B

AFRICA UNIVERSITY

(A United Methodist-Related Institution)

"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 404 Advanced Accounting and Financial Theory [Mutare Parallel]

SEMESTER 2: Final Examination November 2016

LECTURER: Mr S.N. Chuchu

TIME: 3 HOURS

INSTRUCTIONS

Answer **all five (5)** 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 logical, systematic and neat presentations.

Question 1

Parent Limited purchased 120 000 shares in Child Limited on 1 April 2014 for $210 000. At that date, the carrying amount (and tax base) of the net assets of Child Limited was $318 000. Parent Limited estimated that the fair value of the net assets of Child Limited at the date of acquisition was $340 000.

The abridged statements of financial position of the two companies as at 31 December 2015 are given below:

	Parent Ltd	Child Ltd
	$	$
ASSETS		
Sundry assets	246 000	363 500
Investment in Sonny Limited	330 000	---------
Total assets	576 000	363 500
EQUITY AND LIABILITIES		
Ordinary share capital ($1 shares)	400 000	300 000
Retained earnings	176 000	63 500
Total equity and liabilities	576 000	363 500

Additional information:

1. The profit for the year ended 31 December 2015 was $70 000 for Parent Limited and for Child Limited it was $30 500.

2. The acquisition date non-controlling interest is measured at its proportionate share of the fair value of the net assets of the subsidiary.

3. Investments in subsidiaries are measured at cost in the separate financial statements of Parent Limited.

4. On 31 December 2015, Parent Limited acquired a further 60 000 shares in Child Limited at their market value of $2.00 per share, increasing its stake in Child Limited from 40% to 60%. The fair value of the net assets of Child Limited at 31 December 2015 was $380 000.

5. Assume all fair value adjustments relate to the revaluation of non-depreciable property and all such adjustments are taxed at a flat rate of 25%.

Required:

Prepare the consolidated statement of profit or loss and other comprehensive income and statement of changes in equity for the year ended 31 December 2015, as well as the consolidated statement of financial position as at that date. Comparative amounts and notes are not required. Your answer must comply with the requirements of IFRSs.

Question 2

(a) Distinguish between adjusting and non-adjusting events after the reporting date as prescribed by IFRS. **[5 marks]**

(b) The financial statements of Beta Limited for the year ended 31 December 2015 were presented to the board of directors for authorization for issue on 30 March 2016. The following events have taken place since the reporting date:

(i) The market value of a listed investment decreased to $150 000 on 30 March 2016. On the reporting date the investment was shown at $300 000, which represented the market value at that date. The investment is classified as at fair value through profit or loss.

(ii)An invoice dated 27 December 2015 for $60 000 was received from Sigma Limited and included in creditors on the reporting date. Inventories listed on the invoice were delivered on 4 January 2016 and are included in the inventory figure at $60 000 on the reporting date. A positive circularization was carried out and Sigma Limited positively confirmed the amount outstanding at 31 December 2015. However, the invoice from Sigma Limited contained a calculation error and the correct amount for the inventories should in fact be $80 000.

Required:
Identify each of the above events after the reporting date as either adjusting or non-adjusting events, and briefly discuss the effect on the financial statements as at 31 December 2015. **[10 marks]**

Question 3

Cancer Limited was incorporated on 1 January 2012. The company bought manufacturing plant on that date and immediately put it into production. The cost of the manufacturing plant was $500 000 and its useful life is five years. The firm decided to depreciate the plant over five years using the straight-line method, with no residual value. For tax purposes, the firm elected to claim special initial allowance.

On 31 December 2015, the firm sold the plant for $100 000. The profit before tax for 2014 was $120 000 and for 2015 it was $150 000. Assume that, apart from depreciation and profit/loss on disposal of plant, all the income and expenses included in profit before tax are permitted for tax purposes. The tax rate was constant at 25% for the years 2012 to 2015.

Required:
Compute the income tax expense for the years ended 31 December 2014 and,2015. Your answer must comply with the requirements of IFRS. **[20 marks]**

Question 4

The following are the abridged consolidated financial statements of Capricorn Limited Group:

Consolidated statement of financial position as at 31 December 2015

	2015	2014
	$	$
ASSETS		
Property, plant and equipment	1 312 000	573 600
Investments	25 000	15 000
Inventories	107 200	25 800
Trade receivables	101 300	30 400
Cash and cash equivalents	40 400	5 620
Total assets	1 585 900	650 420
EQUITY AND LIABILITIES		
Share capital (ordinary shares of $1.00 each)	500 000	150 000
General reserve	20 000	12 000
Retained earnings	153 828	111 700
Non-controlling interest	90 852	-
Long-term loans	455 816	196 800
Trade payables	302 704	150 200
Current tax payable	62 700	29 720
Total equity and liabilities	1 585 900	650 420

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015

	$
Profit before tax	119 200
Income tax expense	(62 700)
Profit for the period	56 500
Attributable to:	
Owners of the parent	50 128
Non-controlling interest	6 372
	56 500

Additional information:

1. On 1 July 2015, Capricorn Limited purchased 70% of the ordinary shares of Scorpio Limited for $184 220. On that date, the assets and liabilities of Scorpio Limited were as follows:

	$
Property, plant and equipment	222 000
Inventories	46 800
Trade receivables	25 700

Cash and cash equivalents	12 900
Trade payables	(15 600)
Current tax payable	(10 200)
	281 600

2. No dividends were paid or declared during the year.
3. There were no disposals of items of property, plant and equipment.
4. Profit before tax was arrived at after taking into account the following:

	$
Depreciation on property, plant and equipment	54 800
Investment income received	2 000
Interest expense paid	35 400

Required:
Prepare the consolidated statement of cash flows of Capricorn Limited Group for the year ended 31 December 2015, to comply with the requirements of IFRSs. Notes and comparatives not required. Use the indirect method. **[20 marks]**

[25 marks]

Question 5

Since incorporation, Capricorn Limited has had an authorized share capital of 5 000 000 ordinary shares of $2.00 each and 500 000 8% non-cumulative preference shares of $2.00 each. The issued share capital was as follows:

Ordinary shares	
Issued at incorporation	2 500 000 at $2.00 each
31 December 2013	1 000 000 at $3.50 each
30 June 2015	1 000 000 at $4.00 each

8% non-cumulative preference shares	
Issued at incorporation	200 000 at $2.00 each
30 June 2015	50 000 at $2.00 each

The profit/(loss) for the year amounted to $750 000 and ($115 000) for years ended 31 December 2015 and 31 December 2014, respectively. The company has paid preference dividends every year since incorporation except for the year ended 31 December 2014.

Required:
Compute and disclose the basic earnings per share in the financial statements of Capricorn Limited for the year ended 31 December 2015 so as to comply with the requirements of IFRSs. **[20 marks]**

END OF PAPER