



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 407
COURSE TITLE : GROUP FINANCIAL REPORTING
SPECIAL REQUIREMENTS : Non- programmable Calculator
DURATION : 3 Hours
LEVEL : 4.2
DATE : 11 NOV 2019

INSTRUCTIONS TO CANDIDATES:

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

SECTION A: MULTIPLE CHOICE QUESTIONS

NB: For each question in this section, write the letter that corresponds with the correct answer.

QUESTION 1

1.1 Which standard guides us when accounting for investment in associates?

- A. IFRS 3
- B. IAS 27
- C. IFRS 10
- D. IAS 28

1.2 In relation to provisions, for a present obligation to exist, which one of the following factors must be present?

- A. The obligation must be capable of being reliably measured
- B. The entity must have a legal obligation that can be enforced by law
- C. The entity must have no realistic alternative of settling the obligation
- D. It must be more likely than less likely that there will be a future flow of economic benefits

1.3 In accordance with IAS 1 Presentation of Financial Statements, which one of the following items does not have to be separately presented in the statement of profit or loss and other comprehensive income?

- A. Finance costs
- B. Share of losses from associates
- C. Expenses from ordinary activities
- D. Profit attributable to non-controlling interest

1.4 On April 1, 2018, Palapye Company paid \$950 000 for all the issued and outstanding stock of Simon Corporation. The recorded assets and liabilities of the Simon Corporation on April 1, 2018 are as follows:

Cash	\$80 000
Inventory	\$240 000
Property, plant and equipment (net of accumulated depreciation of \$320 000)	\$480 000
Liabilities	(180 000)

On April 1, 2018, it was determined that the inventory of Simon had a fair value of \$190 000, and the property, plant and equipment (net) had a fair value of \$560 000.

What is the amount of goodwill resulting from the business combination?

- A. \$0
- B. \$120 000
- C. \$300 000
- D. \$230 000

1.5 When it purchased Sonboy Ltd on 1 January 2018, Kingstone Ltd issued 500 000 shares of its \$5 par voting common stock. On that date the fair value of those shares totalled \$4 200 000. Related to the acquisition, Kingstone Ltd had payments to the attorneys and accountants of \$200 000, and stock issuance fees of \$100 000. Immediately prior to the purchase, the equity sections of the two firms appeared as follows:

	<u>Kingstone Ltd</u>	<u>Sonboy Ltd</u>
Common stock	\$4 000 000	\$700 000
Paid-in capital in excess of par	\$7 500 000	\$900 000
Retained Earnings	\$5 500 000	\$500 000
Total	\$17 000 000	\$2 100 000

Immediately after the purchase, the consolidated statement of financial position should report retained earnings:

- A. \$6 000 000
- B. \$5 800 000
- C. \$5 500 000
- D. \$5 300 000

1.6 Which of the following is not an advantage of the parent issuing shares of stock in exchange for the subsidiary common shares being acquired?

- A. It is not necessary to determine the fair values of the subsidiary's net assets
- B. It may allow the subsidiary's shareholders to have a tax-free exchange
- C. It avoids the depletion of cash
- D. If the parent is publicly held, the share price is readily determinable

1.7 Newlands Ltd purchased 100% of the voting common stock of Mona Ltd for \$1 800 000. The following book and fair values are available:

	<u>Book Value</u>	<u>Fair Value</u>
Current assets	\$150 000	\$300 000
Land and buildings	\$280 000	\$280 000
Machinery	\$400 000	\$700 000

Bonds payable	(\$300 000)	(\$250 000
Goodwill	\$150 000	\$?

The Bonds payable will appear on the consolidated statement of financial position

- A. At \$300 000 (with no premium or discount shown)
- B. At \$300 00 less a discount of \$50 000
- C. At \$0, assets are recorded net of liabilities
- D. At an amount less than \$250 000 since it is a bargain purchase

1.8 Kim Ltd purchased 100% of the voting common stock of Acme Ltd for \$2 000 000. There are no liabilities. The following book and fair values pertaining to Acme Ltd are available:

	Book Value	Fair Value
Current assets	\$300 000	\$600 000
Land and buildings	\$600 000	\$900 000
Machinery	\$500 000	\$600 000
Goodwill	\$100 000	\$?

The amount of machinery that will be included on the consolidated statement of financial position is:

- A. \$560 000
- B. \$860 000
- C. \$600 000
- D. \$900 000

1.9 A subsidiary was acquired for cash in a business combination on December 31, 2018. The purchase price exceeded the fair value of identifiable net assets. The acquired company owned equipment with a fair value in excess of the book value as of the date of the combination. A consolidated statement of financial position prepared on 31 December, 2018, would

- A. Report the excess of the fair value over the book value of the equipment as part of goodwill
- B. Report the excess of the fair value over the book value of the equipment as part of the plant and equipment account
- C. Reduce retained earnings for the excess of the fair value of the equipment over its book value
- D. Make no adjustments for the excess of the fair value of the equipment over book value. Instead, it is an adjustment to expense over the life of the equipment.

[TOTAL :20 Marks]

SECTION B

Question 2

Presented below are the statements of financial position of three companies as at 31 December 2016.

	Demag \$000	Leapjump \$000	Progress \$000
Non-current assets			
Tangible assets	1,120	980	840
Investments:			
672,000 shares in Leapjump	644	-	-
168,000 shares in Progress	224	-	-
Total Non-current assets	1,988	980	840
Current assets			
Inventory	380	640	190
Receivables	190	310	100
Cash	35	58	46
Total Current Assets	605	1,008	336
Total Assets	2,593	1,988	1,176
Equity and liabilities			
Capital and reserves			
\$1 ordinary shares	1,120	840	560
Retained earnings	1,232	602	448
Total Equity	2,352	1,442	1,008
Current liabilities			
Trade payables	150	480	136
Taxation	91	66	32
Total Current Liabilities	241	546	168
Total Equity and Liabilities	2,593	1,988	1,176

The following additional information is also available

- i) Demag acquired its shares in Leapjump on 1 January 2016 when Leapjump had retained losses of \$56,000.
- ii) Demag acquired its shares in Progress on 1 January 2016 when Progress had retained earnings of \$140,000.
- iii) An impairment test at the year-end shows that goodwill for Leapjump has been impaired by \$3,360 and Progress by \$2,800.

Required:

- a) Prepare the equity method accounted associate only for the year ended 31 December 2016 and show how the associate would be presented in the Consolidated Statement of financial position.

(15 marks)

- b) Define the following terms according to the applicable International Financial Reporting Standards:

- | | |
|-------------------------|------------------|
| i) Business combination | (2 marks) |
| ii) Functional currency | (2 marks) |
| iii) Control | (2 marks) |
| iv) Associate | (2 marks) |
| v) Joint venture | (2 marks) |

[Total 25 Marks]

Question 3

Bold Ltd has several subsidiaries, one of which, Wispy Ltd., was acquired during the year ended 31 March 2017. The draft consolidated financial statements for the year ended 31 March 2017 are as follows:

	\$'000
Operating profit	1,890
Loss on disposal of property, plant and equipment	(85)
Interest	(210)
	1,595
Share of profits of associates	110
Profit on ordinary activities before taxation	1,705

Taxation	(410)
Profit attributable to:	1,295
Owners of Bold Ltd	985
Non-controlling interest	310
Group profit	1,295

Statements of Financial Position are as follows:

	Bold Ltd Consolidated		Wispy Ltd.
	at 31/3/2017	at 31/3/2016	at acquisition
	\$'000	\$'000	\$'000
Assets			
Non-current assets			
Property, plant and equipment (note 2)	2,440	1,400	460
Intangibles	460	420	-
Investment in associates	380	330	-
	3,280	2,150	460
Current assets			
Inventories	685	600	180
Trade and other receivables	310	260	85
Cash and cash equivalents	0	60	15
Total assets	4,275	3,070	740
Equity and liabilities			
\$1 ordinary shares	450	400	350
Share premium	250	100	80
Retained earnings	1,595	810	210
	2,295	1,310	640
Non-controlling interest	250	210	-
	2,545	1,520	640
Non-current liabilities			
Long term loans	1,100	1,100	-

Current liabilities			
Bank overdraft	80	-	-
Trade payables	210	190	80
Taxation	340	260	20
Total Equity and Liabilities	4,275	3,070	740

Additional information:

1. Bold Ltd acquired 80% of the ordinary shares of Wispy Ltd on 1 July 2016 for \$400 000 in cash and issued 25 000 \$1 ordinary shares with a market value of \$100 000. At the date of acquisition, Wispy Ltd's assets and liabilities were recorded at their fair value, except for some plant which had a fair value of \$100 below its carrying value.
2. During the year, Bold Ltd made a further issue of ordinary shares, again, at a premium above nominal value.
3. The property, plant and equipment sold during the year had a carrying value of \$140 000. Total depreciation charges for the year were \$209 000.

Required:

Prepare a consolidated statement of cash flows in accordance with IAS 7 for the year ended 31 March 2017.

[Total 25 marks]

Question 4

On 1 July 2016 Clear Ltd acquired 60,000 of the 100,000 shares in Muddy (Pvt) Ltd, its only subsidiary. The draft statements of profit or loss and other comprehensive income for both companies at 31 December 2016 are shown below:

	Clear Ltd \$'000	Muddy (Pvt) Ltd \$'000
Revenue	43,000	26,000
Cost of sales	(28,000)	(18,000)
Gross profit	15,000	8,000
Other income – dividend received from Muddy (Pvt) Ltd	2,000	-
Distribution costs	(2,000)	(800)
Administrative expenses	(4,000)	(2,200)
Finance costs	(500)	(300)
Profit before tax	10,500	4,700
Income tax expense	(1,400)	(900)
Profit for the year	9,100	3,800
Other comprehensive income:		
Gain on property revaluation (Note (i))	-	2,000
Investment in equity instrument	200	-
Total comprehensive income for the year	9,300	5,800

Additional information:

- i) At the date of acquisition the fair values of Muddy (Pvt) Ltd's assets were equal to their carrying amounts except for a building which had a fair value \$1million more than its carrying amount. At the date of acquisition the building had a remaining useful life of 20 years. Building depreciation is charged to administrative expenses. The building was revalued again at 31 December 2016 and its fair value had increased by an additional \$1million.
- ii) Sales from Clear Ltd to Muddy (Pvt) Ltd were \$6million during the post-acquisition period. Clear Ltd marks up all sales by 20%.
- iii) Despite the property revaluation, Clear Ltd has concluded that goodwill in Muddy (Pvt) Ltd has been impaired by \$500,000.
- iv) It is Clear Ltd's policy to value the non-controlling interest at full (fair) value.
- v) Income and expenses can be assumed to have arisen evenly throughout the year.

Required

- a) Prepare Clear Ltd the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016. (25 marks)
- b) Differentiate control from significant influence in relation to group financial reporting, cite examples to clarify. (5 marks)

[Total 30 Marks]

*****END OF PAPER*****