



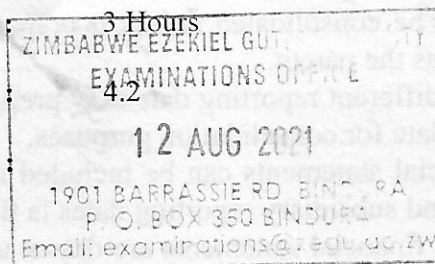
ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC407
COURSE TITLE : GROUP FINANCIAL REPORTING
DURATION : 3 Hours
LEVEL : 4.2
DATE : 12 AUG 2021



INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for Section B only.
4. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS: Each question carries [2 marks]

SELECT THE MOST APPROPRIATE ANSWER

1. When negative goodwill arises IFRS 3 Business combinations requires that the amounts involved in computing goodwill should first be reassessed. **When the amount of the negative goodwill has been confirmed, how should it be accounted for?**
 - A. Charged as an expense in profit or loss
 - B. Capitalised and presented under non-current assets
 - C. Credited to profit or loss
 - D. Shown as a deduction from non-current assets

2. **Which of the following is the criterion for treatment of an investment as an associate?**
 - A. Ownership of a majority of the equity shares
 - B. Ability to exercise control
 - C. Existence of significant influence
 - D. Exposure to variable returns from involvement with the investee

3. **Which TWO of the following statements are correct when preparing consolidated financial statements?**
 - I. A subsidiary cannot be consolidated unless it prepares financial statements to the same reporting date as the parent.
 - II. A subsidiary with a different reporting date may prepare additional statements up to the group reporting date for consolidation purposes.
 - III. A subsidiary's financial statements can be included in the consolidation if the gap between the parent and subsidiary reporting dates is five months or less.
 - IV. Where a subsidiary's financial statements are drawn up to a different reporting date from those of the parent, adjustments should be made for significant transactions or events occurring between the two reporting dates.

A. I and II B. II and III C. III and IV D. II and IV

4. IFRS 10 Consolidated financial statements provides a definition of control and identifies three separate elements of control. **Which one of the following is NOT one of these elements of control?**
 - A. Power over the investee
 - B. The power to participate in the financial and operating policies of the investee
 - C. Exposure to, or rights to, variable returns from its involvement with the investee
 - D. The ability to use its power over the investee to affect the amount of the investor's returns

5. Petre owns 100% of the share capital of the following companies. The directors are unsure of whether the investments should be consolidated.
In which of the following circumstances would the investment NOT be consolidated?

- A. Petre has decided to sell its investment in Alpha as it is loss-making; the directors believe its exclusion from consolidation would assist users in predicting the group's future profits
 - B. Beta is a bank and its activity is so different from the engineering activities of the rest of the group that it would be meaningless to consolidate it
 - C. Delta is located in a country where local accounting standards are compulsory and these are not compatible with IFRS used by the rest of the group
 - D. Gamma is located in a country where a military coup has taken place and Petre has lost control of the investment for the foreseeable future
6. Makore obtained a 60% holding in the 100,000 \$1 shares of Mhute on 1 January 2018, when the retained earnings of Mhute were \$850,000. Consideration comprised \$250,000 cash, \$400,000 payable on 1 January 2019 and one share in Makore for each two shares acquired. Makore has a cost of capital of 8% and the market value of its shares on 1 January 2018 was \$2.30.

Makore measures non-controlling interest at fair value. The fair value of the non-controlling interest at 1 January 2018 was estimated to be \$400,000.

What was the goodwill arising on acquisition?

- A. \$139,370 B. \$169,000 C. \$119,370 D. \$130,370
7. On 1 August 2017, Patronic purchased 18 million of the 24 million \$1 equity shares of Sardonic. The acquisition was through a share exchange of two shares in Patronic for every three shares in Sardonic. The market price of a share in Patronic at 1 August 2017 was \$5.75. Patronic will also pay in cash on 31 July 2019 (two years after acquisition) \$2.42 per acquired share of Sardonic. Patronic's cost of capital is 10% per annum.

What is the amount of the consideration attributable to Patronic for the acquisition of Sardonic?

- A. \$105 million B. \$139.5 million C. \$108.2 million D. \$103.8 million
8. Phantom acquired 70% of the \$100,000 equity share capital of Ghost, its only subsidiary, for \$200,000 on 1 January 2019 when the retained earnings of Ghost were \$156,000. At 31 December 2019, retained earnings are as follows.

	\$
Phantom	275,000
Ghost	177,000

Phantom considers that goodwill on acquisition is impaired by 50%. Non-controlling interest is measured at fair value, estimated at \$82,800.

What are group retained earnings at 31 December 2019?

- A. \$276,300 B. \$289,700 C. \$280,320 D. \$269,200
9. Wiley acquired 80% of Coyote on 1 January 2018. At the date of acquisition, Coyote had a building, which had a fair value of \$22 million and a carrying amount of \$20 million. The remaining useful life was 20 years. Coyote's profit for the year to 30 June 2018 was \$1.6 million, which accrued evenly throughout the year.

Wiley measures non-controlling interest at fair value. At 30 June 2018, it was estimated that goodwill in Coyote was impaired by \$500,000.

What is the total comprehensive income attributable to the non-controlling interest at 30 June 2018?

- A. \$40,000 B. \$50,000 C. \$187,500 D. \$150,000

10. Extracts from the statements of financial position of Nedburg are as follows. Statements of financial position as at 30 September:

	2020	2019
	\$m	\$m
Ordinary shares of \$1 each	750	500
Share premium	350	100

On 1 October 2019 a bonus issue of one new share for every 10 held was made, financed from the share premium account. This was followed by a further issue for cash.

What amount will appear under 'cash flows from financing activities' in the statement of cash flows of Nedburg for the year ended 30 September 2020 in respect of share issues?

- A. \$500 million B. \$450 million C. \$550 million D. \$250 million

[Total 20 marks]

SECTION B: ANSWER ALL QUESTIONS. Begin each question on a new page.

Question 1

The draft statements of financial position as at 31 December 2020 were as follows:

	CHIMUTI	GUMUNYU	NYASHANU
	\$000	\$000	\$000
NON CURRENT ASSETS			
Plant and equipment	1,120	980	840
Investment: 672000shares in Gumunyu	644	-	-
Investment: 168000shares in Nyashanu	224	-	-
	1,988	980	840
CURRENT ASSETS:			
Inventory	380	640	190
Receivables	190	310	100
Bank	35	58	46
	2,593	1,988	1,176
EQUITY			
Ordinary share capital at \$1 each	1,120	840	560
Share premium	-	-	-
Retained earnings	1,232	602	448
	2,352	1,442	1,008
CURRENT LIABILITIES			
Payables	150	480	136
Taxation	91	66	32
	2,593	1,988	1,176

You are also given the following information:

- 1) Chimuti acquired its shares in Gumunyu on 1 January 2020 when Gumunyu had retained losses of \$56,000.
- 2) Chimuti acquired its shares in Nyashanu on 1 January 2020 when Nyashanu had retained earnings of \$140,000.
- 3) An impairment test at the year-end shows that goodwill for Gumunyu remains unimpaired but the investment in Nyashanu has impaired by \$2,800.
- 4) The Chimuti Group values the non-controlling interest using the fair value method. The fair value on 1 January 2020 was \$160,000.

Required:

Prepare the consolidated statement of financial position for the year ended 31 December 2020. **[25marks]**

Question 2

Grays group draft consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020:

	\$000
Revenue	20,037
Cost of sales	(14,208)
Gross profit	5,829
Distribution costs	(1,200)
Administration costs	(609)
Income from operating activities	4,020
Income from associates	1,000
Profit on disposal of tangible non-current assets	300
Investment income	320
Interest payable	(180)
Profit before taxation	5,460
Income tax expense (including tax on income of associate \$275 000)	(1,400)
Profit for the year	4,060
Other comprehensive income:	
Items that will not be reclassified to profit or loss in future periods:	
Revaluation surplus for the year	1,000
Total comprehensive income for the year	5,060
Total comprehensive income for the year attributable to:	
Equity holders of the parent	4,850
Non-controlling interest	210
Total comprehensive income for the year	5,060

Grays group consolidated statement of financial position as at 31 December 2020

	Notes	2020	2019
		\$000	\$000
ASSETS			
Non-current assets			
Intangible assets		220	0
Property, plant and equipment	(ii) , (iii)	9050	5500
Financial assets held for trading	(iv)	2700	2700
Investment in Associate		2400	1900
		14,370	10,100
Current assets			
Inventories		4320	2500
Trade receivables		3850	2800
Cash and cash equivalents		7481	1772
Total assets		30,021	17,172

EQUITY AND LIABILITIES			
Equity share capital		7,880	5,000
Share premium		5,766	3,190
Revaluation reserve		1,000	-
Retained interest		7,450	5,100
Non- controlling interest		275	-
Total equity		22,371	13,290
Non-current liabilities			
Finance lease obligation		1,500	400
Interest bearing borrowings		3,000	1,500
Deferred tax		120	52
Current liabilities			
Trade payables		1,500	1,000
Finance lease obligation		500	420
Income tax		950	450
Accrued interest		80	60
Total equity and liabilities		30,021	17,172

Notes:

The following information is relevant to the Grays Group:

- (i) Grays acquired 80% holding in Gamariel on 1 September 2020. The fair value of the net assets of Gamariel at that date were as follows:

	\$000
Tangible non-current assets	330
Inventories	63
Trade receivables	70
Cash and cash equivalents	210
Trade payables	(134)
Tax	(34)
	505

The total purchase consideration was \$640 000 and comprised 400 000 equity shares issued by Grays Limited, together with \$30 000 in cash. Goodwill is accounted for using the full goodwill method. At the date of acquisition, the fair value of the non-controlling interest in Gamariel was \$125 000.

- (ii) There were no acquisitions or disposals of buildings during the year. Plant and equipment costing \$1.5 million was sold for \$1.5 million. Of the new acquisitions of plant and equipment during the year, \$1.8 million were acquired under finance leases. During the year, land and buildings were revalued and a revaluation surplus of \$1 million was recorded.
- (iii) A summary of carrying values of property, plant and equipment at each reporting date is as follows:

	2019	2020
	\$000	\$000
Land and buildings	5,150	4,500
Plant and equipment – cost	6,400	3,000
Plant and equipment - accumulated depreciation	(2,500)	(2,000)
	9,050	5,500

(iv) During the year, financial instruments, which were classified as liabilities, were the finance cost attributable to the discount in respect of the year to 31 Dec 2020 issued at a discount. The carrying value of the loan includes \$90 000 representing the finance cost attributable to the discount in respect of the year to 31 Dec 2020.

(v) The financial assets held for trading were valued at \$2,3 million at 31 Dec 2020.

Required:

Prepare group statement of cash flows using the direct method for the year ended 31 December 2020.

[30marks]

Question 3

Set out below are the draft statements of profit or loss of Moyana and its subsidiary company Gono for the year ended 31 July 2020.

On 1 August 2019, Moyana purchased 75,000 ordinary shares in Gono from an issued share capital of 100,000 \$1 ordinary shares.

Statements of profit or loss for the year ended 31 July 2020.

	Moyana	Gono
	\$'000	\$'000
Revenue	600	300
Cost of sales	(360)	(140)
Gross profit	240	160
Operating expenses	(93)	(45)
Profit from operations	147	115
Finance costs	-	(3)
Profit before taxation	147	112
Taxation	(50)	(32)
Profit for the year	97	80

The following additional information is relevant:

1. During the year, Moyana sold goods to Gono for \$20,000, making a mark-up of one third. Only 20% of these goods were sold before the end of the year, the rest were still in inventory.
2. Goodwill has been subject to an impairment review at the end of each year since acquisition and the review at the end of this year revealed another impairment of \$5,000. The current impairment is to be recognised as an operating cost.

3. At the date of acquisition a fair value adjustment was made and this has resulted in an additional depreciation charge for the current year of \$15,000. It is group policy that all depreciation is charged to cost of sales.
4. Moyana values the non-controlling interests using the fair value method.

Required:

Prepare the consolidated statement of comprehensive income for the year ended 31 July 2020.

[25marks]

END OF EXAMINATION QUESTION PAPER
