

# WOMEN'S UNIVERSITY IN AFRICA



*Addressing gender disparity and fostering equity in University Education*

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**FACULTY OF MANAGEMENT AND ENTREPRENEURIAL SCIENCES**

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**BACHELOR OF ACCOUNTING SCIENCE HONOURS DEGREE**

**MAIN PAPER**

**BAS 412: ADVANCED FINANCIAL ACCOUNTING & REPORTING**

**INTAKE 9: FOURTH YEAR FIRST SEMESTER**

**TIME: 2 HOURS**

**INSTRUCTIONS TO CANDIDATES**

Answer **Question 1** and any other **two**.

### Question 1 (Compulsory)

The summarised financial statements of Pace, Core and Tiny for the year ended 30 April 2020 given below:

#### Statements of Profit or Loss and Other comprehensive income for the year ended 30 April 2020

	<b>Pace</b>	<b>Core</b>	<b>Tiny</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Revenue	408 100	240 000	170 350
Cost of sales	<u>(122 330)</u>	<u>(72 050)</u>	<u>(51 100)</u>
Gross profit	285 770	167 950	119 250
Operating expenses	<u>(57 820)</u>	<u>(33 450)</u>	<u>(23 850)</u>
Profit from operations	227 950	134 500	95 400
Finance cost	<u>(12 000)</u>	<u>(6 500)</u>	<u>(2 400)</u>
Profit before tax	215 950	128 000	93 000
Tax	<u>(65 500)</u>	<u>(38 000)</u>	<u>(27 750)</u>
Net profit	150 450	90 000	65 250
Other comprehensive income	-	-	-
Total comprehensive income	<b>150 450</b>	<b>90 000</b>	<b>65 250</b>

#### Statements of financial position as at 30 April 2020

	<b>Pace</b>	<b>Core</b>	<b>Tiny</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Assets</b>			
Non-current assets			
Tangible	596 330	320 370	489 800
Investments	485 000	335 000	-
Current assets	<u>87 320</u>	<u>56 550</u>	<u>54 800</u>
	<b><u>1 168 650</u></b>	<b><u>711 920</u></b>	<b><u>544 600</u></b>
<b>Equity and liabilities</b>			
Share capital (\$1 shares)	100 000	75 000	50 000
Retained earnings	875 400	525 500	435 700
	975 400	600 500	485 700
Non-current liabilities	150 000	80 000	30 000
Current liabilities	<u>43 250</u>	<u>31 420</u>	<u>28 850</u>
	<b><u>1 168 650</u></b>	<b><u>711 920</u></b>	<b><u>544 550</u></b>

**Additional information:**

1. Pace acquired 80% of the equity shares of Core on 1 May 2017 at a cost of \$350 million. At this time, the retained profits of Core showed a balance of \$255 million and the fair value of the non-controlling interest was \$80 million.
2. As at 1 May 2017 it was determined that land in the books of Core with a carrying value of \$100 million had a fair value of \$135 million.
3. Core acquired 70% of the equity shares of Tiny on 1 May 2018 at a cost of \$335 million. At this time, the retained profits of Tiny showed a balance of \$285 million and the fair value of the non-controlling interest, based on Pace's effective shareholding, was \$175 million.
4. As at 1 May 2018 it was determined that plant in the books of Tiny with a carrying value of \$80 million had a fair value of \$100 million. The remaining life of the plant was 10 years at this date. Depreciation is charged to cost of sales.
5. During the year ended 30 April 2020, Core sold goods to both Pace and Tiny for \$20 million and \$15 million respectively. Pace had sold all of the goods to third parties by the year-end, but Tiny still held one-fifth of the goods in inventory. The goods had been sold at a mark-up of 25%. There were no intra-group balances outstanding at the year end.
6. In accordance with IFRS 3 *Business Combination* Revised, Pace uses the gross goodwill method where possible. As at 30 April 2020, goodwill was reviewed for impairment. It was determined that no impairment loss had arisen in respect of Core, but that Tiny's goodwill should be reduced by \$8 million. No impairments had arisen in previous accounting periods.

**Required:**

- a) Prepare the consolidated statement of profit or loss and comprehensive income for the group for the year ended 30 April 2020 and the consolidated statement of financial position as at that date. [25]

## Question 2

A Zimbabwean company, Timber Limited whose currency is the \$ZWL, received an order of USD\$100 000 from an American import company, to ship goods to America on 30 June 2018. Payment of USD \$50 000 was made on 30 September 2018 and the balance was paid on 31 January 2019.

The company ordered raw materials from the United Kingdom for an amount of £20 000. Payment for the raw material was made on 31 May 2018. The raw material were shipped on 1 April 2018. The year end of the company is 31 December. 20% of the raw material bought from the UK Company were still on hand at year end, and was used during January 2019

Applicable exchange rates were as follows:

	<b>USD1</b>	<b>=</b>	<b>£ = \$ZWL</b>
	<b>\$ZWL</b>		
01 April 2018	5		9
30 April 2018	5,1		9,1
31 May 2018	5,15		9,15
30 June 2018	5,20		9,20
30 September 2018	5,35		9,35
31 December 2018	5,40		9,40
31 January 2019	5,30		9,30
31 December 2019	5,45		9,45

### Required:

- Provide all the relevant journal entries, in the records of Timber Limited for the year ended 31 December 2018 and 31 December 2019. [15]
- Compute the gain or loss arising from the transaction. [5]
- Prepare the disclosure notes to be included in the financial statements of Timber limited for the year end 31 December 2019. [5]

### Question 3

On 1 January 2019 a company, that has a hyperinflationary currency as its functional currency, purchased land for \$120 000, when the CPI was 105. On 31 December 2019 (reporting date) the CPI was 158.

On 1 January 2019 the same company purchased an available-for-sale financial asset for \$120 000, when the CPI was 105. On 31 December 2019 (reporting date) the financial asset is re-measured to its fair value of \$156 000 before the financial statements are restated in terms of IAS 29. At reporting date the CPI was 158.

On 1 January 2019 land purchased for \$120 000, when the CPI was 105. On 1 January 2020, when the CPI was 158, the land was revalued to \$300 000. On 31 December 2020 (reporting date) the CPI was 215.

- a) Explain the accounting treatment for the above transactions stating the amounts which must be recognised in the financial statements at the reporting date. [13]
- b) Examine the factors which indicate that an economy is hyper inflationary as per requirements of IAS 29 Accounting in Hyper Inflationary Economies. [12]

### Question 4

Evaluate the usefulness of the following financial accounting measurement basis

- (i) Historic cost accounting. [13]
- (ii) Fair value accounting. [12]

### Question 5

Lowry Holdings is a public limited company based in Zimbabwe with shareholdings in two other companies, Moran Limited and Lucas Limited. Statements of Financial Position are shown below for all three companies as at 31 July 2019.

	\$ Lowry 000 000	\$ Moran 000 000	\$ Lucas 000 000
<b>Non-current assets:</b>			
Property, plant & equipment	758	326	159
Investments	1 200	40	25
	<b>1958</b>	<b>366</b>	<b>184</b>
<b>Current assets :</b>			
Inventories	235	153	65

Trade Receivables	188	134	42
Cash & bank	100	36	20
	<b>523</b>	<b>323</b>	<b>127</b>
<b>Total Assets</b>	<b>2 481</b>	<b>689</b>	<b>311</b>
Equity:			
Equity share capital of \$ 1 each	1 000	400	100
Other equity reserves	200	30	80
Retained earnings	977	112	70
	<b>2 177</b>	<b>542</b>	<b>250</b>
<b>Current liabilities:</b>			
Contingent consideration	38		
Trade payables	161	127	46
Taxation	25	20	15
Dividends Proposed	80		
	<b>304</b>	<b>147</b>	<b>61</b>
	<b>2481</b>	<b>689</b>	<b>311</b>

**Additional information:**

- i. Lowry bought 320 million ordinary shares in Moran on 1 August 2018, when the other equity reserves of Moran were \$20 million and the retained earnings of Moran were \$132 million. The consideration was agreed at \$800 million. This was satisfied by the issue of 200 million equity shares by Lowry at an agreed fair valuation of \$750 million, plus \$50 million to be paid by Lowry on 31 July 2019 if the profit target for the year (15 million) was met by Moran. The contingent element of the consideration was recorded at its fair value of \$38 million at 1 August 2018. As it turned out, significant losses were incurred by Moran in the year to 31 July 2019. Consequently, nothing is payable by Lowry on 31 July 2019 under this part of the deal. No entry has been made by Lowry 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, Lowry acquired its interest in Moran, the fair value of the NCI in Moran was \$130 million
- iii. At 1 August 2018, some equipment held by Moran had a fair value \$25 million in excess of its carrying value. This equipment had a remaining useful economic life of 5 years at that date.
- iv. Lowry bought a 30% holding in the ordinary shares of Lucas on 1 August 2018, when the other equity reserves of Lucas were \$75 million and the retained earnings balance in Lucas' books stood at \$60 million. The consideration consisted of an immediate cash payment of \$112 million. Lowry exerts significant influence over Lucas 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 2019, Moran sold goods to Lowry for \$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 Lowry at 31 July 2019: \$2.5 million of the cost of these goods remains unpaid by Lowry at 31 July 2019.
- 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 2019 and goodwill was found to be impaired by 60% of its acquisition value. There was no impairment necessary in respect of the investment in Lucas.

**Required;**

Prepare the Consolidated Statement of Financial Position for the Lowry group as at 31 July 2019 in accordance with International Financial Reporting Standards. [25]

**Question 6**

IFRS 9 - Financial Instruments sets out the principles and rules for the appropriate accounting treatment of most financial instruments. In particular, it deals with loans between entities, both from the perspective of the lender and the borrower. Tamsin Plc invests in bonds. Sometimes, it trades these bonds by flipping them quickly for profit. Others are held for the long term.

Details of two particular bonds purchased on 1 August 2019 are as follows:

	<b>Athy</b>	<b>Rathangan</b>
	\$	\$
Nominal value of bond	45 million	30 million
Coupon interest rate	4%	5%
Purchase price of bond	38.5 million	28 million
Effective yield to maturity	6.75 %	7.8 %

The ‘Athy’ bond was purchased with a view to holding it for the long term, drawing the interest and principal as it becomes payable. The ‘Rathangan’ bond was bought at a deep discount, and the aim is to wait until the market value increases, and then sell it on at a profit. At 31 July 2020,

the 'Rathangan' bond had a fair value of €27.5 million. In both cases, the coupon is payable on 31 July each year, and has been paid as promised.

**Required;**

- a) Discuss the accounting treatment required by IFRS 9 for recognition and measurement of financial assets such as bonds, paying particular attention to the tests required to decide between alternative treatments. [12]
- b) In the case of each bond above, outline the accounting treatment required by IFRS 9 for year ended 31 July 2020 Show all workings clearly. [13]

**END**