

4. Dowell sold goods to Prodorite. Dowell is Prodorite's 80% owned subsidiary on 1 February 2018. The goods were sold to Prodorite for \$90,000. Dowell made a profit of 25% on the original cost of the goods. At the year-end, 30 June 2018, 30% of the goods had been sold by Prodorite, the balance were still in Prodorite's inventory and Prodorite had not paid for any of the goods.

Which ONE of the following states the correct adjustments required in the Prodorite group's consolidated statement of financial position at 30 June 2018?

- 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.

5. How should gain on sale of an office building owned by the entity be presented in a statement of cash flows?

- A. As an inflow in the investing activities section of the statement of cash flow because it pertains to a long-term asset.
- B. As an inflow in the "financing activities" section of the statement of cash flow because the building was constructed with a long-term loan from a bank that needs to be repaid from the sale proceeds.
- C. As an adjustment to the net income in the "operating activities" section of the statement of cash flow prepared under the indirect method.
- D. Added to the sale proceeds and presented in the "investing activities" section of the statement of cash flow.

6. How should repayment of a long-term loan comprising repayment of the principal amount and interest due to date on the loan be treated in a statement of cash flow?

- A. The repayment of the principal portion of the loan is a cash flow belonging in the "investing activities" section; the interest payment belongs either in the "operating activities" section or the "financing activities" section.
- B. The repayment of the principal portion of the loan is a cash flow belonging in the "investing activities" section; the interest payment belongs either in the "operating activities" section or the "investing activities" section.
- C. The repayment of the principal portion of the loan is a cash flow belonging in the "investing activities" section; the interest payment belongs in the "operating activities" section (because IAS 7 does not permit any alternatives in case of interest payments).
- D. The repayment of the principal portion of the loan is a cash flow belonging in the "investing activities" section; the interest payment should be netted against interest received on bank deposits, and the net amount of interest should be disclosed in the "operating activities" section.

7. If the investor ceases to have significant influence over an associate, how should the investment be treated?

- A. It should still be treated using equity accounting.

SECTION A: ANSWER ALL QUESTIONS

SELECT THE MOST APPROPRIATE ANSWER

1. Pratley acquired 80% of Sable's ordinary shares on 1 January 2018 for \$1,500,000 when Sable's retained earnings were \$254,000. At 1 January 2018 the carrying value of the net assets of Sable exceeded their fair value by \$110,000 and the fair value of the Noncontrolling Interest was \$300,000. The remaining useful life of the assets was 11 years from acquisition. Sable has not issued any new shares since acquisition by Pratley. Sable is Pratley's only subsidiary.

| | \$ |
|------------------------|---------|
| Ordinary share capital | 400,000 |
| Share premium | 26,000 |
| Retained earnings | 424,000 |

The retained earnings of Pratley were \$2,100,000 at 31 December 2020.

What is the amount that Pratley should include in its consolidated statement of financial position as at 31 December 2020 for Retained Earnings?

- A. \$2,260,000 B. \$2,212,000 C. \$2,236,000 D. \$2,620,000

2. Harurwa acquired 70% of Semba's equity shares on 1 July 2019 for \$342,000. On 1 July 2019 the property plant and equipment of Semba had a fair value of \$325,000 and a book value of \$350,000. On the acquisition date Semba 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 2019 was 50,000 Semba has \$200,000 \$1 equity shares in issue and at 1 July 2019 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 Semba?

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

3. On 1 July 2014, Dougie acquired 70% of the equity share capital of Karinga. Extracts of the Group statements of profit or loss for the year ended 30 September 2014 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 Karinga had a fair value of \$100,000 and a remaining useful economic life of 5 years. Sales from Karinga to Dougie were \$134,000 at a margin of 20% since the acquisition of which 40% has been sold on by Dougie. 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 2014?

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



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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 :

printed

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 []

- B. It should be treated in accordance with IFRS 9.
- C. The investment should be frozen at the date at which the investor ceases to have significant influence.
- D. The investment should be treated at cost.

8. Priska Co owns 25% of Rina Co's equity and 75% of Quadchem Co's equity. Quadchem Co owns 40% of Rina Co's equity.

What is the total non-controlling interest percentage ownership in R Co?

- A. 70%
- B. 45%
- C. 19%
- D. 60%

9. Phiri acquired 80% of the shares in Sena on 1 January 2017 when the balance on the retained earnings was \$15,000. Phiri went on to acquire 10% of the shares in Sita Soma on 1 January 2018. On the same date 1 January 2018, Sena acquired 75% of the shares in Sita Soma when that company's retained earnings was \$23,000.

What is the effective control of Phiri in Sita Soma?

- A. 20%
- B. 90%
- C. 70%
- D. 85%

[Total 20 marks]

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

Question 1

Guru has held shares in three companies, Marara, Koko and Solani for years. As at 31 December 2019, they have the following statements of financial position:

| | Guru | Marara | Koko | Solani |
|-------------------------------------|---------------|---------------|---------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Non-Current Assets: | | | | |
| Property, plant and equipment | 370 | 500 | 190 | 260 |
| Investments | 1,218 | - | - | - |
| | 1,588 | 500 | 190 | 260 |
| Current Assets: | | | | |
| Inventories | 160 | 400 | 100 | 180 |
| Trade receivables | 170 | 250 | 90 | 100 |
| Cash | 50 | 200 | 40 | 10 |
| Total Assets | 1,968 | 1,350 | 420 | 550 |
| Equity: | | | | |
| Ordinary Share Capital of \$1 each | 200 | 700 | 80 | 50 |
| Share Premium | 100 | 200 | 80 | 30 |
| Retained Earnings | 568 | 230 | 200 | 400 |
| | 868 | 1,130 | 360 | 480 |
| Non-current liabilities: | | | | |
| Long-term loan | 1,000 | - | - | - |
| Current Liabilities: | | | | |
| Trade payables | 100 | 220 | 60 | 70 |
| Total equity and liabilities | 1,968 | 1,350 | 420 | 550 |

The following information is also relevant:

- The investments in the statement of financial position comprises solely of Guru investments in Marara (\$1,000,000), Koko (\$128,000), and Solani (\$90,000). Marara's assets, liabilities and contingent liabilities were equal to their book values.
- The 700,000 shares in Marara were acquired when the retained earnings were \$100,000. The 48,000 shares in Koko were acquired when Koko's retained earnings stood at \$20,000. The 15,000 shares in Solani were acquired when that company's retained earnings balance was \$150,000.
- When Guru acquired its shares in Koko the fair value of Koko's net assets equalled their book values with the following exceptions:
 - PPE \$50,000 higher
 - Inventories \$20,000 lower (sold during 2019).
 - Depreciation arising on the fair value adjustments to non-current assets since this date is \$5,000.
- During the year Guru sold inventories to Koko for \$16,000 which originally cost Guru \$10,000. Three quarters of these inventories have been subsequently sold by Koko.
- No impairment losses on goodwill has been necessary by 31 December 2019. It is group policy to value non-controlling interest at full or fair value. The fair value of the non-controlling interest at acquisition was \$90,000.

Required:

Prepare the consolidated statement of financial position for Guru Group as at 31 December 2019. [Total 30 marks]

Question 2

a) Explain the following terms:

- Joint venture [2]
- Joint arrangement [2]
- Joint control [2]

[6marks]

b) Why is it not appropriate for an investment entity (i.e. Associate, Joint venture) to prepare group financial statements? [3marks]

c) From the scenarios described below, determine whether it is a joint arrangement or not supporting your answer with facts from the scenarios.

Scenario 1

Faustino Ltd was established on 1 January 2015. Faustino Ltd memorandum of incorporation stipulates that decisions about Faustino Ltd are made by its shareholders, with each share attaching one voting right. Five parties (Adamski, Bheki, Chosi, Duster and Elliot) each acquire 20% of Faustino Ltd shares on 1 January 2015. [2]

Scenario 2

If the five parties (Adamski, Bheki, Chosi, Duster and Elliot), enter into a contractual agreement that decisions about Faustino Ltd require their unanimous consent. [3]

Scenario 3

If Adamski and Bheki entered into a contractual arrangement that they would make decisions about their shareholding in Faustino Ltd jointly [3]

Scenario 4

If however, Adamski, Bheki and Chosi enter into a contractual arrangement that decisions about Faustino Ltd require their unanimous consent [3] [11marks]

[Total 20marks]

Question 3

The financial statements of Jirikiti Limited and its subsidiaries for the year ended 31 March 2019 were as follows:

| Consolidated statement of profit or loss for the year ended 31 March 2019 | | |
|----------------------------------------------------------------------------------------------|----------------|----------------|
| Gross revenue | | 1,379,250 |
| Cost of sales | | (1,170,000) |
| Gross profit | | 209,250 |
| Depreciation | | (20,250) |
| Administration & selling expenses | | (40,950) |
| Interest expenses | | (18,000) |
| Investment income | | 22,500 |
| Foreign exchange loss | | 1,800 |
| Profit before taxation | | 154,350 |
| Tax expense | | (13,500) |
| Profit after taxation | | 140,850 |
| Jirikiti Ltd and its subsidiaries statement of financial position as at 31 March 2019 | | |
| | 2,018 | 2,019 |
| | \$ | \$ |
| Non-current assets: | | |
| Property, plant and equipment | 85,950 | 167,850 |
| Accumulated depreciation | (47,700) | (65,250) |
| Carrying amount | 38,250 | 102,600 |
| Investments | 112,500 | 112,500 |
| | 150,750 | 215,100 |
| Current assets: | | |
| Inventory | 87,750 | 45,000 |
| Accounts receivables | 54,000 | 85,500 |
| Cash and cash equivalents | 7,200 | 10,350 |
| Total Assets | 299,700 | 355,950 |
| Equity and Liabilities: | | |
| Share capital and reserves | 56,250 | 67,500 |
| Retained earnings | 62,100 | 145,350 |
| Total Equity | 118,350 | 212,850 |
| Non-current liabilities: | | |
| Long term loans | 46,800 | 103,500 |
| Current liabilities: | | |
| Accounts payables | 85,050 | 11,250 |
| Interest payable | 45,000 | 10,350 |
| Income tax payable | 4,500 | 18,000 |
| Total Equity and liabilities | 299,700 | 355,950 |

Additional information:

1. During the year, the holding company acquired all the shares of the subsidiary for \$26,550. The fair values of the assets acquired and liabilities assumed were as follows:

| | \$ |
|-------------------------------|--------|
| Inventories | 4,500 |
| Accounts receivables | 4,500 |
| Cash | 1,800 |
| Property, plant and equipment | 29,250 |
| Accounts payables | 4,500 |
| Long term loans | 9,000 |

2. \$11,250 was raised from the issue of additional shares
3. Dividends paid amounted to \$54,000.
4. During the year the Group paid \$56,250 to acquire additional PPE.
5. Plant which had cost \$3,600 and which had accumulated depreciation of \$2,700 was sold for \$ 9 900.

Required:

Draw the consolidated statement of cash flows to provide strategic information to management on the liquidity position (Use the direct method). [Total 30marks]

END OF EXAMINATION PAPER