



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 :

01 DEC 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' 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	<b>220</b>	<b>(60)</b>	<b>70</b>

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 \$1million. 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:**

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

**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.

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

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]

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**END OF EXAMINATION PAPER**