

Show the ledger account to record these transactions in the books of ODA limited

(B) ANDY limited holds the patent rights for a new rechargeable lantern and on 1st January 2004, granted a licence to AMBROSE limited to manufacture and sell the lanterns for a royalty of #30 per lantern manufactured subject to a minimum royalty of #30,000 per annum. Short workings could be recouped only in the year following the year of the shortfall. The output of AMBROSE limited were as follows:

Year Output

2004	350 units
2005	430 units
2006	900 units

All sums due were received and paid on the 31st of December each year, the accounting year-end of AMBROSE limited.

Required:
Show the ledger account to record these transactions in the books of AMBROSE limited

MODULE TWO (WEEK 3)

PARTNERSHIP ACCOUNTS INCLUDING ADMISSION, DISSOLUTION AND LIQUIDATION

INTENDING LEARNING OBJECTIVES

At the end of this class, students should be able to:

(1) students should be able to explain the concept of partnership ;
(2) students should be able to explain what a partnership agreement is;
(3) students should be able to know how to account for a partnership transactions;
 -Partnership appropriation account
 -methods for accounting for partner's equity/interest
 (a) Fixed capital method
 (b) Fluctuating capital method

(4) students should be able to know the content/format of partnership final accounts;

(5) Admission of a partner and its effect of the partnership arrangement

(6) Dissolution and liquidation of a partnership;

(7) Exercises and practicing questions

DEFINITION OF PARTNERSHIP

According to the Partnership Act of 1890, it is a relation which subsists between two or more persons carrying on a business in common with a view to profit.

PARTNERSHIP AGREEMENT

This refers to a formal agreement draw up to define the conduct of a partnership business. It could also be referred to as partnership deed. The partnership deed defines the partnership business with respect to the following:

(1) Capital to be contributed by each partner;
(2) The type of capital account to maintain- whether fixed or fluctuating;
(3) The profit/loss sharing ratio;
(4) The rate at which interest is to be allowed on partners' capital;
(5) The amount of salary receivable by the partners;
(6) The rate of interest to be allowed on partners' loan;
(7) Whether current accounts, if any, are to bear interest and if so, at what rate;
(8) The method of calculating goodwill in the event of death, retirement or admission of partners;

(9) The method of treating the premiums on life insurance policies, if any, and how the proceeds of the policies are to be shared amongst the partners.

However, in the absence of expressly or implied agreement, the Partnership Act 1890 posited that the following shall apply:

(1) Profit/losses shall be shared equally;
(2) Interest shall not be allowed on partners' capital;
(3) Interest shall not be charged on partners' drawings;
(4) Interest shall be allowed on partners' loan at 5% per annum
(5) No partner shall be entitled to receive salary

ACCOUNTING FOR PARTNERSHIP TRANSACTION

The finial accounts of a partnership is similar to that of as sole trader except for the following additions: (1) the appropriation account in which the net profit is distributed to all partner; and (2) either the capital or current account which records financial transaction that affect the equity/interest of each partners such as drawings, interest on drawings, share of loss, interest on capital, salary of partners, interest on partners loans and share of profit.

In accounting for the equity/interest of partners, either the fixed or fluctuation capital method is used. In the fixed capital account method, all items affecting the equity/interest of the partners are adjusted on the current account while in the fluctuating capital method; these items are adjusted in the capital account. The items affecting partners' equity include:

(1) Partners drawings
(2) Interest on drawings;
(3) Share of loss;
(4) Interest on capital;
(5) Salary of partners;
(6) Interest on partners' loan; and
(7) Share of profit.

It should be noted that the items that increase the interest/equity of each partners are credited to either the current or capital account while items that reduces the interest/equity of each partners are debited to same accounts. It follows therefore that interest on capital; salary of partners; interest on partners' loan and share of profit have credit entries while partners drawing; interest on drawings and share of loss have debit entries.

TREATMENT OF SOME TRANSACTIONS

(1) Divisible profit: This is the profit distributable to the partners after accounting for partners' interest on drawings, partners' salary, and interest on capital (see format below).

(2) Partners salary: This represent a preferential distribution of profits of the firm to the partners before the residue of profits are distributed to each partners according to the agreed sharing ratio. It implies that this item is not an operating cost and as such is not expense the statement of financial performance, rather a charge on the appropriation account after the net profit has been ascertained. In treating partners' salary, the portion of partners' salary already paid and yet to be paid is charged to the appropriation account, however in the current or capital account as the case may be, it is the portion yet to be paid that is charge to these accounts.

CONTENT AND FORMAT OF PARTNERSHIP FINAL ACCOUNT

The formats of both the appropriation account and current/capital accounts are presented below:

Okoh and Okon
Appropriation Account for the year ended 31st December, 2016.

		#	#
Net profit			xxx
Add: Interest on drawings:	A	xxx	
	B	xxx	
	C	xxx	xxx
Less: Salary:	A	xxx	
	B	xxx	
	C	xxx	(xxx)
Interest on capital:	A	xxx	
	B	xxx	
	C	xxx	(xxx)
Divisible profits			xxx
Share of profit:	A		xxx
	B		xxx
	C		xxx

Okoh and Okon

Capital Account/Current account

	A	B	C		A	B	C
Drawings	x	x	x	Bal b/d	x	x	x
Int. on drawings	x	x	x	Salary	x	x	x
Bal c/d	x	x	x	Int. on capital	x	x	x
				Int. on loans	x	x	x
				Share of profit	x	x	x
	x	x	x		x	x	x
				Bal b/d	x	x	x

EXERCISE AND PRACTICING QUESTIONS

Okoh and Okon formed a partnership on 1st January, 2015. The partnership agreement contains the following:

(1) The partners fixed capitals are Okoh #15,000 and Okon #12,000
(2) Okon to receive a salary of #900 a year
(3) Interest on capital is to be calculated at 2.5% per annum
(4) Interest is to be charged on drawings at the rate of 1%
(5) Okoh and Okon to share profit in ratio of capital contributed

During the year to 31st December, 2015, drawings were, Okoh #1125, Okon #875 and the net profit was #6,750. The partners decided to maintain fixed capital accounts.
You are required to show:

(a) The appropriation account for the year ended 31st December, 2015
(b) The partners current account
(c) Statement of financial position (extract) as at 31st December, 2015

Solution

Okoh and Okon

Appropriation Account for the year ended 31st December, 2015

	#	#
Net profit		6,750
Add: Int. drawings: Okoh (1%* 1125)	11.25	
Okon (1%* 875)	8.75	20
		6,770
Less: Salary: Okon		(900)
Interest on capital: Okoh (2.5%*15,000)	375	
Okon (2.5%*12,000)	30	(405)
Divisble profit		5,465
Share of profit: Okoh (15,000/27,000* 5465)		3036.11
Okon (12,000/27,000*5465)		2428.89

Current Accounts

	Okoh	Okon		Okoh	Okon
Drawings	1125	875	Salary	-	900
Int. on drawings	11.25	8.75	Int. on capital	375	30
Bal c/d	2274.86	2475.14	Share of profit	3036.11	2428.89
	3411.11	3358.89		3411.11	3358.89
			Bal b/d	2274.86	2475.14

Okoh and Okon
Statement of financial position (extract) as at 31st December, 2015

	#	#	#
	Okoh	Okon	Total
Financed by:			
Capital account	15,000	12,000	27,000
Current account	2274.86	3358.89	5633.78
	17274.86	15358.89	32,633.78

Illustration Two

Jimmy, Jack and James are in partnership sharing profits and losses in proportion of capital contributed in the partners' capital account. Interest is charged on drawings at the rate of 5% per annum and credited at the same rate in respect of capital account balances. Jack is to be credited with a salary of #1,000 per annum. In the year ended 31st December 2010, the net profit of the firm was #25,200. The partners' drawings of Jimmy #1500; Jack #3600 and James #2,400 were taken in two equal installments by the partners on 1st April 2010 and 1st October 2010. The balances on the partners' accounts at 31st December 2006 were as follows (all credited balances):

	Jimmy	Jack	James
Capital account	15,000	10,000	8,000
Current account	375	670	110

You are required to:

(a) Prepare the firm's appropriation account for the year ended 31st December, 2010
(b) Partners' capital and current accounts
(c) Abridged statement of financial position as at 31st December, 2010.

Students should attempt the above question.

NOTE: Admission of a partner, dissolution and liquidation of partnership will be treated in class

MODULE TWO (WEEK 4-5)
JOINT ARRANGEMENT

INTENDING LEARNING OBJECTIVES

At the end of this class, students should be able to:

(1) Define the concept of joint arrangement;

(2) Define the concept of joint control

(3) Give the types of joint arrangement;

-Joint Operation

-Joint Venture

(4) to understand the concept of joint vehicle

(5) Know how to classify a joint arrangement
(6) Understand the concept of separate vehicle
(7) Know how to account for interest in a joint arrangement
-Joint Operation:
(a) Each operator maintains records of transactions undertaken by him on behalf of the joint operation
(b) One joint operator maintains all the records of the joint operation
-Joint Venture:
(a) Using the equity method.
(8) Practice exercises

JOINT ARRANGEMENT

The Accounting standard for accounting for Joint Arrangement is IFRS 11.According to IFRS 11, a joint arrangement is an arrangement of which two or more parties have joint control.

JOINT CONTROL

IFRS 11 defines Joint Control as the contractually agreed sharing of control of an arrangement which exists only when decisions about the relevant activities (i.e. decisions which significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. This implies that joint arrangement is only in existence when there is a joint control.

TYPES OF JOINT ARRANGEMENT

IFRS 11 identified two types of joint arrangement. They are Joint operation and Joint Venture.

Joint Operation

This is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and for the obligations relating to the arrangement. The parties involved in this kind of arrangement are called joint operators.

Joint Venture

This is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The parties involved in this kind of arrangement are called joint venturers.

SEPARATE VEHICLE

This refers to a separately identifiable structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality. This implies that it is an entity, incorporated or not, through which a joint arrangement is structured.

HOW TO IDENTIFY A JOINT OPERATION AND A JOINT VENTURE

There are key factors/criteria that determine whether a joint arrangement could be classify as either a joint operation or joint venture. They include:

(1) Rights and obligations of parties in the joint arrangement
(2) Other factors and circumstance such as
- Structure of the joint arrangement
- Legal form of the separate vehicle
- Other contractual arrangement

	Factors	**Joint Operation**	**Joint Venture**
1	Rights and obligation of parties	They have right to the assets and obligation for the liability	They have only right to the net assets of the arrangement
2	Form of the separate vehicle	Not usually structured through a separate vehicle. However there could be circumstance that point otherwise	Usually structured through a separate vehicle. However there could be circumstance that point otherwise
3	Legal form of the	The separate vehicle could be incorporated but its legal form	The separate vehicle is an incorporated entity whose

	separate vehicle	does not confer separation between it and the parties such that the assets and liabilities held therein are the parties assets and liabilities.	personality is clearly separated from the parties and the assets and liabilities held therein are the entity's
4	Existence of other contractual arrangement	There could be existence of other contractual agreement between the joint operators such as: each operator responsible for a specific task; each operator using its own assets and incurring its own liabilities etc	There may not be such contractual arrangement under a joint venture

ACOUNTING FOR INTERETS IN A JOINT ARRANGEMENT

Joint Venture

In a joint venture arrangement, the interest of the venture is accounted for as follows:

(1) The investment of the venturer (investor) in the joint venture (investee) is recognized as an investment
(2) Such investment of the investor is accounted for using a method called the equity method (IAS 28: Investment in Associates and Joint Ventures) unless the entity is exempted from applying this method.
(3) IAS 28 defines equity method as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.

Not that the change in the investee's net assets is measured by comparing the investee's equity at the date the investment was acquired with its equity at the accounting year-end. Post-acquisition increase arises when the net assets of the investee's at the year end is greater than at the beginning, otherwise it is a loss. Therefore, the investors' share of the post acquisition net asset is added/deducted as the case may be from the initial investment of the investors to obtain its carrying amount as at the reporting date.

Computation of the carrying amount of an investor

	#
Initial Cost of investment in Joint venture	x
Add/deduct venturer's share of post-acquisition increase/decrease in the Joint venture's Net assets	x/(x)
Carrying amount of the investment in joint venture at reporting date	**x**

EXERCISE ON JOINT VENTURE

Okon Plc acquired 55% of the share of a joint venture company ABC Ltd. For #65,000 on 1st January, 2014 and as this date the retained profit of ABC Ltd was #42,000. The decisions of ABC require unanimous consent of all the investors in the investee.

Below is the statement of financial position of ABC Ltd. as at 31st December, 2014.

	#	#
Assets		
Non-current assets		128,000
Current Assets:		
Inventory	21,000	
Receivables	32,000	
Bank and Cash	26,000	79,000
		207,000
Equity and Liabilities		
Equity		
Ordinary share of #1 each		100,000
Retained profit		64,000
Liabilities		
Non-current		
Bank loan	35,000	
Current liabilities		
Trade payables	8000	43,000
		207,000

You are required to:

(a) Calculate the carrying amount of the Investment in ABC Ltd that would appear in Okon Plc's statement of financial position as at 31st December, 2014

(b) Show the necessary journal entries from date of acquisition to 31st December, 2014

(c) Investment in ABC Ltd. Account

Solution

(A)

Calculation of Carrying Amount of Investment in ABC Ltd as 31st December, 2014

	#
Initial cost of investment in ABC Ltd	65,000
Okon Plc's share of post-acquisition increase in ABC Ltd net asset	12,100
Carrying amount at 31st December, 2014	**77,100**

(B)

Journal entries

(i) Investment cost of Okon Plc in ABC Ltd

DR: Investment in ABC Ltd- #65,000

CR: Bank Account -#65,000

Being cost of 55% stake in ABC Ltd acquired on 1st January, 2014.

(ii) Okon Plc share of post-acquisition increase in ABC Ltd net assets

DR: Investment in ABC Ltd-#12,100

CR: Statement of profit or loss-#12,100

Being Okon Plc share of post-acquisition increase in ABC Ltd net assets

©

Investment in ABC Ltd Account

	#		#
1/1/2014 Bank	65,000	31/12/2014 Bal c/d	77,100
31/12/2014 P & L	12,100		
	77,100		**77,100**

Note:

(1) Computation of post acquisition increase in ABC Ltd net assets

	1/1/2014	31/12/2014
Share capital	100,000	100,000
Retained profit	42,000	64,000
Net assets	142,000	164,000

Increase is: 164,000 less 142,000= #22,000

Okon Plc share: 55% of #22,000= #12,100

Joint Operation

In accounting for interest in joint operation, there are basically two approaches: each operator maintains records of transactions undertaken by him on behalf of the joint operation; and one joint operator maintains all the records of the joint operation. In both cases, adequate knowledge of double entry principle is required. All assets and expenses are debited while all income and liabilities are credited to the respective accounts. Major accounts of concerned in this arrangement are: joint operation a/c; joint operation payable a/c; joint operation receivables a/c etc.

Each operator maintains records of transactions undertaken by him on behalf of the Joint Operation

In this arrangement, each operator maintains, as part of its double entry records, a Joint Operation account in the name of its co-operators. At the accounting year end or the end of joint operation whichever is earlier, a memorandum account is prepared by each operator to harmonize the details of each transactions of each of the operators. The reason for this is to ascertain the profit or loss of the Joint Operation, thereafter shared among the operators in the agreed sharing ratio. All value of resources acquired for or appropriated to the Joint Operation including purchases, expenses and transfers out of cash are debited to the Joint Operation Account while value of resources received from or on behalf of the Joint Operation such as sales and transfers in of cash are credited to the Joint Operation Account.

EXERCISE

Okon and Okoh entered into a joint operation in respect of purchase and sales of an item. They agreed to share joint operation profits and losses in equal ratio. Okon initially sent a cheque of #1,000 to Okoh to provide him with funds for his participation in the Joint Operation. All items purchase was sold by 31st December, 2014 and details of the transaction are:

	Okon(#, 000)	Okoh(#,000)
Sales	1,600	1, 050
Travelling expenses	163.5	231.5
Advertising	51.5	45.5
Store rents	42.5	35
Wages of casual helpers	24	-
Sundry expenses	29.5	14.5
Purchases	800	550

Settlement between the co-joint operations took place by cheque.

You are required:

(1) Joint operation with Okoh account in Okon ledger

(2) Joint operation with Okon account in Okoh ledger

(3) Memorandum Joint operation account

Solution

(1) In the ledger of Okon

Joint Operation with Okoh Account

	#		#
Bank: Transfer to B	1,000	Bank; Sales	1,600
Bank: Travelling exp	163.5	Bank: Bal c/d	842.25
Bank: Advertising	51.5		
Bank: Store rent	42.5		
Bank: Wages	24		
Bank: Sundry exp	29.5		
Bank: Purchases	800		
Share of profit	331.25		
	2442.25		**2442.25**

(2) **In the ledger of Okoh**

Joint Operation with Okon Account

	#		#
Bank: Travelling exp	231.5	Bank: Transfer	1000
Bank: Advertising	45.5	Bank: Sales	1,050
Bank: Store rent	35		
Bank: Sundry exp	14.5		
Bank: Purchases	550		
Share of profit	331.25		
Bal c/d	842.25		
	2,050		2,050

(3)

Memorandum Joint Operation

	#		#
Bank: Travelling exp	395	Bank: Sales	2650
Bank: Advertising	97		
Bank: Store rent	77.5		
Bank: Wages	24		
Bank: Sundry exp	44		
Bank: Purchases	1350		
Share of profit:			
Okon	331.25		
Okoh	331.25		
	2650		**2650**

There could be situations where the Joint Operation is not concluded at Accounting year end, this will lead to a scenario where the transaction of the Joint Operations are treated beyond the accounting year end, i.e. to the period where the Joint Operations end. This could also lead to a scenario where the Joint Operators decided that an interim settlement be done or not.

One Joint Operator maintains all the Records of the Joint Operation

This type of method arises when either operator does not have the time or accounting knowledge to account for its financial transactions. In this case, one operator maintains all the records of the transactions of the Joint operation together with its own transaction, however the line figures disclosed on a separate line. The Operator maintaining the Joint Operation will also maintain the financial operations of the other.

EXERCISE

The facts are the same above except that Okon maintains the records of the Joint Operation.

Students should attempt this question. Aid, make reference to recommended text books. However, more explanation and solution will be provided in class.

NOTE: More exercise will be taken in class

MODULE FIVE (WEEK 8-9)
DEPARTMENTAL AND BRANCH ACCOUNTS

INTENDING LEARNING OBJECTIVES

At the end of this class, students should be able to:

(1) Understand what a department is

(2) Understand what a departmental account is

(3) Understand the bases of income and expenses allocation and apportionment

(4) Understand what is inter departmental transfers

(5) Understand the content/format of a departmental account

(6) Demonstrate their understanding of the above by taking exercises

(7) Understand what a branch is

(8) Classification of branch

- Non-independent
- Independent
- Foreign

(9) Understand with is a branch account

(10) Bases of transfer of goods from head office to branch office

-Cost basis

-Cost plus mark-up basis

- Selling price basis

(11) Demonstrate their understanding of financial transactions involving branch account by taking exercise.

WHAT IS A DEPARTMENT/DEPARTMENTAL ACCOUNT

This is a unit or a segment of a business entity that operates and generates income. In line with this, the business entity will usually prepare an account (departmental account) for each department for the purpose of :

(1) Ascertaining the contributions of each department to the entire business entity;

(2) For reward purpose

(3) Comparison of result of the different departments for correction and improvement purpose

EXAMPLES OF ENTITY WHERE DEPARTMENTAL ACCOUNT CAN BE IN EXISTENCE

(1) A manufacturing company that is into production of bocks and paving materials. The entity can maintain separate account for block and paving departments.
(2) An insurance company can maintain a separate account for insurance policy relating to fire insurance, motor insurance policy, fire insurance policy, marine insurance policy
(3) Firm of chartered accountants could prepare separate accounts for audit department, tax department etc.

BASES OF INCOME AND EXPENSES ALLOCATION AND APPORTIONMENT

In preparing a departmental account, the gross profit can easily be ascertained because items in the trading section can be directly traced or related to each of the department. However, other income/expense that cut across various departments can be apportioned based on the following:

(1) Non departmental income: Attributed to the head office
(2) Discount received- Proportion to the purchases of each department
(3) Selling and Distribution exp: Proportion to the sales of each department
(4) Admin expenses-
    -Heating and lighting: In most cases in proportion to volume of space occupied.
    -Rent and rates: In proportion to the floor space occupied
    -Expenses like staff related cost is done in proportion to the number of staff employed in each department
    -Electricity: Consumption of each department
    -Insurance policy: In proportion to the book value of the non-current assets in each department
    -Depreciation: In proportion to the book value of the non-current assets in each department

INTER DEPARTMENTAL TRANSFERS

Where the item of one department serves as an input for production purpose to another department, a departmental transfer becomes necessary. However in doing so, the transfer value should be at cost. If it includes a profit loading, the unrealized profit should be ascertained and eliminated from the inventory and reported profit (this shall be dealt with further in branch account).

CONTENT/FORMAT OF A DEPARTMENTAL ACCOUNT

The content an format of a departmental account is same with statement of financial performance and position except that each department financial transaction is treated in a separate column. However, the combined transaction for all the department is also treated, but in a combined column. However, in the case of statement of financial position, either the column basis or combined approached could be used.

Note: where transfers are involved from one department to another, the value of the goods (cost) transferred should be deducted from the transferor department value of goods available for sale and added to the transferee department value of goods available for sale.

EXERCISE

MOSORI deals in musical products, having two separate departments: equipment; and recording. The two departments are within same premises. At times, departmental transfers take placxe between both departments. The trial balance of the entity for the year ended 31st Decmebr, 2016 is given below;

	Dr (#)	Cr (#)
Fixture and fittings (cost)	15,000	
Provision for depreciation: Fixture and fittings		11,000
Motor vehicle (cost)	75,000	
Provision for depreciation: Motor vehicle		50,000
Capital		55,000
Drawings	6000	
Inventory: Equipment	3420	
Records	2940	
Purchase/Sales: Equipment	11880	22200
Records	11220	19,890
Interdepartmental transfers: Equipment		750
Records	750	

Return inwards-equipment	1050	
Records	840	
Salaries	4950	
Advertisement	2610	
Dividend		315
Investments	6900	
Debtors/Creditors	14760	8922
Carriage inward	720	
Rents and rate	1372.5	
Electricity	4117.5	
Expenses	1220	
Insurance	1000	
Balance at bank	2052	
Provision for bad debts		225
	167802	167802

Additional information

(1) Insurance prepaid amounted to #250 and rent in arrears is #127.5
(2) Depreciation 2.5% on cost of fixture and fittings, and 2.5% on the book value of motor vehicle
(3) Bad debt provision to be adjusted to 2.5% of debtor after writing off bad debts of #350
(4) Closing inventory: Equipment #8880
Records #5100
(5) All expenses were apportioned in the ratio 3:2 for equipment and record department respectively
(6) Dividend is income for the head office
(7) Inter departmental transfers are at cost

You are required to prepare departmental statement of financial performance, for each department and the head office, and a statement of financial position

THE CONCEPT OF BRANCH/BRANCH ACCOUNT

This is a segment of a business entity, however not located within the same premises of the head office. The location of such branch could be in same country or a foreign country. To capture the financial transactions of such branch financial transactions, a branch departmental account is required.

CLASSIFICATION OF BRANCH

A branch could be categories into the following:

- **Non-independent:**

  Accounting features

(1) This is a type of branch whose accounting records are maintained wholly or majorly by the head office.
(2) The scale of operation is usually not large enough.

(3) In this kind of arrangement, the head office is usually have a strict control over the business activities of such branch such as goods to be sold by the branch are purchased and transferred from the head office.
(4) Cash sales proceeds are usually remitted to the head office
(5) Branch receivable are usually instructed to pay directly into the head office account
(6) In most cases, the head office takes responsibility for the expenses of the branch office except of specific instructions where branch is allowed to meet its expenses out of cash proceeds before remittance is made
(7) An impress system is usually maintained at branch to take care of little expenses

Giving that the non independent branch has limited autonomy, goods to be sold is usually transferred from the head office. The price at which the head office sends goods to the branch is called transfer or invoice price. There are three possible transfer prices:

(a) Cost price to the head office
(b) Selling price by the branch
(c) Cost plus a predetermined percentage

COST PRICE METHOD

In this method, the head office invoices goods to the branch at cost, majorly, the following accounts are expected to be opened:

(1) Branch Inventory account-all entries on this account, except branch sales are at cost and the branch gross profit will also be ascertained on this account
(2) Goods sent to branch account: this account shows the cost of the goods sent to the branch less cost of goods returned to the head office and all entries are at cost
(3) Branch receivable account: This account treats all branch credit sales
(4) Branch expenses account: shows the expenses incurred by or on behalf of the branch
(5) Branch P & L account: shows the net profit or loss of the branch

Students' ability to post transactions to these accounts is enhanced by their knowledge of the double entry principles. First, identify the giving and paying gout account, identify if it is assets, liability, expenses and income. For all receipt are debit entry while paying out is credit entry. In summary, use DEA (Debit and expense and asset) & CIL (Credit all income and liabilities). For further emphasis of the accounting entry, resort to the recommended text books above.

EXRECISE (Good sent to branch at cost)

EVERIT Ltd has a branch of its business entity in Lagos with its head office in Portharcourt. It is the policy of the Head Office to send goods to the branch at cost. The branch is also allowed to sell to customers on credit, who may pay by cash or into the branch or Head Office Bank account. The branch makes returns to head office at the end of the year. As at 1st of January, 2010, the following were the balances at the branch:

Bank (Dr)	7,500
Inventory at cost	24,000
Branch Receivables	2,000

The following transactions took place during the year

	#
Goods sent to branch (at cost)	240,000
Goods returned to head office by branch (at cost)	15,000
Goods returned to head office by branch customers (at cost)	3,000
Credit sales (Selling price)	160,000
Cash sales (selling price)	80,000
Cash discount allowed to branch debtors	2,000
Bad debts written off for branch debtors	2,500
Returns by branch customers to branch (cost)	4,500
Branch salaries paid by head office by cheque	6,000
Closing inventory	57,500
Cash stolen at branch	1,500
Goods stolen at branch (cost)	750
Amount paid by branch debtors by cheque	75,000
Cash transferred from branch to head office bank	75,000
Amount transferred from branch bank to head office bank	50,000

Expenses of branch paid by cheque by branch:

Wages	2,500
General expenses	2,000
Rent	5,000

Required: Assuming a mark-up of 1/3 on cost, use the cost method to record the above transactions in the relevant accounts. In same vein, prepare the branch statement of financial performance.

SELLING PRICE METHOD

In this method, the head office charges goods to the branch at a transfer price which is the selling price. In this case, the branch must not sell at any other price apart from the selling price as given by the head office. However, any discrepancy of price at which branch must sell must be approved by the head office. In this method, the following major accounts are kept:

(1) Branch inventory account: Serves the same purpose as in the cost plus mark up method
(2) Goods sent to branch account: Serves as a contra account to the branch inventory account
(3) Branch receivable account: performs the same role as in both cost and cost plus mark-up methods
(4) Branch expenses account: performs the same role as in both cost and cost plus mark-up methods
(5) Branch trading account: shows the gross profit of the branch
(6) Branch profit or loss account: performs the same role as in both cost and cost plus mark-up methods

For the accounting entries, students should resort to the recommended text books above.

EXRECISE (SELLING PRICE METHOD)

GBENGA Ltd has a head office in Abuja and a branch office in Warri. Goods are sent to the branch at cost plus mark-up of 25% which is the branch selling price. The following are details of the branch office transactions for the year ended 30th December, 2016.

	#
Opening inventory at branch selling price	25,000
Goods sent to branch at selling price	225,000
Goods returned to head office by branch at selling price	22,500
Goods returned to head office by branch customers (all at normal Selling price)	5,000
Credit sales	150,000
Cash sales	48,000
Authorized allowance off selling price	2000
Goods returned to branch by branch customers at selling prices	10,000
Cheque/cash received from branch customers	100,000
Cash discount allowed to branch customers	5,000
Branch bad debt written off	4,000
Branch sundry expenses paid by head office	12,500
Cash stolen at branch	2500
Goods stolen at branch at selling price	7500
Closing inventory at branch at selling price	27,500

Required:
Show the necessary accounts in the ledger of the head office to record the transaction of the branch using selling price method

There could be a case where memorandum method could be used, i.e. a column records transaction at cost while another column records at selling price.

NOTE: That there could be situation where there could be discrepancies in branch inventory figure. This could either be inventory deficiency or surplus and are treated in line with cost, cost plus mark up and selling price method. For details, refer to recommended text books. However, more explanation will be given in class.

- **Independent**

  Accounting features

(1) This is a type of branch whose accounting records are maintained by the branch office.

(2) The scale of operation is usually large.

(3) In this kind of arrangement, the branch office is usually have a strict control over its business activities.

(4) At the end of the financial year, the branch sends its trial balance to the head office to consolidate the data with that of the head office and other independent branches.

(5) Giving that the branch maintains its financial records, there is however link accounts at both end of the branch and head office. These accounts are: current account; remittance account. The current account contains same transaction but on opposite side at both the branch and head office end. In the head office end, it is maintained as branch office current account and is seen as an investment account i.e. value of goods sent to branch is debited while value of cash received from branch is credited. On the branch end, it is maintained as head office current account and, value of goods received from head office is credited while value of cash sent to head office is debited. On both ends, the transactions are same, but on the reverse sides. The current account is usually a debit balance which represents net investment of the head office in the branch account. The remittance account captures all other money remittance between the branch and head office in same manner with the current account.

(6) Other accounting features arise due to the transfers between branch and head office. One of such is item in transit of which the unrealized profit will be properly adjusted for before preparing the final account

EXERCISE

OMONI Ltd opened a branch in Lagos. The following assets and liabilities were transferred from the head office to the branch as at 31st December, 2016

	Cost	NBV
Cash at hand	50,000	50, 000
Motor vehicle	250,000	200,000
Furniture and fittings	40,000	35,000
Land and Building	500,000	500, 000
Equipment	210,000	165,000

Required:

Show the transactions in the books of the branch and the head office.

NOTE: More exercises will be taken in class.

MODULE FIVE (WEEK 10-11)

TREATMENT OF EQUIVALENT IAS 11 (CONSTRUCTION CONTRACT)

INTENDING LEARNING OBJECTIVES

At the end of this class, student should understand how revenue and costs associated with construction contract are accorded accounting treatment. Specifically, student should be able to:

(1) Know the objective of IAS 11
(2) Understand what is a construction contract
(3) Understand the makeup of contract revenue and cost
(4) Understand the accounting treatment of contract revenue and cost

OVERVIEW OF IAS 11

IAS 11: Construction contracts provide requirements on the allocation of contract revenue and contract costs to accounting periods in which construction work is performed. Contract revenue are recognized by reference to the stage of completion of contract activity where the outcome of the construction contract can be estimated reliably, otherwise revenue is recognized only to the extent of recoverable contract costs incurred.

OBJECTIVE OF IAS 11

The objective of IAS 11 is to prescribe the accounting treatment of revenue and costs associated with construction contract.

CONCEPT OF CONSTRUCTION CONTRACT

A construction contract is a contract specifically negotiated for the construction of an asset or a group of interrelated assets. It therefore implies that if a contract covers two or more assets, the construction of each asset should be accounted for separately based on the following conditions:

(1) Separate proposals were submitted for each assets;
(2) Portions of the contract relating to each asset were negotiated separately; and
(3) Costs and revenues each can be measured.

In the absence of the above conditions, the contract should be accounted for in its entirety.

Two or more contracts should be accounted for as a single contract if they were negotiated together and the work is interrelated.

If a contract gives the customer an option to order one or more additional assets, construction of each additional asset should be accounted for as a separate contract if either (a) the additional asset differs significantly from the original assets or (b) the price of the additional asset is separately negotiated.

THE MAKEUP OF CONTRACT REVENUE AND COST

Contract revenue should include the amount agreed in the initial contract, plus revenue from alterations in the original contract work, plus claims and incentive payments that (a) are expected to be collected and (b) that can be measured reliably.

Contract costs should include costs that relate directly to the specific contract, plus costs that are attributable to the contractor's general contracting activity to the extent that they can be reasonably allocated to the contract, plus such other costs that can be specifically charged to the customer under the terms of the contract.

ACCOUNTING TREATMENT OF CONTRACT REVENUES AND COSTS

If the outcome of a construction contract can be estimated reliably, revenue and costs should be recognized in proportion to the stage of completion of contract activity. This is known as the percentage of completion method of accounting.

To be able to estimate the outcome of a contract reliably, the entity must be able to make a reliable estimate of the total contract revenue, the stage of completion, and the costs to complete the contract.

If the outcome cannot be estimated reliably, no profit should be recognized. Instead, contract revenue should be recognized only to the extent that contract costs incurred are expected to be recoverable and contract costs should be expensed as incurred.

The stage of completion of a contract can be determined in a variety of ways- including the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, surveys of work performed, or completion of a physical proportion of the contract work.

An expected loss on a construction contract should be recognized as an expense as soon as such loss is probable.

DISCLOSURE

The following should be disclosed

(1) Amount of contract revenue recognised
(2) Method used to determine revenue
(3) Method used to determine stage of completion
(4) For contracts in progress as the statement of financial position date:
   -aggregate costs incurred and recognised profit
   -amount of advances received
   -amount of retentions

PRESENTATION

The gross amount due from customers for contract work should be shown as an asset

The gross amount due to customers for contract work should be shown as a liability.

MODULE FIVE (WEEK 10-11)

TREATMENT OF IAS 21 (THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES)

INTENDING LEARNING OBJECTIVES

At the end of this class, student should understand how to account for foreign currency transactions and operations in financial statements, and also how to translate financial statements into a presentation currency. This principally occurs when a business entity has a foreign branch and as such trail balance of the foreign branch should be restated (translated) using the functional currency of the head office. Specifically, students should be able to:

(1) Understand the meaning of functional currency
(2) Understand the meaning of presentation currency
(3) Understand the meaning of exchange difference
(4) Understand the concept of foreign operation
(5) Basic steps for translating foreign currency amount into the functional currency
(6) Understand the treatment of foreign currency transaction
(7) Understand translation from the functional currency to the presentation currency
(8) Understand the accounting treatment of disposal of a foreign operation
(9) Understand the tax effects of exchange differences
(10) Disclosure requirement of foreign operation
(11) Understand what a convenience translation is

OVERVVIEW OF IAS 21

IAS 21, The effects of Changes in Foreign Exchange Rate outlines how to account for foreign currency transactions and operations in financial statements, and also how to translate financial statements into a presentation currency. An entity is required to determine a functional currency (for each of its operations if necessary) based on the primary economic environment in which it operates and generally records foreign currency transactions using the spot conversion rate to that functional currency on the date of the transaction.

OBJECTIVE OF IAS 21

The objective of IAS 21 is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rates to use and how to report the effects of changes in exchange rates in the financial statements.

MEANING OF FUNCTIONAL CURRENCY

This is currency of the primary economic environment in which the entity operates. Note that is used to be called measurement currency prior to the current revision of this standard.

MEANING OF PRESENTATION CURRENCY

This is the currency in which financial statements are presented.

MEANING OF EXCHANGE DIFFERENCE

This is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

MEANING OF FOREIGN OPERATION

This is a subsidiary, associate, joint venture, or branch whose activities are based in a country or currency other than that of the reporting entity.

BASIC STEPS FOR TRANSLATING FOREIGN CURRENCY AMOUNT INTO THE FUNCTIONAL CURRENCY

These steps apply to a stand-alone entity, an entity with foreign operations (such as a parent with foreign subsidiaries), or a foreign operation (such as a foreign subsidiary or branch).

(1) The reporting entity determines its functional currency

(2) The entity translate all foreign currency items into its functional currency
(3) The entity reports the effects of such translation in accordance with reporting foreign currency transactions in the functional currency and reporting the tax effects of exchange differences.

TREATMENT OF FOREIGN CURRENCY TRANSACTION

A foreign currency transaction should be recorded initially at the rate of exchange at the date of the transaction (use of averages is permitted if they are a reasonable approximation of actual). At each financial position date:

(1) Foreign currency monetary amounts should be reported using the closing rate
(2) Non-monetary items carried at historical cost should be reported using the exchange rate at the date of the transaction
(3) Non-monetary items carried at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when monetary items are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences arising on monetary items that form part of the reporting entity's net investment in a foreign operation are recognized, in the consolidated financial statements that include the foreign operation, in other comprehensive income; they will be recognized in profit or loss on disposal of the net investment.

As regard a monetary item that forms part of an entity's investment in a foreign operation, the accounting treatment in consolidated financial statements should not be dependent on the currency of the monetary item. Also, the accounting should not depend on which entity within the group conducts a transaction with the foreign operation. If a gain or loss on a non-monetary item is recognized in other comprehensive income (for example, a property revaluation under IAS 16), any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

TRANSLATION FROM THE FUNCTIONAL CURRENCY TO THE PRESENTATION CURRENCY

The results and financial position of an entity whose functional currency is not the currency of a hyperinflation economy are translated into a different presentation currency using the following procedures:

(1) Assets and liabilities for each financial position (including comparatives) are translated at the closing rate at the date of that financial position. This would include any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as part of the assets and liabilities of the foreign operation

(2) Income and expenses for each income statement (including comparatives) are translated at exchange rates at the dates of the transactions

(3) All resulting exchange differences are recognized in other comprehensive income.

Special rules apply for translating the results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy into a different presentation currency.

Where the foreign entity reports in the currency of a hyperinflationary economy, the financial statements of the foreign entity should be restated as required by IAS 29: Financial Reporting in Hyperinflationary Economies, before translation into the reporting currency.

DISPOSAL OF A FOREIGN OPERATION

When a foreign operation is disposed off, the cumulative amount of the exchange differences recognized in other comprehensive income and accumulated in the separate components of equity relating to that foreign operation shall be recognized in profit or loss when the gain or loss on disposal is recognized.

TAX EFFECTS OF EXCHANGE DIFFERNCES

This is accounted for using IAS 12: Income tax

DISCLOSURE

(1) The amount of exchange differences recognised in profit or loss (excluding differences arising on financial instruments measured at fair value through profit or loss in accordance with IAS 39

(2) Net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity, and a reconciliation of the amount of such exchange differences at the beginning and end of the period

(3) When the presentation currency is different from the functional currency, disclose that fact together with the functional currency and the reason for using a different presentation currency

(4) A change in the functional currency of either the reporting entity or a significant foreign operation and the reason therefore

When an entity presents its financial statements in a currency that is different from its functional currency, it may describe those financial statements as complying with IFRS only if they comply with all the requirements of each applicable standard (including IAS 21) and each applicable interpretation.

CONVENIENCE TRANSLATION

Sometimes, an entity displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency simply by translating all amounts at end of period exchange rates. This is sometimes called a convenience translation. A result of making a convenience translation is that the resulting financial information does not comply with all IFRS, particularly IAS 21. In this case, the following disclosures are required:

(1) Clearly identify the information as supplementary information to distinguish it from the information that complies with IFRS

(2) Disclose the currency in which the supplementary information is displayed

(3) Disclose the entity's functional currency and the method of translation used to determine the supplementary information.

CONCLUSION AND REMARK

The above note is just a guide to help students in ACC 311. However, topics or sub topics not touched or extensively discussed will be done in class. We acknowledged all text books and materials used in preparing this note.

(1) Financial Accounting Made Simple- IFRS compliant by R.O. Igben

(2) Basic Business Accounting by Professor Dabor, E.L.

Thank you.

Agbonrha-Oghoye Imas IYOHA