



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF COMMERCE, HUMAN SCIENCES AND EDUCATION

DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE

QUALIFICATION: BACHELOR OF ACCOUNTING	
QUALIFICATION CODE: 07 BOAC	LEVEL: 7
COURSE CODE: GFA 712S	COURSE NAME: FINANCIAL ACCOUNTING 320
SESSION: January 2024	PAPER: THEORY AND CALCULATIONS
DURATION: 3 hours	MARKS: 100

2nd OPPORTUNITY EXAMINATION – QUESTION PAPER	
EXAMINER(S)	D Kamotho & Ms K Keeja
MODERATOR:	M Tondota

INSTRUCTIONS
<ol style="list-style-type: none">1. Answer ALL questions in blue or black ink only.2. Capture your full name, student number and assessment number on the first page.3. Write clearly and neatly.4. Start each question on a new page and number the answers clearly.5. No programmable calculators are allowed.6. The names of people and businesses used throughout this assessment do not reflect the reality and may be purely coincidental.7. Questions relating to the 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.8. Do not write in pencil and do not use tip-ex, as this will not be marked.9. SHOW ALL WORKINGS!

THIS QUESTION PAPER CONSISTS OF 9 PAGES (excluding the front page)

Question 1

(15 marks)

- a) According to IFRS 10, an investor controls an investee if and only if certain conditions are fulfilled. Identify and briefly explain these conditions (5 marks)
- b) In each of the following cases state which company would be required to prepare group annual financial statements and name the subsidiaries which would be included in the group annual financial statements?

Each of the statements i – iv is independent reasons should be given.

- i. Apple Limited holds no shares in Banana Limited but has the power to elect 4 of Banana Limited's 7 directors. Banana Limited holds 51% of the voting rights of Carrot Limited.
- ii. Apple Limited holds 40% of Banana Limited's equity shares and voting rights and Apple Limited and Banana Limited each hold 40% of Carrot Limited's equity shares and voting rights.
- iii. Apple Limited holds all the shares of Banana Limited and Banana Limited holds 95% of the ordinary shares and voting rights of Carrot Limited
- iv. Apple Limited holds 45 000 of Banana Limited's 100 000 issued ordinary shares. Banana Limited has 20 000 options outstanding all of which are held by Apple Limited. The options are currently exercisable but Apple Limited is currently a severe cash flow challenge following closures of several division during the Covid-19 epidemic. (10 marks)

{Total 15 marks}

Question 2**(25 marks)**

On 1 February 2023 Expansive Ltd purchased 150 000 ordinary shares and 50 000 preference shares in Midlands Ltd, and on 1 March 2023 it purchased 45 000 ordinary shares in Minic Ltd. All three companies make up their accounts to 30 June in each year.

The following figures were extracted from the companies' records for the year ended 30 June 2023.

	Expansive N\$	Midlands N\$	Minic N\$
Sales	900 000	850 000	500 000
Purchases	497 990	482 580	221 100
Selling expenses	45 000	67 500	45 000
Overhead expenses	115 000	52 500	65 000
Interim dividend paid – 01 Jan 2023			
Ordinary shares	75 000	40 000	-
Preference Shares	-	4 500	-
Inventory on hand – as on 30 Jun 2012			
	49 650	100 280	34 500
Issued share capital			
Ordinary share capital – N\$ 1 each	300 000	200 000	100 000
9% Preference shares – N\$ 1 each	-	100 000	-
Revenue reserve as at 30 Jun 2012 – deducting all dividends to that date	26 750	32 000	48 000

You also obtain the following additional information:

- i. Profits of Midlands Ltd. and Minic Ltd. accrued evenly throughout the year.
- ii. Inventories on hand on 30 June 2023 were:

Expansive Ltd	N\$ 87 640.
Midlands Ltd	N\$ 92 860.
Minic Ltd	N\$ 45 600

iii. Owing to an oversight, corporation tax was not provided on the profits for the year.

The amounts computed are as follows:

- Expansive Ltd –N\$ 150 000
- Midlands Ltd –N\$ 108 000
- Minic Ltd -N\$ 86 400

iv. The following dividends are proposed:

- Expansive Ltd. – a final dividend on ordinary shares of 25%.
- Midlands Ltd - half yearly dividend on the preference shares and a final dividend on ordinary shares of 30% and
- Minic Ltd. a dividend on ordinary shares of 60%

REQUIRED:

Prepare a consolidated statement of comprehensive income of Expansive Ltd and its subsidiaries companies incorporating the results of its associated company for the year ended 30th June 2023 as the requirement of IFRS. Show all your workings. (25 marks)

{Total 25 marks}

Question 3**(30 marks)**

Gitugu Ltd (Gitugu) is a public limited company based in Namibia with shareholdings in two other companies, Moran Ltd (Moran) and Kahuti Ltd (Kahuti). Statements of Financial Position are shown below for all three companies as at 31 July 2023.

Statements of Financial Position as at 31 July 2023

	Gitugu Ltd	Moran Ltd	Kahuti Ltd
	N \$ million	N \$ million	N \$ million
Non-current assets:			
Property, plant & equipment	758	326	159
Investments	1,200	40	25
	1958	366	184
Current assets:			
Inventories	235	153	65
Trade receivables	188	134	42
Cash & bank	100	36	20
	523	323	127
Total assets	2481	689	311
Equity:			
Equity share capital of N\$1 each	1,000	400	100
Other equity reserves	200	30	80
Retained earnings	977	112	70
	2177	542	250
Current liabilities:			
Contingent consideration	38		
Trade payables	161	127	46
Taxation	25	20	15
Dividends proposed	80	-	-
	304	147	61
Total equity & liabilities	2,481	689	311

The following additional information should be taken into account in so far as it is relevant:

- i. Gitugu bought 320 million ordinary shares in Moran on 1 August 2022, when the other equity reserves of Moran were N\$20 million and the retained earnings of Moran were N\$132 million. The consideration was agreed at N\$800 million. This was satisfied by the

issue of 200 million equity shares by Gitugu at an agreed fair valuation of N\$750 million, plus N\$50 million to be paid by Gitugu on 31 July 2023 if the profit target for the year (N\$15 million) was met by Moran. The contingent element of the consideration was recorded at its fair value of N\$38 million at 1 August 2022. As it turned out, significant losses were incurred by Moran in the year to 31 July 2023. Consequently, nothing is payable by Gitugu on 31 July 2023 under this part of the deal. No entry has been made by Gitugu to reflect this change in expectation.

- ii. The group accounting policy is to value any Non-Controlling Interests (NCI) at their fair value at the acquisition date. On the date, Gitugu acquired its interest in Moran, the fair value of the NCI in Moran was N\$130 million.
- iii. At 1 August 2022, some equipment held by Moran had a fair value N\$25 million in excess of its carrying value. This equipment had a remaining useful economic life of 5 years at that date.
- iv. Gitugu bought a 30% holding in the ordinary shares of Kahuti on 1 August 2022, when the other equity reserves of Kahuti were N\$75 million and the retained earnings balance in Kahuti' books stood at N\$60 million. The consideration consisted of an immediate cash payment of N\$112 million. Gitugu exerts significant influence over Kahuti as a result of this shareholding. Other investments are held by all three companies. These are equity investments and not more than 5% of the issued share capital is held in any of these individual entities.
- v. During the financial year ended 31 July 2023, Moran sold goods to Gitugu for N\$30 million. These goods were sold at a mark-up on cost of 100%. Of these goods, 40% of these goods remained in the inventory of Gitugu at 31 July

- vi. 2023: N\$2.5 million of the cost of these goods remains unpaid by Gitugu at 31 July 2023.
(vi) No dividends were paid or proposed in the year by any of the companies.
- vii. Due to the unexpected losses incurred by Moran during the year, an impairment review was undertaken on 31 July 2023 and goodwill was found to be impaired by 60% of its acquisition value. There was no impairment necessary in respect of the investment in Kahuti.

Note: *All workings should be rounded to the nearest N\$0.1m.*

REQUIRED:

- a) Prepare the Consolidated Statement of Financial Position for the Gitugu group as at 31 July 2023 in accordance with International Financial Reporting Standards. (24 marks)
- b) IFRS 3 - Business Combinations permits two methods for valuing non-controlling interest at acquisition. Discuss how the initial calculation and subsequent treatment of goodwill arising on the acquisition of Moran would have differed had the non-controlling interest been measured using the proportionate share of the identifiable net assets at the acquisition date. (3 marks)
- c) Recalculate the goodwill on this basis. (3 marks)

[Total: 30 Marks]

Question 4**(30 Marks)**

Sassuolo Ltd has a number of subsidiaries, one of which, Brianz Ltd was acquired during the year ended 31 December 2022.

The draft consolidated financial statements for the year ended 31 December 2022 are as follows:

Consolidated Statement of Profit or Loss of Sassuolo Ltd for the year ended 31 December 2022

	\$000
Profit from operations	1,210
Interest	(100)
	1,110
Share of profits of associates	240
Profit before taxation	(1,350)
Taxation	(482)
	868
Non-controlling interest	(104)
Group profit	764

Statements of Financial Position are as follows:

	Sassuolo Ltd consolidated at 31/12/ 2022	Sassuolo Ltd consolidated at 31/12/ 2021	Brianz Ltd at acquisition
	\$000	\$000	\$000
Assets			
Non-current assets			
Property, plant and equipment	4,730	2,610	610
Intangibles	350	310	-
Investment in associates	520	500	-
	5,600	3,420	610
Current assets			
Inventories	740	610	150
Trade and other receivables	390	350	85
Cash and cash equivalents	40	85	20
Total assets	<u>6,770</u>	<u>4,465</u>	<u>865</u>
Equity and liabilities			
\$1 ordinary shares	1,400	1,000	500
Share premium	300	200	100
Retained earnings	<u>1,615</u>	<u>865</u>	<u>80</u>
	3,315	2,065	680
Non-controlling interest	<u>580</u>	<u>610</u>	-
	3,895	2,675	680
Non-current liabilities			
Long term loans	1,900	1,100	-
Current liabilities			
Trade payables	520	480	75
Taxation	<u>455</u>	<u>210</u>	<u>110</u>
Total Equity and Liabilities	<u>6,770</u>	<u>4,465</u>	<u>865</u>

Additional information:

1. Sassuolo Ltd issued 400,000 \$1 ordinary shares at a premium of 25 cent and paid a cash consideration of \$197,500 to acquire 75% of Brianz Ltd. At the date of acquisition, Brianz Ltd.'s assets and liabilities were recorded at their fair value with the exception

of some plant which had a fair value of \$90,000 in excess of its carrying value. Goodwill on acquisition was \$120,000.

2. The property, plant and equipment during the year to 31 December 2022 shows plant with a carrying value of \$800,000 which was sold for \$680,000. Total depreciation for the year was \$782,000.

REQUIRED:

Prepare a consolidated statement of cash flows in accordance with IAS 7 *Statement of Cash Flows* for the year ended 31 December 2022 using the indirect method. (30 marks)

Show all the relevant workings.

{Total: 30 Marks}

END OF QUESTION PAPER