AFRICA UNIVERSITY
A United Methodist-Related Institution

"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

COURSE TITLE: MAC 404 Advanced Accounting and Financial Theory

SEMESTER 2: Final Examination April-May 2018

LECTURER: Dr 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

(a) During 2017, Gemini Limited earned a profit before tax of $400 000, which includes the following items:

1. Foreign profits of $60 000 that are not taxable in Zimbabwe, but are taxable in South Africa at 20%.
2. Non-deductible items for tax purposes of $20 000.
3. Non-taxable items for tax purposes of $8 000.

The movement in temporary differences for 2017 was $80 000 net taxable temporary differences. Assume a tax rate of 25%.

Required:

(i) Compute the total income tax expense as required by IAS 12. **[9 marks]**
(ii) Prepare a tax reconciliation in dollars. **[5 marks]**

(b) IFR 13 distinguishes between three levels of fair value measurements, which classification depends largely on the degree to which observable market prices form the basis of the fair value measurement.

Required:
Identify and outline the three levels of the fair value hierarchy. **[6 marks]**

Question 2

(a) On 29 December 2017, Alpha Limited committed to purchase a financial asset for $500 000, which was its fair value on commitment (trade) date. At 31 December 2017 (financial year-end) and on 5 January 2018 (settlement date), the fair value of the asset was $5001 000 and $501 500, respectively. The transaction was a regular way purchase of a financial asset. At initial recognition, the financial asset was designated as at fair through other comprehensive income.

Required:
Present the journal entries relating to the purchased financial asset using:

(i) Trade date accounting **[8 marks]**
(ii) Settlement date accounting **[6 marks]**

(b)Beta Limited had a debtor with an outstanding balance of $400 000 at its financial year-end of 31 December 2017. On 15 February 2018, the debtor, who already was experiencing financial difficulties as at 31 December 2017, was declared insolvent. It is estimated that creditors will receive 25 cents in the dollar.

During January 2018, a flood destroyed inventory to the value of $200 000.

Assume that the tax rate is 25%. Also assume that the above amounts are material.

The financial year-end of the company is 31 December 2017. The financial statements will be authorized for issue by the board of directors on 15 March 2018.

Required:
Present relevant extracts from the company's adjusted financial statements for the year ended 31 December 2017. **[6 marks]**

Question 3

Parent Limited purchased 135 000 shares in Child Limited on 1 July 2016 for $225 000. At that date, the carrying amount (and tax base) of the net assets of Child Limited was $238 500. Parent Limited estimated that the fair value of the net assets of Child Limited at the date of acquisition was $255 000.

The abridged statements of financial position of the two companies as at 31 December 2017 are given below:

	Parent Ltd	**Child Ltd**
	$	**$**
ASSETS		
Sundry assets	282 000	272 625
Investment in Sonny Limited	150 000	---------
Total assets	432 000	272 625
EQUITY AND LIABILITIES		
Ordinary share capital ($1 shares)	300 000	225 000
Retained earnings	132 000	47 625
Total equity and liabilities	432 000	273 625

Additional information:

1. The profit for the year ended 31 December 2017 was $52 500 for Parent Limited and for Child Limited it was $22 875.

2. Parent Limited elected to measure non-controlling interest at its fair value amounting to $113 000.

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

4. On 31 December 2017, Parent Limited sold 45 000 shares in Child Limited at their market value of $3.00 per share. The fair value of the net assets of Child Limited at 31 December 2015 was $285 000.

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:

Conduct an analysis of shareholders equity in Child Limited and, then, prepare the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017. Comparative amounts and notes are not required. Your answer must comply with the requirements of IFRSs. **[20 marks]**

Question4

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

Consolidated statement of financial position as at 31 December 2017

	2017	**2016**
	$	**$**
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
Retained earnings	173 828	123 700
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 2017

	$
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 2017, 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 2017, to comply with the requirements of IFRSs. Notes and comparatives are not required. Use the indirect method. **[20 marks]**

Question 5

(a) Taurus Limited made a profit for the year of $63 600 for the year ended 31 December 2017. The company has the following shares in issue:

- Class A ordinary shares: 100 000 shares;
- Class B ordinary shares: 60 000 shares; and
- Preference shares: 20 000 cumulative shares, with a total annual preference dividend of $3 200. There were no cumulative preference dividends in arrears at 1 January 2017.

The Class A and B ordinary shares have no preferential right to dividends. They are entitled to ordinary dividends on a 2:1 basis in total (that is, not on a per share basis).

The following dividends have been declared for the year ended 31 December 2017:

- Class A ordinary shares: $20 000;
- Class B ordinary shares: $10 000; and
- Preference shares: $3 200.

Required:
Compute the basic earnings per share for the Class A and Class B ordinary shares.

[12 marks]

(b) Zodiac Limited has a financial year-end of 31 December and it presents interim financial statements quarterly.

Required:
Present the periods for the interim financial statements for the quarter ended 30 June 2017.

[8 marks]

END OF PAPER