



"Investing in Africa's Future"

**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND
GOVERNANCE**

**COURSE CODE AND TITLE: MAC 404 ADVANCED ACCOUNTING AND
FINANCIAL THEORY**

END OF SECOND SEMESTER EXAMINATIONS CONVENTIONAL

APRIL/MAY 2017

LECTURER: MR. S CHUCHU

DURATION: 3 HRS

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

(a) The following information was extracted from the financial statements of Capricorn Limited for the year ended 31 December 2016:

| | |
|--------------------------------|------------------|
| | \$ |
| Revenue (taxable) | 4 75 000 |
| Cost of sales (tax deductible) | <u>(380 000)</u> |
| Gross profit | 95 000 |
| Other income | 74 000 |
| Other expenses | <u>(59 000)</u> |
| Profit before tax | <u>110 000</u> |

Additional information:

1. Other income includes:

| | |
|---|--------|
| | \$ |
| Dividends received from a company incorporated in Zimbabwe | 8 000 |
| Rent accrued and received | 24 000 |
| Gain on disposal of land not originally acquired for resale | 22 000 |

2. Rent received in advance amounted to \$2 000.

3. Other expenses include:

| | |
|-------------------------------------|--------|
| | \$ |
| General donations | 4 000 |
| Depreciation on office building | 2 000 |
| Depreciation on manufacturing plant | 12 000 |
| VAT penalty | 1 000 |

4. The original cost of the office building was \$40 000 and the building is depreciated at 5% per annum on the straight-line basis. On 31 December 2016, the carrying amount was \$30 000. No tax allowances are granted on this building.
5. Information on the manufacturing plant is as follows:

| | |
|-------------------------------------|--------|
| | \$ |
| Carrying amount at 31 December 2016 | 28 000 |
| Tax base at 31 December 2016 | 23 000 |

6. Assume a tax rate of 25%.

Required:

Determine the income tax expense to be charged to profit or loss for the year ended 31 December 2016. [12 marks]

(b) Determine fair values as required by IFRS 13 in the following scenarios:

(i) Sigma Limited holds an office building that is leased out to third parties and carried under the fair value model in IAS 40. At the reporting date, the fair values for similar properties have declined due to an economic downturn. Sigma Limited establishes that

would need to recognize a decrease in fair value of \$15 000 on its office building, based on these market price movements of similar properties. The company, however, has the intention and financial ability to hold the building until it can realize a return on its initial investment of 50%. [4 marks]

(ii) Delta Limited acquired 200 shares in Theta Limited for \$10 200, inclusive of brokerage fees and transfer taxes of \$200. No designation of the shares has taken place. [4 marks]

Question 2

(a) Outline the minimum information an entity must disclose in the notes to its interim financial statements after disclosing significant transactions and events, if not disclosed elsewhere in the interim financial report. [10 marks]

(b) Briefly discuss how each of the following items should be identified and initially measured as required by IFRS relating to financial instruments:

- | | |
|---|-----------|
| (i) Investment in shares (not speculative) | [2 marks] |
| (ii) Long-term loan advanced to the entity | [2 marks] |
| (iii) Trade payables | [2 marks] |
| (iv) Allowance for warranties provided on products sold | [2 marks] |
| (v) VAT payable | [2 marks] |

Question 3

Parent Limited purchased 180 000 shares in Subs Limited on 1 January 2014 for \$226 000, when the shareholders' interest in Subs Limited was as follows:

| | \$ |
|-----------------------------|---------|
| Ordinary shares of \$1 each | 300 000 |
| Retained earnings | 18 000 |

At that date, the carrying amount (and tax base) of the identifiable net assets of Subs Limited was \$60 000 lower than the fair value of the same. However, no fair value adjustment was recorded in the books of Subs Limited.

The abridged statements of profit or loss and other comprehensive income of the two companies for the year ended 31 December 2016 are given below:

| | Parent Limited | Subs Limited |
|----------------|-------------------|-----------------|
| | \$ | \$ |
| Revenue | 700 000 | 630 000 |
| Cost of sales | (420 000) | (378 000) |
| Gross profit | 280 000 | 252 000 |
| Other income | 20 000 | ----- |
| Other expenses | (140 000) | (126 000) |

| | | |
|---|----------------|---------------|
| Profit before tax | 160 000 | 126 000 |
| Income tax expense | (44 000) | (38 000) |
| Profit for the year | 116 000 | 88 000 |
| Other comprehensive income | ----- | ----- |
| Total comprehensive income for the year | <u>116 000</u> | <u>88 000</u> |

Additional information:

1. Assume that income accrues evenly, and expenses are also incurred evenly, throughout the year.
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 1 July 2016, Parent Limited acquired a further 60 000 shares in Subs Limited for \$90 000. The fair value of the net assets of the subsidiary at this date was \$400 000.
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%.
6. Other income is made up of dividend income.
7. Subs Limited paid an ordinary dividend amounting to \$20 000 on 31 March 2016, and declared an ordinary dividend amounting to \$10 000 on 31 December 2016.
8. The retained earnings of Subs Limited at 1 January 2016 amounted to \$40 000.
9. Assume one share carries one vote.

Required:

Prepare the analysis of shareholders' interest in Subs Limited and the group consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016. Comparative amounts and notes are not required. Your answer must comply with the requirements of IFRSs. [20 marks]

Question 4

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

Statement of financial position as at 31 December 2016

| | 2016 \$ | 2015 \$ |
|-------------------------------|------------|------------|
| ASSETS | | |
| Non-current assets | | |
| Property, plant and equipment | 158 000 | 150 000 |
| Cost | 235 000 | 200 000 |
| Accumulated depreciation | (77 000) | (50 000) |
| Goodwill | 55 000 | 50 000 |
| Other intangible assets | 498 000 | 420 000 |
| Current assets | | |
| Inventories | 140 000 | 105 000 |

| | | |
|-------------------|------------------|----------------|
| Trade receivables | 180 000 | 185 000 |
| Bank | <u>39 000</u> | <u>30 000</u> |
| | <u>1 070 000</u> | <u>940 000</u> |

EQUITY AND LIABILITIES

Total equity

Equity attributable to owners of the parent

| | | |
|--------------------------|---------|---------|
| Share capital | 100 000 | 100 000 |
| Share premium | 50 000 | 50 000 |
| Retained earnings | 540 000 | 450 000 |
| Non-controlling interest | 90 000 | 70 000 |

Non-current liabilities

| | | |
|-----------------|--------|--------|
| Long-term loans | 60 000 | 80 000 |
| Deferred tax | 50 000 | 40 000 |

Current liabilities

| | | |
|---------------------------|------------------|----------------|
| Trade payables | 95 000 | 80 000 |
| Current tax payable | 35 000 | 30 000 |
| Shareholders for dividend | <u>50 000</u> | <u>40 000</u> |
| | <u>1 070 000</u> | <u>940 000</u> |

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

| | 2016 | 2015 |
|---|-----------------|-----------------|
| | \$ | \$ |
| Profit before tax | 300 000 | 240 000 |
| Income tax expense | (150 000) | (120 000) |
| Current tax expense | (140 000) | (105 000) |
| Deferred tax expense | <u>(10 000)</u> | <u>(15 000)</u> |
| Profit for the year | 150 000 | 120 000 |
| Other comprehensive income | <u>-----</u> | <u>-----</u> |
| Total comprehensive income for the year | <u>150 000</u> | <u>120 000</u> |
| Profit attributable to: | | |
| Non-controlling interest | 10 000 | 5 000 |
| Owners of the parent | <u>140 000</u> | <u>115 000</u> |
| | <u>150 000</u> | <u>120 000</u> |
| Total comprehensive income attributable to: | | |
| Non-controlling interest | 10 000 | 5 000 |
| Owners of the parent | <u>140 000</u> | <u>115 000</u> |
| | <u>150 000</u> | <u>120 000</u> |

Additional:

1. Profit before tax is after taking into account the following:

| | 2016 | 2015 |
|---|--------|--------|
| | \$ | \$ |
| Audit fees | 20 000 | 15 000 |
| Amortization of other intangible assets | 75 000 | 60 000 |
| Depreciation of property, plant and equipment | 30 000 | 24 000 |

| | | |
|--|--------|--------|
| Impairment of goodwill | 10 000 | 15 000 |
| Interest paid | 7 000 | 9 000 |
| Loss on disposal property, plant and equipment | 1 000 | ----- |

- Dividends declared for 2015 and 2016 amounted to \$50 000 and \$40 000.
- Aquarius Limited acquired 75% interest in Scorpio Limited on 1 January 2016. The abridged statement of financial position of the subsidiary at that date was as follows:

| | |
|-------------------------------|---------------|
| | \$ |
| ASSETS | |
| Property, plant and equipment | 40 000 |
| Inventories | 25 000 |
| Trade receivables | <u>15 000</u> |
| | <u>80 000</u> |
| EQUITY AND LIABILITIES | |
| Share capital | 10 000 |
| Retained income | 50 000 |
| Trade payables | <u>20 000</u> |
| | <u>80 000</u> |

- Except for the acquisition Scorpio Limited, the group did not acquire any property, plant and equipment.

Required:

Prepare the consolidated statement of cash flows for the year ended 31 December 2016, to comply with the requirements of IFRS. [20 marks]

Question 5

(a) Gemini Limited has 20 000 ordinary shares and 12 000 participating non-cumulative shares outstanding. For the year ended 31 December 2016, the profit attributable to equity holders amounted to \$200 000. The non-cumulative dividend on the preference shares is \$5.50 per share. After ordinary shareholders have been paid a dividend of \$2.10 per share, the preference shareholders participate in any additional dividends on a 20:80 ratio with the ordinary shareholders on a per share basis. Dividends of \$66 000 were declared to preference shareholders and \$42 000 to the ordinary shareholders during the year.

Required:

Determine the basic earnings per share for the year ended 31 December 2016 as required by IAS 33. [12 marks]

(b) The events after the reporting period identified by IAS10 are adjusting events and non-adjusting events. With the aid of any three examples, discuss non-adjusting events.

[8 marks]

END OF PAPER