



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
SPECIAL REQUIREMENTS : NONE
DURATION : 3 Hours **08 JUL 2022**
LEVEL : 4.2
DATE :

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 two marks.

Select the most appropriate answer

1. Hanirai acquired 70% of Sarai's equity shares on 1 July 2021 for \$342,000. On 1 July 2021 the property plant and equipment of Sarai had a fair value of \$325,000 and a book value of \$350,000. On the acquisition date Sarai also has an internally generated brand name worth \$50,000 and disclosed a contingent liability with a value of \$20,000. The fair value of the NCI on the 1 July 2021 was 50,000 Sarai has \$200,000 \$1 equity shares in issue and at 1 July 2021 its reserves comprised share premium of \$40,000 and retained earnings of \$62,000.

What is the value of the goodwill arising on the acquisition of Sarai?

- A. \$35,000
- B. \$85,000
- C. \$45,000
- D. \$135,000

The following information relates to questions 2, 3 & 4:

Nketa acquired 80% of Paisa's equity shares on 1 July 2018 for \$550,000. On 1 July 2018 the property plant and equipment of Paisa had a fair value of \$400,000 and a book value of \$325,000. The property plant and equipment had a useful economic life of 5 years at that time. On the acquisition date Paisa also has an internally generated brand name worth \$30,000 which was assessed to have a useful economic life of 30 years. The fair value of the NCI on the 1 July 2021 was \$80,000 On 30 June 2021 the goodwill arising on acquisition was impairment tested and found to be impaired by 20%. Paisa has \$300,000 \$1 equity shares in issue at 1 July 2018 and had retained earnings of \$162,000. By 30 June 2021 Paisa had retained earnings of \$260,000 and Nketa had retained earnings of \$827,000

2. What is the value of the goodwill arising on the acquisition of Paisa?

- A. \$134,400
- B. \$74,400
- C. \$63,000
- D. \$50,400

3. What is the value of the NCI at 30 June 2021?

- A. \$87,480
- B. \$92,520
- C. \$90,000
- D. \$127,480

4. What is the value of the Group retained earnings at 30 June 2021?

- A. \$877,080
- B. \$867,000
- C. \$856,920
- D. \$866,920

5. On 1 November 2018, Funasi acquired 65% of Aneswi 50,000 equity shares by means of a share exchange of three new shares in Funasi for every five acquired shares in Astuta. In addition, Funasi issued to the shareholders of Aneswi two \$100 10% loan note for

every 2,500 shares it acquired in Aneswi. The share price of Funasi on the date of acquisition was \$5 whilst the share price of Aneswi was \$2.

What was the value of the consideration paid for Aneswi?

- A. \$152,600
- B. \$41,600
- C. \$100,100
- D. \$98,800

6. On 1 July 2021, Wanai acquired 70% of the equity share capital of Muchena. Extracts of their statements of profit or loss for the year ended 30 September 2021 are:

	Wanai \$'000	Muchena \$'000
Revenue	35,000	26,000
Cost of sales	(23,000)	(14,000)

Sales from Wanai to Muchena throughout the year ended 30 September 2021 had consistently been \$500,000 per month. Wanai made a mark-up on cost of 30% on these sales. Muchena had \$260,000 of these goods in inventory as at 30 September 2021. What would be the cost of sales in Wanai's consolidated statement of profit or loss for the year ended 30 September 2021?

- A. \$27.00 million
- B. \$28.56 million
- C. \$35.56 million
- D. \$27.06 million

7. On 1 January 2021, Jenya acquired 70% of the equity share capital of Pingai. Extracts of their statements of profit or loss for the year ended 30 September 2021 are:

	Jenya \$'000	Pingai \$'000
Revenue	50,000	23,000
Cost of sales	(32,000)	(11,000)

Sales from Jenya to Pingai throughout the year ended 30 September 2021 had consistently been \$200,000 per month. At the date of acquisition some plant that was valued at \$30m in the Financial Statements of Pingai had a fair value of \$33m and a remaining useful economic life of 10 years.

What would be the cost of sales in Jenya's consolidated statement of profit or loss for the year ended 30 September 2021?

- A. \$38.450 million
- B. \$38.675 million
- C. \$41.425 million
- D. \$40.250 million

8. On 1 July 2021, Deke acquired 70% of the equity share capital of Karu. Extracts of the Group statements of profit or loss for the year ended 30 September 2021 are:

	\$
Revenue	700,000
Cost of sales	465,000
Distribution costs	64,000
Taxation	32,000

At the date of acquisition some plant that was valued at \$80,000 in the Financial Statements of Karu had a fair value of \$100,000 and a remaining useful economic life of 5 years. Sales from Karu to Deke were \$134,000 at a margin of 20% since the acquisition of which 40% has been sold on by Deke. These adjustments have already been reflected in the above figures.

What is the Profit attributable to the NCI in the consolidated Statement of Profit or Loss to 30 September 2021?

- A. \$41,700
- B. \$35,876
- C. \$38,184
- D. \$36,576

9. Howe sold goods to Soda, its 100% owned subsidiary on 1 February 2022. The goods were sold to Soda for \$48,000. Howe made a profit of 33.33% on the original cost of the goods. At the year-end, 30 June 2022, 40% of the goods had been sold by Soda, the balance were still in Soda's inventory and Soda had not paid for any of the goods.

Which ONE of the following states the correct adjustments required in the Howe group's consolidated statement of financial position at 30 June 2022?

- A. Reduce inventory and retained earnings by \$7,200 and Reduce payables and receivables by \$7,200
- B. Reduce inventory and retained earnings by \$9,600 and Reduce payables and receivables by \$9,600
- C. Reduce inventory and retained earnings by \$7,200 and Reduce payables and receivables by \$48,000
- D. Reduce inventory and retained earnings by \$9,600 and Reduce payables and receivables by \$48,000

10. Dowi sold goods to Pari. Dowi is PR's 80% owned subsidiary on 1 February 2020. The goods were sold to Pari for \$90,000. Dowi made a profit of 25% on the original cost of the goods. At the year-end, 30 June 2020, 30% of the goods had been sold by Pari, the balance were still in Pari's inventory and Pari had not paid for any of the goods.

Which ONE of the following states the correct adjustments required in the Dowi group's consolidated statement of financial position at 30 June 2020?

- A. Reduce inventory and retained earnings by \$12,600 and Reduce payables and receivables by \$12,600.
- B. Reduce inventory by \$12,600, the NCI by \$2,520, retained earnings by \$10,080 and Reduce payables and receivables by \$90,000.
- C. Reduce inventory and retained earnings by \$15,750 and Reduce payables and receivables by \$15,750.

- D. Reduce inventory by \$15,750, the NCI by \$3,150, retained earnings by \$12,600 and Reduce payables and receivables by \$90,000.

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

Question 1

The financial statements of Mulato Ltd and its subsidiaries for the year ended 31 December 2021 were as follows:

Mulato consolidated statement of financial position as at 31 December 2021

	2020	2021
	\$	\$
Non-current assets:		
Property, plant and equipment	171,900	335,700
Accumulated depreciation	(95,400)	(130,500)
Carrying amounts	76,500	205,200
Investments	225,000	225,000
	301,500	430,200
Current assets:		
Inventory	175,500	90,000
Accounts receivables	108,000	171,000
Cash and cash equivalents	14,400	20,700
Total Assests	599,400	711,900
Equity:		
Share capital	112,500	135,000
Retained earnings	124,200	290,700
	236,700	425,700
Non-current liabilities:		
Long term loans	93,600	207,000
Current liabilities:		
Accounts payables	170,100	22,500
Interest payable	90,000	20,700
Income tax payable	9,000	36,000
Total Equity and Liabilities	599,400	711,900

Mulato consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021.

	\$
Gross revenue	2,758,500
Cost of sales	(2,340,000)
Gross Profit	418,500
Depreciation	(40,500)
Administrative & selling expenses	(81,900)
Interest expenses	(36,000)
Investment income	45,000
Foreign exchange loss	(3,600)
Profit before tax	301,500
Tax expense	(27,000)
Profit after taxation	274,500

The following information is also relevant:

- a) During the year the holding company acquired all the shares of the subsidiary \$53,100.
The fair values of the assets acquired and liabilities assumed were as follows:

	\$
Inventories	9,000
Accounts receivables	9,000
Cash	3,600
Property, plant & equipment	58,500
Accounts payables	9,000
Long term loans	18,000

- b) \$22,500 was raised from the issue of shares.
c) Dividends paid amounted to \$108,000.
d) During the year the group paid \$112,500 to acquire additional PPE.
e) Plant which had cost \$7,200 and which had accumulated depreciation of \$5,400 was sold for \$19,800.
f) The company lost foreign currency cash amount equivalent to \$3,600 due to theft which was only discovered only on the 5th of January 2021 upon handover takeover process.

Required:

Prepare the consolidated statement of cash flows using the direct method.

[Total 30 marks]

Question 2

Hondo ltd acquired 80% of the share capital of Murenga Ltd on 1st January 2019, when the retained earnings of Murenga limited were \$250,000. Hondo ltd paid an initial consideration of \$2million. In addition, Hondo ltd issued 400,000 ordinary shares consideration with a market value of \$1.80 per share on date of acquisition. It was also agreed that that Hondo limited would pay a further \$1million in three years' time (1 January 2022). The current interest rates are at 10% per annum. The shares and deferred consideration have not yet been recorded by Hondo ltd. Hondo ltd Group measures non-controlling interest using the fair value model. At the date of acquisition the fair value of Non-controlling interest was \$760,000. At end of 2018 goodwill was tested for impairment and it was established that the goodwill had impaired by ¼ of its value.

The following are statements of financial positions of the two companies as at 31 December 2020.

	Hondo Ltd	Murenga Ltd
	\$	\$
Non-current assets:		
Property, plant and equipment	11,000,000	3,000,000
Investment in Murenga Ltd	2,000,000	-
	13,000,000	3,000,000
Current Assets:		
Inventory	1,100,000	200,000
Trade and other receivables	800,000	400,000
Cash	400,000	100,000
Total Assets	15,300,000	3,700,000
Equity:		
Share Capital	4,000,000	1,000,000
Retained earnings	2,800,000	600,000
	6,800,000	1,600,000
Non-current liabilities:		
Long term loan	6,000,000	800,000
Current liabilities:		
Trade and other payables	2,500,000	1,300,000
Total Equity and liabilities	15,300,000	3,700,000

Required:

Prepare the consolidated statement of financial position as at 31 December 2020.

[Total 25marks]