



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 :

15 FEB 2022

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 2marks)

SELECT THE MOST APPROPRIATE ANSWER

1. Mamoyo acquired 80% of the 100,000 \$1 equity shares of Mirirai on 1 January 2017. The consideration consisted of one Mamoyo share for each two shares in Mirirai and \$300,000 cash. The market price of a Mamoyo share at 1 January 2017 was \$2.50 and the market price of a Mirirai share on the same date was \$1.75. Mamoyo measure non-controlling interest at fair value based on share price. At the acquisition date Mirirai had retained earnings of \$85,000 and \$100,000 in revaluation surplus. Its head office building had a fair value \$60,000 in excess of its carrying amount.

Calculate the goodwill on acquisition?

- A \$190,000 B \$55,000 C \$90,000 D \$75,000

2. Fishbonga has owned 75% of Muramba for a number of years. During the year to 31 December 2018 Muramba sold goods to Catfish for \$75,000. Fishbonga had resold 40% of these goods by the year end. Muramba applies a 25% mark-up on all sales.

By what amount should the consolidated retained earnings of Fishbonga at 31 December 2018 be reduced in respect of these intragroup sales?

- A \$33,750 B \$6,750 C \$8,438 D \$9,000

3. Dzetse acquired 80% of Burunya on 1 April 2017. The individual financial statements of Dzetse and Burunya for the year ended 31 December 2017 showed revenue of \$280,000 and \$190,000 respectively. In the post-acquisition period Burunya sold goods priced at \$40,000 to Dzetse. 50% of these goods were still held in inventory by Dzetse at the end of the year.

What was group revenue in the consolidated statement of profit or loss for the year ended 31 December 2017?

- A \$392,500 B \$402,500 C \$450,000 D \$382,500.

4. Python obtained 30% of the equity shares of Cobra on 1 June 2018 for \$700,000. It is able to exercise significant influence over Cobra. During the year to 31 May 2019 Cobra made sales of \$200,000 to Python, priced at cost plus 25% mark-up. Python still had 50% of these goods in inventory at the year end. Cobra's statement of profit or loss for the year ended 31 May 2019 shows profit for the year of \$650,000.

What amount should be shown as 'investment in associate' in the consolidated statement of financial position of Python as at 31 May 2019?

- A \$895,000 B \$875,000 C \$835,000 D \$870,000

5. Which of the following will be treated as part of the cost of inventories?

- i. Import duties on raw materials
- ii. Labour involved in production
- iii. Distribution costs.
- iv. Fixed production overheads
- v. Storage costs of finished goods
- vi. Cost of wasted materials

A i, ii, vi

B ii, iv, v

C iii, iv, vi

D i, ii, iv

6. Which one of the following is not an advantage of cash flow accounting?
- A. It directs attention towards an entity's ability to generate cash, which is needed for survival
 - B. It provides valuable information for creditors and lenders
 - C. It matches related items in accordance with the accruals concept
 - D. It provides a better means of comparing the results of different entities than the other financial statements
7. On 1 April 2015 Thames Co acquired 80% of Avon Co.'s 100,000 \$1 ordinary shares. Goodwill acquired in the business combination was \$50,000, of which 40% had been written off by 31 March 2017. NCI was measured at full fair value. At the disposal date, NCI was measured at \$58,000. On 1 April 2017 Thames Co sold all of its shares in Avon Co for \$200,000, when Avon Co.'s retained earnings amounted to \$140,000.

Calculate the loss on disposal that should be recognised in the consolidated statement of profit or loss of Thames Co for the year ended 31 March 2017?

A \$16,000

B \$12,000

C \$22,000

D \$70,000

8. Peter acquired 90% of the share capital of Saul at 1 January 2012. At this date, Saul's net assets were \$100,000 and goodwill was correctly calculated at \$30,000. At 1 January 2015 the net assets of Saul were \$140,000 and goodwill had been impaired by \$20,000. At the same date Peter's retained earnings were \$70,000. The non-controlling interest is valued using the fair value method.

Compute the total group retained earnings at 1 January 2015?

A \$60,000

B \$75,000

C \$88,000

D \$100,000

9. On 1 July 2019, Piwai purchased 90% of the shares in Solo and 40% of the shares in Angirai. Extracts from the statements of profit or loss are shown below:

	Piwai	Solo	Angirai
	\$000	\$000	\$000
Profit before tax	300	(80)	90
Tax	(80)	20	(20)
Profit for the year	220	(60)	70

During the year, goodwill was impaired by \$10,000. The NCI was valued using the fair value method.

Calculate the profit attributable to Piwai's shareholders in the consolidated statement of profit or loss for the year ended 31 December 2019?

A \$84,000

B \$85,000

C \$97,000

D \$98,000

- 10.** On 1 January 2018, Panda purchased 30% of the shares in Agile for \$350,000. At this date Agile's net assets stood at \$700,000. At 31 December 2018, Agile has net assets of \$750,000. Panda sold goods worth \$80,000 to Agile at a margin of 25%. Half of these goods remain in inventory at the year end.

Calculate the value of the investment in associate as at 31 December 2018?

A \$345,000

B \$355,000

C \$359,000

D \$362,000

[Total 20marks]

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

Question 1

Phepha acquired 80% of the share capital of Sibiya two years ago when the reserves of Sibiya stood at \$125,000. Phepha paid an initial cash consideration of \$1 million. In addition, Phepha issued 200,000 shares with a nominal value of \$1 and a current market value of \$1.80. It was also agreed that Phepha would pay a further \$500,000 in three years' time. Current interest rates are 10% p.a. The appropriate discount factor for \$1 receivable three years from now is 0.751. The share and deferred consideration have not yet been recorded.

Below are the statements of financial position of Phepha and Sibiya as at 31 December 2019:

	Phepha	Sibiya
	\$'000	\$'000
Non-current assets		
Property, plant and equipment	5,500	1,500
Investment in Sibiya	1,000	-
Total Non-current assets	6,500	1,500
Current assets:		
Inventory	550	100
Receivable	400	200
Cash	200	50
	7,650	1,850
Equity:		
Share capital	2,000	500
Retained earnings	1,400	300
	3,400	800
Liabilities:		
Non-current liabilities	3,000	400
Current liabilities	1,250	650
	7,650	1,850

The following information is also available:

- 1) At acquisition the fair values of Sibiya's plant exceeded its book value by \$200,000. The plant had a remaining useful life of 5 years at this date.
- 2) For many years Sibiya has been selling some of its products under the brand name Menthol. At the date of acquisition the directors of Phepha valued this brand at \$250,000 with a remaining life of 10 years. The brand is not included in Sibiya's statement of financial position.
- 3) The consolidated goodwill has been impaired by \$258,000.

Calculate the profit attributable to Piwai's shareholders in the consolidated statement of profit or loss for the year ended 31 December 2019?

A \$84,000

B \$85,000

C \$97,000

D \$98,000

10. On 1 January 2018, Panda purchased 30% of the shares in Agile for \$350,000. At this date Agile's net assets stood at \$700,000. At 31 December 2018, Agile has net assets of \$750,000. Panda sold goods worth \$80,000 to Agile at a margin of 25%. Half of these goods remain in inventory at the year end.

Calculate the value of the investment in associate as at 31 December 2018?

A \$345,000

B \$355,000

C \$359,000

D \$362,000

[Total 20marks]

- 4) The Phepha Group values the non-controlling interest using the fair value method. At the date of acquisition the fair value of the 20% non-controlling interest was \$380,000.

Required:

- a) Prepare the consolidated statement of financial position as at 31 December 2019 [20marks].
- b) Explain why consolidated financial statements are useful to the users of financial statements (as opposed to just the parent company's separate (entity) financial statements). [5marks]
- [Total 25marks]**

Question 2

- a) Explain what is meant by the terms:
- i. Joint arrangement
 - ii. Joint control. [5marks]
- b) Distinguish between joint operations and joint ventures. Outline the accounting treatment prescribed for each of these by standard IFRS11 *Joint Arrangements*. [15marks]
- [Total 20marks]**

Question 3

Phiko acquired 80% of Sonai on 1 December 2014 paying \$4.25 in cash per share. At this date the balance on Sonai's retained earnings was \$870,000. On 1 March 2017 P acquired 30% of Azaya's ordinary shares. The consideration was settled by share exchange of 4 new shares in Phiko for every 3 shares acquired in Azaya. The share price of Phiko at the date of acquisition was \$5.00. Phiko has not yet recorded the acquisition of Azaya in its books.

Below are the statements of financial position of three companies as at 30 November 2017.

	Phiko	Sonai	Azaya
	\$,000	\$,000	\$,000
Non-current assets:			
Property	1,300	850	900
Plant and equipment	450	210	150
Investments	1,825	-	-
	3,575	1,060	1,050
Current assets:			
Inventory	550	230	200
Receivables	300	340	400
Cash	120	50	140
	970	620	740
Total assets	4,545	1,680	1,790
Equity			
\$1 Ordinary shares capital	1,800	500	250
Share Premium	250	80	-
Retained earnings	1,145	400	1,200
	3,195	980	1,450
Non-current liabilities:			
10% Loan notes	500	300	-
Current liabilities:			
Trade payables	520	330	250
Taxation	330	70	90
	1,350	700	340
Total equity and liabilities	4,545	1,680	1,790

The following information is relevant:

- As at 1 December 2014, plant in the books of Sonai was determined to have a fair value of \$50,000 in excess of its carrying amount. The plant had a remaining life of 5 years at this time.
- During the post-acquisition period, Sonai sold goods to Phiko for \$400,000 at a mark-up of 25%. Phiko had a quarter of these goods still in inventory at the year-end.

- 3. In September Azaya sold goods to Phiko for \$150,000. These goods had cost Azaya \$100,000. Phiko had \$90,000 (at cost to P) in inventory at the year end.
- 4. As a result of the above intercompany sales, Phiko's books showed \$50,000 and \$20,000 as owing to Sonai and Azaya respectively at the year end. These balances agreed with the amounts recorded in Sonai's and Azaya's books.
- 5. Non-controlling interests are measured using the fair value method. The fair value of the non-controlling interest at the date of acquisition was \$368,000. Goodwill has impaired by \$150,000 at the reporting date. An impairment review found the investment in the associate was to be impaired by \$15,000 at the year end.
- 6. Azaya's profit after tax for the year is \$600,000.

Required:

- a) Prepare the consolidated statement of financial position for the year ended 30 November 2017. [30marks]
 - b) Explain what is meant by:
 - i. associate and
 - ii. significant influence [5marks]
- [Total 35marks]**

END OF EXAMINATION PAPER