



PAMIBIA UNIVERSITY
OF SCIENCE AND TECHNOLOGY

FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF ACCOUNTING, ECONOMICS AND FINANCE

QUALIFICATION : BACHELOR OF ACCOUNTING	
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COURSE NAME: FINANCIAL ACCOUNTING 320	COURSE CODE: GFA 712S
SESSION: JAN/ FEB 2020	PAPER: THEORY
DURATION: 3 HOURS	MARKS: 100

2nd OPPORTUNITY EXAMINATION QUESTION PAPER	
EXAMINER(S)	Daniel Kamotho & Andrew Simasiku
MODERATOR:	Ms I Van Rensburg

INSTRUCTIONS
<ol style="list-style-type: none">1. This examination paper is made up of four (4) 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 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

PERMISSIBLE MATERIALS
<ol style="list-style-type: none">1. Non Programmable calculators2. Examination question paper and script - The examination script should be handed to the invigilator at the end of the examination session

THIS QUESTION PAPER CONSISTS OF 8 PAGES (excluding this front page)

Question 1**(35 marks)**

The following Statements of Profit or Loss and Other Comprehensive Income relate to Kigumi Limited (Kigumi) and its investee companies, Milly Limited (Milly) and Floria Limited (Floria).

Statements of Profit or Loss and Other Comprehensive Income for year ended 31 March 2017

	Kigumi Limited	Milly Limited \$ '000	Floria Limited
Revenue	3,500	760	900
Cost of Sales	(2,000)	(320)	(300)
Gross profit	1,500	440	600
Operating expenses	(210)	(160)	(240)
Finance costs	(30)	(20)	(40)
Other income	20	-	80
Profit before taxation	1,280	260	400
Taxation	(150)	(60)	(40)
Profit for the year	1,130	200	360
Other comprehensive income (amounts that will not be reclassified to profit or			
Gains on revaluations of property	60	-	-
Total comprehensive income for the	1,190	200	360

The following additional information is provided:

- (i) Kigumi bought a 70% holding in the voting equity of Milly on 1 July 2016. The purchase price of the investment was agreed at \$2.5 million. The 30% non-controlling interest in Milly had a fair value of \$1 million at that date. Milly's identifiable net assets had a fair value of \$3 million on 1 July 2016. It was decided to apply the fair value method to calculate goodwill on acquisition, as permitted by IFRS 3 - Business Combinations.

- (ii) Kigumi purchased 30% of the voting equity of Floria on 1 October 2016. Kigumi exerts significant influence over Floria because of this investment.
- (iii) Goodwill of Milly was reviewed for impairment at 31 March 2017 and was found to have suffered an impairment loss of \$30,000. The 30% investment in Floria was reviewed for impairment at 31 March 2017 and found to have suffered an impairment of \$25,000.
- (iv) Included in Milly's net assets on the acquisition date was some machinery with a fair value of \$48,000 above its carrying amount. The useful economic life of this machinery at the acquisition date was estimated to be six years. The fair value adjustment has been considered in arriving at the \$3 million referred to in note (i), but has not been incorporated into the books of Milly.
- (v) During the year ended 31 March 2017 Kigumi sold goods to Milly totaling \$36,000. These goods were sold by Kigumi at a mark-up of 20% on cost price. The goods were traded evenly throughout the year. \$6,000 worth of inventory (at cost to Milly) was held by Milly at 31 March 2017. These goods were supplied in February and March 2017.
- (vi) Since acquisition, Kigumi has managed the administration of the entire group. Kigumi invoiced Milly \$10,000 for its share of these costs. Kigumi recorded this transaction within "other income", and Milly within "operating expenses".
- (vii) On 1 February 2017, Floria sold some land to Kigumi for \$200,000, recording a profit of \$80,000. This profit is included within "other income" in the books of Floria. Assume this transaction had no taxation impact.
- (viii) Kigumi has a policy of revaluing property to fair value as permitted under the revaluation model of IAS 16. Neither Milly nor Floria adopts the revaluation model of IAS 16 - Property, Plant and Equipment, instead choosing the cost model. If they had adopted the revaluation model, Milly would have recorded revaluation gains of \$15,000 at 31 March 2017. No revaluations would have been necessary prior to its acquisition.

(ix) Assume all expenses and gains accrue evenly throughout the year unless otherwise instructed.

Required:

(a) Calculate the goodwill arising on the acquisition of Milly in accordance with IFRS 3. Calculate the goodwill amount that should appear in the Consolidated Statement of Financial Position of Kigumi at 31 March 2017.

(5 marks)

(b) Prepare a consolidated Statement of Profit or Loss and Other Comprehensive Income for the Kigumi Group for year ended 31 March 2017 in accordance with IFRS. (30 marks)

Question 2

(20 marks)

If, in the event of a business combination, a company complies with the requirement of IFRS 3 and accounts for such business combination by applying the acquisition method, four steps need to be executed, *i.e.*:

- The acquirer is identified;
- The acquisition date is determined;
- The identifiable assets acquired, liabilities assumed and non-controlling interests are measured and recognised, and
- The goodwill or gain from a bargain purchase is recognised and measured.

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Scenario

Parent (Pty) Ltd (Parent) purchases 60% of the issued Class A shares of Sub (Pty) Ltd (Sub) through a once-off cash payment on 1 April 2014. Parent was very keen to obtain this interest in Sub, due to its excellent customer base, as the two companies produce products in the same market segment. After a due-diligence, the fair value of the identifiable net assets of Sub was determined at R5 000 000 on 1 March 2014 and R4 800 000 on 1 April 2014. The fair value of the consideration was R3 400 000 In terms of an agreement with the former owners of Sub, Parent took control of the business of Sub on 1 March 2014 in terms of a written agreement. From that date Parent controlled all the assets and assumed responsibility

for all the obligations of Sub. Every Class A share entitles the holder to one voting right on the AGM. Sub (Pty) Ltd does not have any other class of equity shares. The relevant activities of Sub (Pty) Ltd is controlled through resolutions taken at the AGM. There are no other arrangements that could alter decision making.

Required:

Briefly discuss the acquisition method in reference to IFRS 10 requirements if the following scenario is considered (20 marks)

Question 3**(20 marks)**

The consolidated income statement and extracts from the consolidated statement of changes in equity of the Mufasa Limited group for the year ended 31 December 2018 and the consolidated statement of financial position of the group at the beginning and end of 2018 are given below

Consolidated income statement –year ended 31 December 2018

	(N\$ 000)
Profit from operations	20 000
Finance costs	(1400)
Profit on disposal	700
Profit before tax	19 300
Income tax expense	<u>(6 500)</u>
Profit for the period	<u>12 800</u>
Attributable to	
Equity holders of the parent	11 800
Non-controlling interest	<u>1 000</u>
	<u>12 800</u>

Summarised consolidated statement of changes in equity – year ended 31 December 2018(in respect of the equity holders of the parent)

	N\$ 000
Balance 1 January 2018	49 500
Profit for the period	11 800
Dividends paid	<u>(3 000)</u>
Balance at 31 December 2018	<u>58 300</u>

Consolidated statement of financial position as at 31 December

	2018		2017	
	N\$ 000	N\$ 000	N\$ 000	N\$ 000
ASSETS				
Property plant and equipment		51 350		50 000
Current assets				
Inventories	25 000		23 000	
Trade receivables	21 000		19 000	
Bank	6 000	<u>52 000</u>	<u>2 000</u>	<u>44 000</u>
		<u>103 350</u>		<u>94 000</u>
Equity and Liabilities				
Share capital		20 000		20 000
Retained earnings		38 300		29 500
Non-controlling interest		<u>5 050</u>		<u>5 750</u>
		63 350		52 250
Long term loans		9 500		12 500
Current liabilities				
Trade payables	18 500		16 250	
Tax	6 000		5 000	
Bank overdraft	6 000	<u>30 500</u>	5 000	<u>26 250</u>
		<u>103 350</u>		<u>94 000</u>

Additional information

1. On 30 June 2018, Mufasa Limited disposed of its investment in Sky Limited. It had a shareholding of 80%. The proceeds from the disposal were N\$5.5 million. Details of the disposal were as follows

Net assets at the date of disposal	N\$ 000
Property plant and equipment	4000
Inventories	2000
Receivables	2500
Trade payables	(1 500)
Tax	(300)
Bank overdraft	(200)
Long term loan	<u>(5 000)</u>
	<u>6 000</u>

Mufasa Limited had acquired its investment on 30th June 2016 for N\$ 1.9 million when the assets of Sky Limited were N\$ 2 million. Goodwill was found to be impaired several years ago, and so was fully written off before the start of the current financial year.

2. Depreciation charged during the period in the consolidated income statement amounted to N\$10.1 million. There were no disposals of property, plant and equipment by the group than those effectively made upon disposal of the investment in Sky Limited.

Required

Prepare a consolidated statement of cash flow for the year ended 31 December 2018 under the indirect method in accordance with IAS 7 (20 marks)

Question 4

(25 marks)

Blue Limited and Red Limited were incorporated on 30 June 2014 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 2018 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 2018 for each of the scenarios as per IFRS 10 requirements.

(25 marks)

END OF EXAMINATION QUESTION PAPER

