



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION: BACHELOR OF TECHNOLOGY IN ACCOUNTING AND FINANCE	
QUALIFICATION CODE: 23BACF	LEVEL: 7
COURSE CODE: FAC 411S	COURSE NAME: FINANCIAL ACCOUNTING 4
SESSION: Jan/Feb 2019	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

2ND OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Daniel Kamotho
MODERATOR:	M/s I van Rensburg

INSTRUCTIONS
<ol style="list-style-type: none">1. This examination paper is made up of three (3) questions2. Answer ALL the questions and in blue or black ink3. Start each question on a new page in your answer booklet & show all your workings4. Questions relating to this paper may be raised in the initial 30 minutes after the start of the paper. Thereafter, candidates must use their initiative to deal with any perceived error or ambiguities & any assumption made by the candidate should be clearly stated.

PERMISSIBLE MATERIALS

1. Non programmable calculators
2. Examination question paper and script

THIS QUESTION PAPER CONSISTS OF 7 PAGES (excluding this cover page)

QUESTION 1**(20 marks)**

Blue Limited and Red Limited were incorporated on 30 June 2013 and no changes in their shareholdings have occurred since their incorporation. Black Limited holds a 40% interest in Blue Limited which in turn holds a 25% interest in Red Limited.

Summarized extracts from the statement of profit or loss for the year ended 31 December 2017 are as follows:

	Black Limited N\$	Blue Limited N\$	Red Limited N\$
Profit from operations	90 000	50 000	30 000
Taxation	(30 000)	(25 000)	(10 000)
Profit for the year	60 000	25 000	20 000

Consider the following scenarios:

Scenario 1	Scenario 2	Scenario 3
Black Limited (Parent)	Black Limited (Parent)	Black Limited (Parent)
40%	40%	40%
Blue Limited (Subsidiary)	Blue Limited (Subsidiary)	Blue Limited (Associate)
25%	25%	25%
Red Limited (Subsidiary of Blue Limited)	Red Limited (Associate of Blue Limited)	Red Limited (Associate of Blue Limited)

The Black Limited Group's accounting policies include:

- Associates are accounted for in the group financial statements on the equity method.

Required:

Complete the statement of profit or loss in respect of the Black Limited Group for the year ended 31 December 2017 for each of the scenarios as per IFRS 10 requirements.

(20 marks)

QUESTION 2**(30 marks)**

On 1 July 2017, Sugard Ltd. acquired 60% of Nyumbani Ltd's equity shares by means of a share exchange of one new share in Sugard Ltd. for every two acquired shares in Nyumbani Ltd. In addition, Sugard Ltd. will pay a further \$2.70 per acquired share on 30 June 2017.

Sugard Ltd has not recorded any of the purchase consideration and its cost of capital is 8% per annum.

The market value of Sugard Ltd's shares at 1 July 2017 was \$15.00 each.

The summarised statements of financial position of the two companies as at 31 December 2017 are:

	Sugard Ltd.	Nyumbani Ltd.
	\$'000	\$'000
Assets		
Non-current assets		
Property, plant and equipment (note (i))	127,000	67,500
Financial asset: equity investments (note (iv))	<u>27,500</u>	<u>10,000</u>
	154,500	77,500
Current assets		
Inventory (note (iii))	63,500	26,500
Other current assets	<u>48,500</u>	<u>20,000</u>
	<u>112,000</u>	<u>46,500</u>
Total assets	<u>266,500</u>	<u>124,000</u>
Equity and liabilities		
Equity		
Equity shares of \$5 each	100,000	45,000
Retained earnings:		
Brought forward at 1 January 2017	61,000	43,000
Profit/(loss) for the year ended 31 December 2017	<u>25,000</u>	<u>-15,000</u>
	186,000	73,000
Non-current liabilities		
Deferred tax (note (i))	25,000	nil
Current liabilities	<u>55,500</u>	<u>51,000</u>
Total equity and liabilities	<u>266,500</u>	<u>124,000</u>

The following information is relevant:

- i. At the date of acquisition, Sugard Ltd conducted a fair value exercise on Nyumbani Ltd's net assets which were equal to their carrying amounts (including Nyumbani Ltd's financial asset equity investments) with the exception of an item of plant which had a fair value of \$12.5 million below its carrying amount. The plant had a remaining useful life of 30 months at 1 July 2017.
- ii. The directors of Sugard Ltd are of the opinion that an unrecorded deferred tax asset of \$6.0 million at 1 July 2017, relating to Nyumbani Ltd's losses, can be relieved in the near future as a result of the acquisition. At 31 December 2017, the directors' opinion has not changed, nor has the value of the deferred tax asset.
- iii. Sugard Ltd's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, a share price for Nyumbani Ltd of \$7.50 each is representative of the fair value of the shares held by the non-controlling interest.
- iv. At 31 December 2017, Nyumbani Ltd held goods in inventory which had been supplied by Sugard Ltd at a mark-up on cost of 35%. These goods had cost Nyumbani Ltd \$12.15 million.
- v. The financial asset equity investments of Sugard Ltd and Nyumbani Ltd are carried at their fair values at 1 January 2017. At 31 December 2017, these had fair values of \$30.5 million and \$9.0 million respectively, with the change in Nyumbani Ltd's investments all occurring since the acquisition on 1 July 2017.
- vi. There is no impairment to goodwill at 31 December 2017.

Required:

- a) Prepare the following extracts from the consolidated statement of financial position of Sugard Ltd as at 31 December 2017:
 - i. Goodwill; (10 marks)
 - ii. Retained earnings; (11 marks)
 - iii. Non-controlling interest. (4 marks)

b) For many years, HARY has owned 35% of the voting shares and held a seat on the board of MINOR which has given Group significant influence over MINOR. The other shares (65%) in MINOR were held by many other shareholders who all owned less than 10% of the share capital. On this basis, HARY Group considered MINOR to be an associate and has used equity accounting to account for its investment. In March 2017, ZABY made an offer to buy all of the shares of MINOR. The offer was supported by the majority of MINOR's directors. HARY Group did not accept the offer and held on to its shares in MINOR.

On 1 May 2017, ZABY announced that it had acquired the other 65% of the share capital of MINOR and immediately convened a board meeting at which three of the previous directors of MINOR were replaced, including the seat held by HARY Group.

Required:

Explain how the investment in MINOR should be treated in the consolidated statement of profit or loss of HARY Group for the year ended 31 December 2017 and the consolidated statement of financial position as at 31 December 2017.

(5 marks)

(Total: 30 Marks)

QUESTION 3**50 Marks**

HUMBYE Limited bought 6 000 of issued shares in Kamby Limited on 31 December 2016, at which date the identifiable assets of Kamby Limited were considered to be fairly stated in the books. At 31 December 2017, any goodwill that arose on the acquisition of the subsidiary was considered to have been impaired by 20% of the original cost.

The non-controlling interests at the date of acquisition were initially measured at their fair value of N\$7 500.

The statements of financial position and statements of profit or loss and other comprehensive income of the two companies were prepared as though there were no relationship between the companies and they are summarised as follows:

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHEENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	HUMBYE Ltd N\$	Kamby Ltd N\$
Sales	25 000	19 000
Cost of sales (including depreciation H: N\$1000; S: N\$700)	-13 200	-9 700
Gross profit	11 800	9 300
Operating expenses	-4 000	-2 100
Interest received on loan to Kamby Ltd	200	
Dividend received from Kamby Ltd	300	
Financial expense		-200
Profit before taxation	8 300	7 000
Taxation	-3 000	-2 000
Profit and total comprehensive income for the year	5 300	5 000

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017

	HUMBYE Ltd N\$	Kamby Ltd N\$
ASSETS		
Non-current assets	35 900	12 000
Land and buildings, at cost	9 000	6 000
Plant, cost	12 000	7 000
accumulated depreciation	-2 000	-1 000
Shares in Kamby Ltd, at cost	11 900	
Kamby Ltd loan	5 000	
 Current assets	 8 600	 14 500
Inventory	4 000	7 000
Accounts receivable	3 500	3 000
Bank	1 100	4 500
	44 500	26 500
EQUITY AND LIABILITIES		
Shareholders' equity	43 300	20 500
Share capital- par value N\$1 each	25 000	10 000
General reserve	15 000	6 000
Retained earnings	3 300	4 500
Non-current liabilities		
HUMBYE Ltd loan		5 000
Current liabilities		
Accounts payable	1 200	1 000
	44 500	26 500

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital N\$	General Reserve N\$	Retained Earnings N\$	Total N\$
HUMBYE Ltd				
Balances 1 January 2017	25 000	12 000	3 000	40 000
Comprehensive income for the year			5 300	5 300
Dividend paid			-2 000	-2 000
Transfer to general reserve		3 000	-3 000	-
Balances 31 December 2017	25 000	15 000	3 300	43 300
Kamby Ltd				
Balances 1 January 2017	10 000	4 000	2 000	16 000
Comprehensive income for the year			5 000	5 000
Dividend paid			-500	-500
Transfer to general reserve		2 000	-2 000	-
Balances 31 December 2017	10 000	6 000	4 500	20 500

Required:

Prepare

- a) The consolidated statement of profit or loss and other comprehensive income of HUMBYE group for the year ended 31 December 2017, (12 marks)
- b) The consolidated statement of financial position at that 31 December 2017. Please note that PPE note is required as part of the working (15 marks)
- c) The Consolidated Statement of Changes in Equity for the year ended 31 December 2017. Please note that an analysis of equity for the subsidiary is required as part of the working (23 marks)

END OF QUESTION PAPER

