



COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE
MAC 404 ADVANCED ACCOUNTING & FINANCIAL THEORY
END OF SECOND SEMESTER EXAMINATIONS

APRIL/MAY 2019 (2)

LECTURER: I. RARAMI

DURATION: (3 HRS)

CONVENTIONAL

INSTRUCTIONS

Answer **ALL** questions

Start each question on a new page in your answer booklet.

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

Use of a non-programmable calculator is permissible.

MAC 404: ADVANCED ACCOUNTING AND FINANCIAL THEORY

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Answer all questions in Answer Books provided

QUESTION ONE [25 MARKS]

The following is the financial statements of Mutasa Lt and its subsidiaries for the year ended 30 June 2018.

Consolidated Statement of Financial Position as at 30 June 2018

	2018	2017
	\$	\$
Assets		
Non-current Assets		
Land & buildings	1 250 000	1 000 000
Plant & machinery	<u>440 000</u>	<u>375 000</u>
	1 690 000	1 375 000
Investment in associates	95 630	85 585
Current Assets		
Inventory	575 000	500 000
Trade receivables	234 065	249 440
Cash at bank	<u>391 805</u>	<u>415 045</u>
	<u>2 986 500</u>	<u>2 625 070</u>
Equity & Liabilities		
Ordinary share capital	500 000	500 000
Preference share capital	<u>150 000</u>	<u>100 000</u>
	650 000	600 000
Share premium	25 000	-
Special non-distributable reserve	260 045	-
Retained earnings	68 955	-
Accumulated loss	<u>(-)</u>	<u>(175 000)</u>
	1 004 000	425 000
Non-controlling interest	368 195	340 855
Long-term loans	1 055 555	1 335 000
Deferred taxation	<u>103 075</u>	<u>117 500</u>
	2 530 825	2 218 355
Current Liabilities		
Trade payables	103 080	286 715
Accrued taxation	230 095	-
Short-term portion of long-term loans	<u>122 500</u>	<u>120 000</u>
	<u>2 986 500</u>	<u>2 625 070</u>

Consolidated Statement of Comprehensive Income for year ended 30 June 2018

Gross revenue	\$ <u>22 505 000</u>
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Operating profit		818 515
Interest received		<u>1 780</u>
Profit before tax		820 295
Taxation: Current	(380 825)	
Deferred	<u>14 425</u>	<u>(366 400)</u>
Profit after tax		453 895
Share of associate's earnings:		
Dividends received	1 000	
Share of retained earnings	<u>10 045</u>	<u>11 045</u>
		464 940
Non-controlling interest		<u>(27 340)</u>
Consolidated net profit for the year		<u>437 600</u>

Consolidated Statement of Changes in Equity for year ended 30 June 2018

	\$
Accumulated loss 30/06/2017	(175 000)
Net profit for the year	437 600
Dividends declared and paid	(183 600)
Transfer to non-distributable reserve	<u>(10 045)</u>
Balance c/f 30/06/2018	<u>68 955</u>

Additional information

1. 50 000 preference shares of \$1 each were issued during the year at a premium of 50 cents each.
2. The land and buildings have been revalued at \$1.25 m by a professional valuer.
3. Plant and machinery with a carrying amount of \$125 000 was sold for \$200 000.
4. The operating profit was calculated after taking the following items into account:
Interest paid \$175 500
Depreciation \$ 81 500
5. The cost of goods sold constituted 50% of gross revenue.

Required

Draw up the consolidated statement of cash flows of Mutasa Ltd. and its subsidiaries for the year-ended 30 June 2-18 using the direct method.

QUESTION TWO [25 MARKS]

- a). Given below are Statement of Profit or Loss & other comprehensive income of New President Ltd for the year ended 31 December 2006 and 2007.

	2007 \$	2006 \$
Operating Profit before Tax	1900000	1750000
Debenture interest (2017: ¼ of a year)	<u>(50000)</u>	<u>(12 500)</u>
	1850000	1737500
Les Taxation	<u>(740000)</u>	<u>(695000)</u>
Profit after tax	<u>1110000</u>	<u>1042500</u>

The capital structure of the company is as follows:

Issued Share Capital to 30 September 2006

250 000 ordinary shares of \$1 each, fully paid \$250000

110000 20% non-cumulative prefe shares of \$1 fully paid \$110000

On 1 October 2018, the company issued 500000 10% convertible debentures of \$1 each at par. Each \$100 nominal inventory of the debentures will be convertible into ordinary shares as follows:

31/12/2010	150 shares
31/12/2011	140 shares
31/12/2012	130 shares
31/12/2013	120 shares

Required:

- i). Calculate the Basic Earnings per Share together with the comprehensive figures for the year ended 31 December 2006 and 2007. **[4 Marks]**
- ii. Calculate the Diluted Earnings per share for together with the comprehensive figures for the year ended 31 December 2006 and 2007. **[4 Marks]**
- ii). Show the presentation in the statement of profit or loss and other comprehensive income. **[2 Marks]**

b). The following information relate to Passwell (Pvt) Ltd

Issued share capital

Up to 30 June 2016

200000 ordinary shares of \$ each, fully paid	\$200000
110000 20% preference shares of \$1, fully paid	\$110000

On July 2016, the company made a rights issue of ordinary shares on the basis of 1 for every 4 held at 150c per share. The market price of the company's shares on the date was 200c cum-rights. The profit after tax for the year ended 31 December 2016 was \$1300000 (2015:1050000).

Required:

- i). Determine the reciprocal factor to be used in calculating earnings per share. **[3 Marks]**
- ii). Calculate earnings per share for the year ended 30 June 2015 and 2016. **[6 Marks]**
- iii). Show the presentation in the statement of profit or loss and other income. **[2 Marks]**
- c). Earnings per share is now the subject of an international financial reporting standard. In the context of this standard explain:
 - i). Earnings per share. **[2 Marks]**
 - ii). Diluted earnings per share **[2 Marks]**

QUESTION THREE [25 MARKS]

- a). New President Ltd bought a machine for \$200 000 1/1/2014. The company charges depreciation at the rate of 20% per annum. S.I.A is 25%. Annual accounting profit for the year is \$300 000. The tax rate is 40%.
- i) Prepare the journal entry for the period 2014 to 2018. **[4 Marks]**
 - ii). The Taxation account for the period. **[4 Marks]**
 - iii). The deferred tax account for the period. **[4 Marks]**
 - vi). Compute the taxable and tax that is paid at the end of each year. **[5 Marks]**
- b). Give reasons why the following items are classified or are not classified as financial assets.
- i). Property, Plant and Equipment
 - ii). Leased assets (under finance leases) of the lessee
 - iii). Leased assets (under finance leases) of the lessor
 - vi). Prepared expenses (eg insurance)
 - v). Interest received. **[1 Mark each]**
- c) According to IFRS 13, what are the requirements that must be meet

by a valuation technique?

[3 Marks]

QUESTION FOUR [25 MARKS]

The following is the statements of financial position of Hard Ltd and Soft Ltd.

Statements of Financial Position as at 31 December 2018.

	H Ltd.	S Ltd.
	\$	\$
Assets		
Non-current assets (net)	500 000	500 000
Investment in subsidiary (S Ltd.)	650 000	
Net current assets	<u>180 000</u>	<u>320 000</u>
	<u>1 330 000</u>	<u>820 000</u>
Equity & Liabilities		
Ordinary share capital (\$1 shares)	700 000	500 000
Share premium	280 000	100 000
General reserve	200 000	120 000
Retained earnings	<u>150 000</u>	<u>100 000</u>
	<u>1 330 000</u>	<u>820 000</u>

The statements of comprehensive income for the year-ended 31 December 2018 were as follows:

Statements of Comprehensive Income for the year ended 31 December 2018

	H Ltd.	S Ltd.
	\$	\$
Operating profit	400 000	220 000
Less Taxation	<u>(200 000)</u>	<u>110 000</u>
Profit after tax	<u>200 000</u>	<u>110 000</u>
 Profit on sale of the shares in S Ltd.	<u>37 500</u>	<u>-</u>
	237 500	110 000
Retained profit b/f	<u>150 000</u>	<u>100 000</u>
Retained earnings c/f	<u>387 500</u>	<u>210 000</u>

Hard Ltd purchased 80% of the shares in Soft Ltd on 1 January 2016 when S Ltd.'s retained earnings were \$50 000 and the general reserve stood at \$60 000. On 1 January 2019, H Ltd. sold 25% of the shares in S Ltd to the non-controlling shareholders for \$200 000.

Required:

- a). Calculate the profit on disposal. **[5 Marks]**
- b). Prepare the Statement of Financial Position as 2018. **[20 Marks]**

END OF PAPER