



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: November 2023	PAPER: THEORY AND CALCULATIONS
DURATION: 3 hours	MARKS: 100

FINAL ASSESSMENT – 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)

Nakuru Company has the following shareholdings as at 31 December 2022.

1 000 000 - 'A' ordinary shares in Eldoret Ltd.

Eldoret Ltd has a total issued share capital of 1 200 000 \$1 'A' ordinary shares and 500 000 \$1 'B' ordinary shares. B shares hold three votes each and A shares two votes each.

4 000 000 - 25c ordinary shares in Busia Ltd

Busia Ltd has a total of 10 000 000 - 25c ordinary shares in issue.

Nakuru Company also holds all the 3 000 000 \$1 3% convertible bonds 2022 – 2025 of Busia Ltd. Each \$1 bond is convertible into two 25c ordinary shares of Busia Ltd. The bonds are convertible at any time from 1 August 2022 to 31 January 2025 at the holder's option. Nakuru Ltd is currently experiencing financial difficulties due to declining sales and higher costs of production and has no motivation nor need in exercising its option. All existing and potential shares carry equal votes.

2 500 000 - 50c ordinary shares in Butere Ltd.

Butere Ltd has a total of 6 000 000 - 50c ordinary shares in issue. Nakuru Company holds options to acquire 1 500 000 - 50c ordinary shares of Butere Ltd. The options are exercisable when, and if, Butere Ltd secures permission to develop oil fields in southern Angola. The permission was granted in July 2023, but Nakuru Ltd Board will meet in January 2024 to make the decision. All existing and potential shares carry equal votes.

Required:

Based on the above information, discuss, and **determine** the relationship between Nakuru Limited and indicate whether consolidated financial statements are required for Nakuru Ltd or not.

- a) Eldoret Ltd,
- b) Busia Ltd and
- c) Butere Ltd.

{15 Marks}

Question 2**(25 marks)**

The draft statements of financial position of Afric Limited and Pacik Limited as of 31 December 2022 are as follows:

	Afric Ltd	Pacik Ltd
	N\$ 000	N\$ 000
ASSETS		
Non-current assets:		
Intangible assets	540	140
Tangible assets	2 371	3 050
Investment in Subsidiary	1 320	-
	<u>4 231</u>	<u>3 190</u>
Current assets:		
Inventory	752	379
Trade receivables	456	273
Bank	<u>101</u>	<u>10</u>
	<u>1 309</u>	<u>662</u>
TOTAL ASSETS	<u>5 540</u>	<u>3 852</u>
EQUITY AND LIABILITIES		
Equity:		
Ordinary shares 25c	3 200	-
Ordinary shares @N\$ 10 each	-	1,000
Retained earnings	<u>1 500</u>	<u>2 450</u>
	<u>4 700</u>	<u>3 450</u>
Liabilities		
Non-current liabilities:		
8% debentures	60	-
5% debentures	-	100
Current liabilities	<u>780</u>	<u>302</u>
TOTAL EQUITY AND LIABILITIES	<u>5 540</u>	<u>3 852</u>

(Note that figures in the above table are in 000's - thousands)

Additional Information.

- i. Afric acquired the following shares in Pacik as follows.

Date	No of Shares Acquired	Cost of the Shares N\$	Retained earnings of Pacik (N\$)	Retained earnings of Afric (N\$)	Fair value of PHI*
31 December 2019	40,000	620,000	1,000,000	1,000,000	None
31 December 2021	40,000	1,200,000	1,500,000	1,200,000	1,100,000
31 December 2022	(20,000) *	(700,000)	2,000,000	1,500,000	2,450,000

(* this was a sale of shares - 20,000 shares were disposed (sold by Afric for N\$ 700,000 hence the negative sign). PHI means – Previously Held Investments.

- ii. There has been no change in the issued share capital of both companies since incorporation several years ago and both companies prepare accounts to 31 December each year.
- iii. The reserves on 31 December for the years 2019-2022 reflect the fair value of the assets of both companies at those dates except for a equipment bought by Pacik Ltd on 01 July 2021 with a useful life of 5 years on that date, whose fair value has was N\$ 500, 000 above its carrying amount on 31 December 2021 and an estimated useful life of 5 years on that date.
- iv. Non-controlling interest is valued at their share of the net assets of the subsidiary.
- v. Afric Ltd uses the equity method under IAS 28 to account for its investments in Associates. All entries had been incorporated at the acquisition date of the subsidiary.
- vi. Afric has no other subsidiary(ies) other than Pacik and has only the above reserves in its book.

REQUIRED:

- a) Calculate the goodwill arising on the acquisition of shares in Pacik Ltd. (7 marks)
- b) Prepare the Consolidated statement of changes in equity for the for the year ended 31 December 2022. (8 marks)
- c) Prepare the consolidated statement of financial position for Afric Ltd and its subsidiaries for the year ended 31 December 2022. (10 marks)

Note – all necessary workings are required.

{Total: 25 Marks}

Question 3**(30 marks)**

The following financial statements relate to Baringo Ltd (Baringo) and its investee companies, Marigat Ltd (Marigat) and Kabaratonyo Ltd (Kabaratonyo).

Statements of Profit or Loss and Other Comprehensive Income for year ended 31 March 2023

	Baringo Ltd	Marigat Ltd	Kabaratonyo Ltd
	N\$ million	N\$ million	N\$ million
Revenue	800	320	140
Cost of Sales	-340	-178	-126
Gross profit	460	142	14
Operating expenses	-114	-64	-6
Finance costs	-20	-12	-
Other income	15	-	-
Dividends received	16	-	-
Profit before taxation	357	66	8
Taxation	-32	-5	-1
Profit for the year	325	61	7
Other comprehensive income*see note below			
Gains (- losses) on remeasurement of	15	-4	
Total comprehensive income for the year	340	57	7
Reserve balances total at 1 April 2022	4600	350	200
Equity share capital at 1 April 2022	2000	500	100

*(amounts that will not be reclassified to profit or loss):

The following additional information is provided:

- i. Baringo bought a 60% holding in the equity of Marigat on 1 October 2022. The purchase price of the investment was agreed at N\$750 million, of which N\$600 million was paid immediately. It was agreed that the balance of N\$150 million would be paid two years following the acquisition. Marigat's net assets had a fair value of N\$898.3 million on 1 October 2022. This was represented by equity capital, reserves and an increase in the fair value of non-depreciable land over the carrying value (to be calculated as a balancing figure). The weighted average cost of capital for the group is 10%.

- ii. It was decided to apply the fair value method to calculate goodwill on acquisition. The non-controlling interest in Marigat had a fair value of N\$380 million at the acquisition date. Impairment losses of N\$30 million were deemed to have arisen by 31 March 2023 in respect of the goodwill of Marigat.
- iii. Baringo has owned 40% of the equity shares in Kabaratonyo since incorporation. Baringo has no representatives on Kabaratonyo's board of directors. However, Kabaratonyo manufactures a key component used by Baringo. Baringo purchases 75% of Kabaratonyo's production. Both companies work closely together, with Baringo providing technical information and certain managerial services to Kabaratonyo.
- iv. During the year, Baringo purchased goods from Kabaratonyo for N\$105 million. Kabaratonyo earns a 10% margin on goods sold to Baringo. These goods were incorporated by Baringo into its own products, which were sold at a profit. N\$10 million of the goods purchased from Kabaratonyo remained in the inventory of Baringo at 31 March 2023.
- v. During the year, Baringo sold N\$5 million worth of goods to Marigat each month. Baringo earned a 20% mark-up on cost on the goods sold to Marigat. At 31 March 2023, Marigat had sold all of these goods except N\$4.2 million of the most recent delivery. These goods remained in the inventory of Marigat at 31 March 2023.
- vi. On 1 October 2022, immediately following the acquisition of Marigat, Baringo sold a piece of equipment to Marigat for N\$40 million. This equipment had a carrying value of N\$25 million prior to the transfer. The gain on sale was shown as 'other income' in the books of Baringo. The equipment had a five-year useful economic life remaining at the date of transfer.
- vii. On 1 March 2023, Marigat declared and paid a dividend of N\$20 million out of post-acquisition profits. On the same date, Kabaratonyo declared and paid a dividend of N\$10 million. Baringo recorded its share of both dividends as 'dividends received'.
- viii. All calculations may be taken to the nearest N\$0.1 million. Assume all expenses and income accrue evenly throughout the year unless otherwise instructed. No new equity capital was issued by any group company during the year.
- ix. Present Value Interest Factors for a 10% per annum interest rate are as follows:
 - 1 year 0.909
 - 2 years 0.826
 - 3 years 0.751

REQUIRED:

- a) Calculate the goodwill on the acquisition of the shares in Marigat as should be shown on the consolidated statement of financial position of the Baringo Group on 31 March 2023, in accordance with IFRS. You should identify separately the amount of the fair value adjustment to the land. (5 marks)
- b) How is it determined whether an investor exerts significant influence over an entity, according to IAS 28 - *Investments in Associates and Joint Ventures*. State, with reasons, whether or not Kabaratonyo is an associate of Baringo? (6 marks)
- c) Prepare a consolidated Statement of Profit or Loss and Other Comprehensive Income for the Baringo Group for year ended 31 March 2023 in accordance with IFRS. (19 marks)

{Total: 30 Marks}

Question 4**(30 marks)**

Forest Ltd has a number of subsidiaries, one of which, Wood Ltd., was acquired during the year ended 31 October 2023.

The draft consolidated financial statements for the year ended 31 October 2023 are as follows:

Consolidated Statement of Comprehensive Income of Forest Ltd for the year ended 31 October 2023

	\$ 000 000'
Operating profit	1,890
Loss on disposal of property, plant and equipment	(85)
Interest	<u>(210)</u>
	1,595
Share of profits of associates	<u>110</u>
Profit on ordinary activities before taxation	1,705
Taxation	<u>(410)</u>
	<u>1,295</u>
Profit attributable to:	
Owners of Forest Ltd	985
Non-controlling interest	<u>310</u>
Group profit	<u>1,295</u>

Statements of Financial Position are as follows:

	Forest Ltd Consolidated	Forest Ltd Consolidated	Wood Ltd.
	at 31/10/2023	at 31/10/2022	at acquisition
	N \$ million	N \$ million	N \$ million
Assets			
Non-current assets			
Property, plant and equipment (note 2)	2,440	1,400	460
Intangibles	460	420	-
Investment in associates	380	330	-
	3,280	2,150	460
Current assets			
Inventories	685	600	180
Trade and other receivables	310	260	85
Cash and cash equivalents	0	60	15
Total assets	4,275	3,070	740
Equity and liabilities			
\$1 ordinary shares	450	400	350
Share premium	250	100	80
Retained earnings	1,595	810	210
	2,295	1,310	640
Non-controlling interest	250	210	-
	2,545	1,520	640
Non-current liabilities			
Long term loans	1,100	1,100	-
Current liabilities			
Bank overdraft	80		
Trade payables	210	190	80
Taxation	340	260	20
Total equity and liabilities	4,275	3,070	740

Additional information:

- i. Forest Ltd acquired 80% of the ordinary shares of Wood Ltd on 1 February 2023 for \$400 million in cash and issued 25 million \$1 ordinary shares with a market value of \$100 million. At the date of acquisition, Wood Ltd.'s assets and liabilities were recorded at their fair value, with the exception of some plant which had a fair value of \$100 000 below its carrying value.
- ii. During the year, Forest Ltd made a further issue of ordinary shares, again, at a premium above nominal value.
- iii. The property, plant and equipment sold during the year had a carrying value of \$140 million. Total depreciation charges for the year were \$209 million.

REQUIRED:

Prepare a consolidated statement of cash flows in accordance with IAS 7 "*Statement of Cash Flows*" for the year ended 31 October 2023 using the *indirect method*. Show all your workings clearly.

(30 marks)

{Total: 30 Marks}

END OF QUESTION PAPER