

Question 2.1 – Clear pass – well laid out answer

	A	B	C
1	2.1.		
2	Matter (1):		
3	Rigatoni and Tagliatelle each subscribed for half of Spaguetti's shares and unanimous consent is required for all key operating decisions which means that Rigatoni does not control over Spaguetti.		
4	It is a joint venture and Rigatoni should therefore Equity account Spaguetti in its Financial statements.		
5	Rigatoni should not consolidate Spaguetti as the company does not have control.		
6	Equity accounting means initially recognising the investment at cost and subsequently recognising its share in the post acquisition profits of the Spaguetti.		
7	The cost of investment have been recognised at the correct amount however it should be presented in non-current assets as investment in Joint venture.		
8	The investment in Joint venture at year end will be increased by Rigatoni's share in the post acquisition profits of Spaguetti being $[15600 \times 50\%]$ 7800.		
9	The intercompany profit on sale of inventories should be eliminated but only Rigatoni's share.		
10	Selling price	125	5000
11	Cost	100	4000
12	Mark-up	25	1000
13	Rigatoni's share		50%
14	Intercompany sales to be eliminated		500
15			
16	The Statement of profit and loss will show an amount of $[7800-500]$ 7300 as Share of profit from Joint venture.		
17	The Statement of Financial Position will show an amount of $[50000+7800-500]$ 57300 as investment in Joint Venture.		
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19	Matter (2)		
20	The shares have been issued at a premium.		
21	The Share premium account in Equity should have been credited as well as the ordinary share capital account.		
22	The correct journal entry is:		
23	Dr Bank [75000*1.20]	90000	
24	Cr Ordinary share capital [75000*1]	75000	
25	Cr Share premium [75000*0.20]	15000	
26			
27	The adjusting journal entry is therefore:		
28	Dr Suspense Account	90000	
29	Cr Ordinary share capital	75000	
30	Cr Share premium	15000	
31			
32	The Statement of Financial Position will show an increase in Ordinary share capital of 75000 and share premium of 15000 in the Equity section.		
33	No changes will be made to the Statement of profit and loss.		
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35	Matter (3)		
36	The borrowing costs should have been capitalised to the asset as it is a qualifying asset.		
37	A qualifying asset is an asset that take substantial amount of time to produce.		
38	The funds were borrowed specifically to fund the construction therefore any re-investment of the fund will decrease the amount of borrowing costs to be capitalised.		
39	The capitalisation of the borrowing costs should start when the construction begin and end when the asset is ready for use.		
40	Calculation of borrowing costs to be capitalised:		
41	$200000 \times 6\% \times 10/12 =$	10000	
42	$((200000 - 120000) \times 2\% \times 9/12) =$	-1200	
43	Borrowing costs to be capitalised	8800	
44			
45	Depreciation on the capitalised costs should also be recognised		
46	$[(120000 + 80000 + 8800) / 10 \times 1/12] =$	1740	
47			
48	The borrowing costs expensed will be $[200000 \times 6\% \times 2/12]$	-2000	
49	The interest income on the deposit will be $[200000 \times 6\% \times 1/12]$	1000	
50	Net interest	-1000	
51			
52	The non-current asset will be shown in the statement of financial position at $[208800 - 1740]$ 207060.		
53	A net interest expense of 1000 will be shown in finance costs in the statement of profit and loss as well as depreciation of 1740.		

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55	Matter (4)		
56	The grant should be deferred over the condition of the grant which is 5 years.		
57	The company can choose to present it either as a net off of the expense or in other income.		
58	The condition that the 50% of its employees must be local is met on the 1 June 2018 as 60% of the new employees are local.		
59	Calculation:		
60	Amount recognised in profit or loss for the period $[72000/5*1/12]=$		1200
61	Amount to be deferred $[72000-1200] =$		70800
62			
63	The statement of financial liability will show an amount of $[72000/5]$ 14400 in the current liability under Deferred income and an amount of $[70800-14400]$ 56400 in Non-current liability under deferred income.		
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