NAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

# MANAGEMENT SCIENCES

ACCOUNTING DEPARTMENT

| QUALIFICATION : BACHELOR OF ACCOUNTING AND FINANCE | |
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| QUALIFICATION CODE: 23BACF | LEVEL: 7 |
| COURSE: FINANCIAL ACCOUNTING 320 | COURSE CODE: GFA 712S |
| DATE: JAN/FEB 2019 | SESSION: JAN/FEB 2019 |
| DURATION: 3HRS | MARKS: 100 |

| SECOND OPPORTUNITY EXAMINATION QUESTION PAPER | |
|---|---|
| EXAMINER(S) | ANDREW SIMASIKU<br>IYALOO AMUTENJA |
| MODERATOR: | J V RENSBURG |

**THIS QUESTION PAPER CONSISTS OF _7_ PAGES**
(Including this front page)

**INSTRUCTIONS**

1. Answer ALL the questions and in blue or black ink
2. Start each question on a new page in your answer booklet & show all your workings
3. Questions relating to this examination 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

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**PERMISSIBLE MATERIALS**

1. Examination paper- No study materials are allowed in the examination room
2. Examination script - The examination script should be handed to the invigilator at the end of the examination session

**QUESTION 1** **(30 marks)**

The following information was extracted from Amazing Limited Consolidated Statement of Financial Position as at 31 December 2017

| | 2017<br>N$ '000 | 2016<br>N$ '000 |
|---|---|---|
| Share capital | 151 500 | 50 000 |
| Retained earnings | 45 727 | 44 522 |
| Non-controlling interest | 20 750 | - |
| Non-current liabilities | 90 000 | - 150 000 |
| Investment properties | 2 069 | 1 596 |
| Equipment - cost less depreciation | 188 493 | 141 025 |
| Intangible assets - cost less amortisation | 22 500 | 25 000 |
| Financial Assets | 22 400 | 25 400 |
| Inventories | 64 900 | 31 200 |
| Accounts Receivable | 95 300 | 57 400 |
| Cash and cash equivalents | 13 725 | 7 600 |
| Current Tax payable | 320 | 920 |
| Accounts Payable | 75 780 | 43 279 |
| Shareholders for dividends | 1 500 | 500 |
| Goodwill | 3 000 | - |
| | - | - |

**Additional information**

1. The financial assets are all classified as fair value through profit or loss in terms of IFRS 9. No financial assets have been bought or sold during the current financial year.
2. Tax expense of N$ 2 500 000 had been charged to the statement of profit or loss and other comprehensive income for the current financial year. No deferred tax was necessary.
3. Equipment with a carrying amount of N$ 3 439 000 was sold for N$ 1 807 000. Depreciation for the year in respect of equipment amounted to N$ 21 828 000.
4. No patents were acquired or disposed of during the current year
5. Investment properties are accounted for using the fair value model in terms of IAS 40. No investment properties have been bought or sold during the current year.
6. The following is an extract from the retained earning column of the consolidated statement of changes in equity:

| | | |
|---|---|---|
| Ordinary dividend | - | 2 500 000 |
| Capitalisation issue of 5 shares for every 100 held | - | 2 500 000 |

7. During the year, Amazing Limited acquired 75% of the shares in its only subsidiary, Grace Limited, for N$ 63 000 000. The fair value of assets and liabilities of Grace Limited at the date of acquisition were:

| | N$' 000 |
|---|---|
| Equipment | 46 000 |
| Inventories | 28 000 |
| Accounts receivables | 31 000 |
| Cash and cash equivalents | 4 000 |
| Accounts payable | - 29 000 |
| | 80 000 |

8. Goodwill was not impaired as at year end.
9. Included in the account payable figure is an amount of N$ 125 000 for dividends owing to non-controlling shareholders. The subsidiary declared dividends of N$ 1 000 000 since being acquired.
10. The non-controlling interest in the group profit for the current year was N$ 1 000 000.
11. The group paid interest of N$ 3 640 000 during the current year and received income of N$ 1 344 000 on its financial assets.
12. During the year non-current liabilities of N$ 110 000 000 had been repaid and new loans of N$ 50 000 000 had been raised.
13. Assume that the Consolidated Profit before tax for the year has been correctly calculated as N$ 9 705 000. This includes NCI's share of profits.

**Required:**

Prepare an extract of the consolidated statement of cash flows for Amazing Limited for the year end 31 December 2017 representing the Net Cash flow from operating activities only (30 marks)

Notes to the Cash Flows are not required

No comparatives are required.

Show all your workings

**Question 2** **25 Marks**

Sway Limited purchased 70% of the shares Lee Limited on 1 January 2018. As part of the business combination, Sway Limited acquired a piece of land located in a prime location in Central Business District of Guatemala City, Guatemala. In addition to the piece of land, Sway Limited also acquired a 10% investment in the shares of Soulful.

Details of the assets acquired as part of the business combination are as follows:

1. **Land**
   - The Land is held for capital appreciation and therefore has been correctly designated as an Investment Property measured under IAS 40 fair value model
   - The land is zoned for commercial property
   - The land is located in a prime location in Central Business District of Guatemala City, Guatemala in close proximity to shopping malls, gyms as well as restaurants.
   - Due to a sudden increase in the demand of residential property, owners of various pieces of nearby land have recently been successful in an application to re-zone their property to that of residential and have commenced with changes to facilitate the development and construction of residential units.
   - Sway Limited has determined that the commercial land held for capital appreciation could be developed for a site for residential property however does not intend on converting the land to residential property in the near future.
   - If Sway were to re-zone the piece of land, N$ 150 000 would be incurred as re-zoning costs
   - Similar pieces of land in the Guatemala City were recently purchased for N$ 2 500 000 excluding transactions of N$ 300 000.
   -

**Additional information:**

- The Andrew Amutenja, the group accountant of Sway Limited is unsure of the IFRS 13 considerations in the determination of the fair value of the piece of land has asked you, as an IFRS 13 specialist, to assist him with the determination of the fair value of the land.
- The group has a 31 December 2018 year end

**Required:**

1. Define fair value in terms of IFRS 13 (2 marks)

2.1 IFRS 13 para 11 states that when measuring the fair value, characteristics of the asset or liability should be taken into account when measuring the fair value if the market participants would take those characteristics into account

Give two examples of characteristics that the group accountant should consider when measuring the fair value of the land (2 marks)

2.2 Describe the consideration Andrew would need to take into account to determine the highest and best use of the land. (19 marks)

2. Based on the above information, state the valuation technique Sway Limited would be using if they determined the fair value to be as follows and why: (2 marks)
    1. N$ 2 500 000

**Question 3** **(20 marks)**

1. Jo Limited acquired 10% of the shares of Malone Ltd on 1 January 2015 for N$ 20 000 when the net asset value of Malone was N$ 50 000. Jo determined that a 10% interest resulted in less than significant influence.
2. On the 1 January 2016 Jo Ltd acquired an additional 60% of the shares of Malone Ltd for N$100 000.

   The net asset value of Malone Ltd at the acquisition date was as follows:

   | | |
   |---|---|
   | Share Capital | 100 000 |
   | Retained earnings | 50 000 |
   | General Reserve | 25 000 |
   | | **175 000** |

   All the net assets were considered to be fairly valued at this date except for Land which Jo considered to be valued at N$ 10 000 less than the carrying amount.
3. Up until the 1 January 2016, Jo Ltd accounted for the investment in Malone Ltd as an financial asset in terms of IFRS 9 amortised cost.
4. The fair value of the investment was determined to be N$ 25 000 on 1 January 2016.
5. Jo Ltd has not changed its business model since 1 January 2015.
6. On 1 January 2017, Jo Ltd acquired an additional 20% of the shares of Malone Limited. The shares were exchanged for N$ 25 000 cash and 10 000 shares in Guerlain Ltd, the fair value of which was determined to be N$ 15 000.

   The net assets of Malone were considered to be fairly valued at this date.
7. The group's policy is to measure Non-controlling interest at their proportionate share of net identifiable assets
8. Ignore any tax consequences including deferred tax.
9. Goodwill was not considered to be impaired since the date of acquisition.

10. Below is the Trial balances of Jo Ltd and Malone Ltd for the year ended 31 December 2017

| | Jo Ltd | Malone Ltd |
|---|---|---|
| Assets | | |
| Investment in Malone at cost | 160 000 | - |
| Land at cost | 1 200 000 | 900 000 |
| Property, Plant and Equipment | | |
| Cost | 50 000 | 10 000 |
| Accumulated depreciation | - 25 000 | - 8 000 |
| Trade receivables | 20 000 | 6 000 |
| Cash and cash equivalents | 100 000 | 55 000 |
| | | |
| Share capital | - 100 000 | - 100 000 |
| Retained earnings | - 80 000 | - 65 000 |
| General reserve | - 50 000 | - 25 000 |
| | | |
| Liabilities | | |
| Long term loan | - 1 000 000 | - 500 000 |
| Trade payables | - 100 000 | - 7 000 |
| | | |
| Profit before tax | - 475 000 | - 366 000 |
| Tax expense | 300 000 | 100 000 |

**You are required to prepare the following:**

1. Statement of Changes in equity for the year ended 31 December 2017 (10 marks)
2. Consolidated statement of Financial Position as at 31 December 2017 (10 marks)

   Show all your workings

   Notes to the financial statements are not required.

**Question 4** **(20 marks)**

Master Ltd obtained control over Servant Limited when 80% of the shares of Servant Limited for N$ 88 000 on 1 January 2016.

All the net assets of Servant Limited were fairly valued at this date.

The following are extracts of the Statement of Financial Position of Master Ltd and Servant Ltd as at 31 December 2017.

**Master**

| | **2017** | **2016** |
|---|---|---|
| Assets | | |
| Investment in S Ltd | 88 000 | 88 000 |
| PPE | 420 000 | 250 000 |
| Receivables | 90 000 | 80 000 |
| Cash | 80 000 | 50 000 |
| | **678 000** | **468 000** |
| | | |
| Equity and Liabilities | | |
| Share Capital | 250 000 | 250 000 |
| Retained Earning | 350 000 | 150 000 |
| | | |
| Payables | 78 000 | 68 000 |
| | **678 000** | **468 000** |

**Servant**

| | | |
|---|---|---|
| Assets | | |
| PPE | 100 000 | 80 000 |
| Receivables | 55 000 | 40 000 |
| Cash | 50 000 | 20 000 |
| | **205 000** | **140 000** |
| | | |
| **Equity and Liabilities** | | |
| Share Capital | 50 000 | 50 000 |
| Retained Earning | 110 000 | 60 000 |
| | | |
| Payables | 45 000 | 30 000 |
| | **205 000** | **140 000** |

**Additional Notes:**

1. NCI is measured at the proportionate share of Net Identifiable assets
2. No dividends have been paid or declared during the 2016 and 2017 financial year
3. No Tax or interest was paid or received during the 2016 or 2017 financial year.

4. The Consolidated Profit after tax for Master Ltd Group is:

| | |
|---|---|
| Profit for the year | 250 000 |

**Required:**

Prepare the consolidated statement of cash flows for the year ended 31 December 2017 using the direct method (20 marks)

Notes to the consolidated statement of cash flows and comparatives are not required

**END OF QUESTION PAPER**