



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP & GOVERNANCE

NMAC 404: ADVANCED ACCOUNTING & FINANCIAL THEORY

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2022

LECTURER: I. RARAMI

DURATION: 3 HOURS

INSTRUCTIONS

Answer **ALL** questions. The paper consists of **four** 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.

QUESTION ONE [25 MARKS]

The following information represents the consolidated statement of IFRS Ltd Group for the year ended 31 December 2021.

IFRS LTD GROUP

Consolidated Statement Of Profit Or Loss And Other Comprehensive Income For The Year Ended 31 December 2021.

	\$
Revenue	297600
Cost of sales	<u>(153400)</u>
Gross profit	144200
Other income	19000
Other expenses	<u>(45300)</u>
Finance costs	<u>(18100)</u>
Profit before tax	99800
Income tax expense	<u>(27944)</u>
Profit for the year	<u>71856</u>
Total comprehensive income for the year	<u>71856</u>
Profit and total comprehensive income attributable to:	
Owners of the parent	54856
Non-controlling interest	<u>17000</u>
	<u>71856</u>

IFRS LTD GROUP

Consolidated Statement Of Financial Position As At 31 December 2021

	2021 \$	2020 \$
ASSETS		
Non-current assets	<u>400000</u>	<u>380000</u>
Property, plant and equipment	390000	370000
Investment in equity instruments	<u>10000</u>	<u>10000</u>
Current assets	<u>207600</u>	<u>133140</u>
Inventories	56300	36500
Trade receivables	67400	42040
Cash and cash equivalents	<u>83900</u>	<u>54600</u>
Total assets	<u>607600</u>	<u>513140</u>
EQUITY AND LIABILITY		
Total equity	<u>369256</u>	<u>264400</u>
Equity attributable to the owners of the parent	<u>341256</u>	<u>224400</u>
Share capital	165000	100000
Retained earnings	<u>149256</u>	<u>124400</u>
Non-controlling interests	<u>55000</u>	<u>40000</u>
Non-current liabilities	<u>195000</u>	<u>185000</u>

Long term borrowings	<u>195000</u>	<u>185000</u>
Current liabilities	<u>43344</u>	<u>63740</u>
Trade and other payables	13344	43740
Short term portion of long-term borrowing	<u>30000</u>	<u>20000</u>
Total liabilities	<u>238344</u>	<u>248740</u>
Total equity and liabilities	<u>607600</u>	<u>513140</u>

KOMBORE LTD GROUP

Consolidated Statement Of Changes In Equity For The Year Ended 31 December 2021

	Share Capital \$	Retained earnings \$	Total \$	NCI \$	Total equity \$
Balance at 1Jan 2021	100000	124400	224400	40000	264400
Changes eqty for 2021					
Shares issued	45000	---	45000	--	45000
Capitalised issue	20000	(20000)	--	--	--
Dividend paid	--	(10000)	(10000)	(2000)	(12000)
Profit for the year	--	54856	54856	17000	71856
Balance at 31 Dec 2021	<u>165000</u>	<u>149256</u>	<u>314256</u>	<u>55000</u>	<u>369256</u>

Additional information

1. Property, plant and equipment consists of the following items:

	2021 \$	2021 \$
Machinery	<u>390 000</u>	<u>370 000</u>
Cost	620 000	590 000
Accumulated depreciation	<u>(230 000)</u>	<u>(220 000)</u>

2. During the current year, Venture Limited replaced an existing machine with a new machine to meet the current production demands. The machine which was replaced had a carrying amount of \$75 000 and was sold for \$93 000.

3. Included in other income for the current year is a gain on the sale of machinery and investment income of \$1 000.

4. Other expenses include depreciation of \$40 000. The depreciation for the machinery that was replaced per additional information 2 is included in this amount.

5. Included in trade and other payables is \$4 400 due to the Zimbabwe Revenue Authority for the year ended 31 December 2019 (2018: \$5 200).

6. Except for the given information, no other non-cash flow items existed which could influence the statement of cash flows.

Required:

Prepare the statement of cash flow using the direct method according to International Accounting Standards (IAS) 7 for the year ended 31 December 2021.

QUESTION TWO [25 MARKS]

Given below are statements of comprehensive income of President Ltd for the year ended 31 December 2018 and 2019.

	2018 \$	2019 \$
Operating Profit before Tax	1200000	1600000
Income from investment	<u>120000</u>	<u>180000</u>
	1320000	1780000
Less Taxation	<u>(462000)</u>	<u>(623000)</u>
Profit after tax	858000	1157000
Less Non-Controlling interest	<u>90000</u>	<u>110000</u>
Profit before other items	768000	1047000
Other expense items	<u>(160000)</u>	<u>(190000)</u>
Profit	608000	857000
Less Dividends Paid		
Preference Dividends	(60000)	(60000)
Ordinary Dividends	<u>(90000)</u>	<u>(40000)</u>
	458000	657000
Retained earnings	<u>50000</u>	<u>428000</u>
	<u>408000</u>	<u>1085000</u>

The capital structure of the company is as follows:

5 000 000 ordinary shares of 25c each
 800 000 5% cumulative participating Preference shares of \$1
 200 000 10% non-cumulative preference shares
 12% Debentures \$400 000

Additional information

1. The net profit after tax has been arrived at after taking into account the following items:

	2018 \$	2019 \$
Profit/Loss on sales of fixed asset	60000	30000
Loss on discontinued operation		25000
Excessive bad debts		25000

Goodwill written off

15000

Other expense items represent losses due to fire in 2018 and expropriation of company land by the government of Zimbabwe in 2020.

2. The participating preference shares are entitled 1/7 of the total dividend payable to ordinary shareholders.

3. The debentures are convertible to ordinary at 2 for every \$1 debenture on 1/1/2027.

4. Senior executives of the company were given an option to purchase 2000000 shares at a price of 40c per share. The correct market price is 50c per share.

5. The changes in the share capital was as follows:

1.1.2018 shares in issue 3000000

1.4.2019 1000000 shares were issued at a price of \$0.5 per share.

1.8.2019. A bonus issue of 1 for every 6 shares held on 1.1.2019 was made from non-distributable reserve.

1.10.2019. A rights issue of 1 for every 9 shares held on 1.10.2019 was made at a price of \$0.35 per share. The market price per share was 50c. These shares were not to rank for dividends for 2019.

Tax rate is 40%

Required:

a) Calculation of:

i. Basic Earnings per share for the year ended 31 December 2018.

[2 Marks]

ii). Basic Earnings per share for the year ended 31 December 2018.

After adjusting for the effects of the rights issue.

[4 Marks]

iii). Dividend per share for 2018

[2 Marks]

iv). Basic Earnings per share for the year ended 31 December 2019.

[4 Marks]

v). Fully diluted earnings per share for 2019

[5 Marks]

vi). Dividend per share for 2019

[2 Marks]

b). 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]

The following are the statements of financial position of IFRS Ltd and IAS Ltd

Statements of Financial Position as at 31 December 2021

	IFRS Ltd.	IAS Ltd.
	\$	\$
Assets		
Tangible Non-current assets (net)	368 500	627 900
Investment in subsidiary (S Ltd.)	700 700	
Net current assets	<u>253 400</u>	<u>340 100</u>
	<u>1 322 600</u>	<u>968 000</u>
Equity & Liabilities		
Ordinary share capital (\$1 shares)	800 000	350 000
Share premium	208 200	
General reserve	110 860	200 000
Retained earnings	<u>203 540</u>	<u>418 000</u>
	<u>1 322 600</u>	<u>968 000</u>

The following information relates to IAS Ltd on the indicated dates.

Date	Ord Share Capital	General Reserve	Retained Earnings	% Acquired by IFRS Ltd	Cost of Shares Acquired
	\$	\$	\$	%	\$
1/1/2019	350 000	120 000	186 200	25	295 600
1/1/2020	350 000	135 000	271 900	10	88 700
1/1/2021	350 000	144 000	324 500	40	316 400

Required:

a). Analysis of IAS Ltd's equity assuming IFRS Ltd had always wanted to achieve eventual control of IAS Ltd. **[15 marks]**

b). Consolidated Statement of Financial Position assuming IFRS Ltd had always wanted to achieve eventual control of IAS Ltd at the end.

[10 Marks]

QUESTION FOUR [25 MARKS]

The following questions are independent questions.

a). The net profit of IFRS Ltd for the year 2021 before deducting depreciation and before adding profit on disposal is \$700 000. During the year an asset with a book value of \$192 500 was sold for \$460 000. The Tax base value of the asset at the date of disposal was \$81100 and the original cost was \$440000. The tax rate is 40%.

Required:

Show how the Statement of Profit or Loss and Other Comprehensive Income (SPLOCI) of IFRS Ltd will appear for the year ending 31 December 2021. **[6 Marks]**

b). i). When do we recognise a financial asset or liability? **[2 Marks]**

ii). State and explain briefly the measurement categories in which financial assets are classified. **[6 Marks]**

c). i). What is fair value? **[2 Marks]**

ii). There are three widely used valuation techniques to determine fair value. State them and explain how they are applied to determine fair value **[9 Marks]**

END OF PAPER