



THE ANNUAL FINANCIAL REPORTING WEEK

DATE: 10th –14th September 2018

VENUE: HILTON HOTEL, NAIROBI, KENYA

Theme: *Reliance on enhanced financial reporting for economic growth and development*

CONFERENCE PROGRAM

Day Four: Friday, 14th September 2018

Illustrations

Illustration I

Yoghurty Limited decided to venture into the production of non-dairy yoghurt. The project team developed a list of cost headings for the acquisition of

- ☐ Recipes from an international chef;
- ☐ License to use a specialised chiller
- ☐ Registration of a trade name, and
- ☐ Training courses for management.

Required:

Advise management on the possibility of capitalising the above costs.

Illustration II: **Amortisation of an intangible asset with impairment**

- (a) Hargesa Limited developed a new product and capitalized an amount of Sh. 15 million as development costs between 31 July 2015 and 31 December 2015. On 1 January 2016, the useful life of the development cost is estimated at 5 years as the expected useful life of the product arising from the development costs is expected to be 5 years.

Required:

The journal entries to record the development costs in the year 2015 and 2016.

- (b) On 31 December 2017 a competitor introduced a new product that will shortly overtake the market held by the product of Hargesa Limited. On 31 December 2017 the management of the entity estimate that the remaining life of their market is 6 months before it will be taken over by the product of the competitor. On 31 December 2017 the recoverable amount of the asset is only Sh. 2000,000.

Required:

The journal entries for the year ended 31 December 2017.

Illustration II: Revaluation and realization of revaluation surplus

Theta Ltd holds a patent developed internally and can be traded on an active market. Patent Koi cost Sh. 9,000 000 to develop but only Sh. 2,400 000 of the cost could be capitalized. This was due to this patent only meeting the extended recognition criteria in terms of IAS 38 fairly late in its development phase. The patent met the appropriate criteria for revaluation and were revalued at the beginning of 2017.

The following other information relate to the patent:

The revaluation policy is affected by offsetting accumulation depreciation against the gross carrying amount. Depreciation is calculated on the most recent revalued amount. Revaluation surpluses realize as the asset is utilized.

	Patent Koi
Useful life	12 years
Date on which available for use	30 June 2016
Cost incurred 2015	Sh. 6,600 000
2016	Sh. 2400 000
Net replacement value at 31 January 2017	Sh.15,000,000

Required:

Journal entries for 2016 and 2017 (ignore taxation, but transfer realized portions of the revaluation surplus to retained earnings.)