FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER 2014 EXAMINATION: MAY 2014

ADVANCED FINANCIAL ACCOUNTING -CAC 4201

TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books

Question 1(30 marks)

Hunyani Ltd purchased 7500000 shares in Shashi Ltd on 1 April 2013. On the same day it also purchased 40% shares in Mguza Ltd. Hunyani has control over Shashi in terms of IFRS 10.

The consideration for the transactions were as follows:

A share exchange of 2 shares in Hunyani for every 3 shares in Shashi plus an issue of 8.5% redeemable loan to the shareholders on the basis of $100 loan note for every 250 shares held in Shashi.

A share exchange of 3 shares in Hunyani for every 4 shares in Mguza plus $2 million cash.

The market price of Hunyani 's shares at 1 April 2013 was $6.

The Statements of profit or loss and other comprehensive income summaries for the three companies for the year 30 September 2013 are:

	Hunyani	Shashi	Mguza
	$000	$000	$000
Revenue	75000	40700	31000
Cost of Sales	47400	19700	15300
Gross Profit	27600	21000	15700
Operating Expenses	10480	9000	9700
Profit before interest	17120	12000	6000
Interest expenses	170	-	---
Profit before tax	16950	12000	6000
Income tax expense	4800	3000	2000
Profit	12150	9000	4000
Other comprehensive income	-	-	-
Comprehensive income	12150	9000	4000

Additional information

1. At acquisition the following were fair values ($000) : Land $23000 (Book value $20000), Plant $30000(Book value $25000). The fair values have not been reflected in Shashi's financial statements. The increase in the fair value of the plant would create additional depreciation of $500000 in the post acquisition period in the consolidated statement of profit or loss to 30 September 2013. Depreciation of plant is charged to cost of sales.

2. The share capital and reserves at 1 October 2012 are:

	Hunyani	Shashi	Mguza
	$000	$000	$000
Ordinary Shares of $ 1 each	20000	10000	5000
Share Premium	5000	4000	2000
Retained earnings	18000	7500	6000

3.After the acquisition Hunyani sold goods to Shashi for $10 million making 40% gross profit .One quarter of these goods were still in the inventory of Shashi at 30 September 2013.

4.Impairment tests on goodwill of Shashi at 30 September 2013 resulted in the need to write down the goodwill by $750000.The Mguza investment was not impaired.

5.Hunyani paid a dividend of $5 million on 20 September 2013. Shashi and Mguza did not pay any dividends.

6.It is the groups' policy to value non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable assets.

7.Profits are assumed to accrue evenly throughout the year. Ignore tax implications.

Required

(a) Calculate the goodwill arising on the purchase of shares in Shashi and the goodwill at 30 September 2013. (5 marks)
(b) Calculate the carrying amount of Mguza. (5 marks)
(c) Prepare a Consolidated Statement of Profit or Loss and Other Comprehensive Income for Hunyani for the year to 30 September 2013. (15marks)
(d) Show the Consolidated Statement of Changes in Equity for the year to 30 September 2013. (5 marks)

Question 2 (25 marks)

Mr C. Churu and Miss M. Nleya are technical experts in gas mining and have recently been appointed as board members in your company, Nkayi-Gokwe Shale Exploration Company. In their first meeting you have given them a report of a new proposed project. From the report the new board members have noted and requested written explanations of the following accounting and financial terms:

(a) Headline earnings

(b) A joint arrangement

(C) Functional currency

(d) 55%majority voting rights with no power

(e) DCF method of share valuation

Required

As Finance Manager explain fully and plainly to the new board members the above terms.(each term carries 5 marks) (25 marks)

Question 3 (25 marks)

The following information was extracted from the financial records of Hurry Ltd, Stay Ltd and Arrive Ltd for the year ended 31 December 2013:

	Hurry	Stay	Arrive
	$000	$000	$000
Property, plant and equipment	358	240	270
Investments-in Stay Ltd	245		
-Other	45		
Inventories	130	80	110
Trade receivables	142	97	70
Cash and bank	4	20	
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	920	421	470
Ordinary shares($1 each)	400	120	100
Share premium	40	50	
Revaluation surplus	15		
Retained earnings	240	60	300
8% loan		50	
Deferred tax	45		
Trade payable	118	141	40
Bank overdraft	12		
Tax payable	50		30

920	421	470

Hurry Ltd acquired 72 million shares in Stay Ltd on 1 January 2013 for immediate cash payment of $195 million and a further $53.9 million on 31 December 2013 if the post acquisition profits exceed an agreed figure. Acceptable discount rate is 10%.Stay Ltd also accepted a $50 million 8% loan from Hurry Ltd at the date of acquisition. Hurry Ltd has control of the Stay Ltd in line with IFRS 10.

Hurry Ltd also acquired 40 million shares in Arrive Ltd on 1 July 2013 by way of share exchange of two shares in Hurry for each share in Arrive .The share market of Hurry Ltd at that date of exchange was $2.50.This acquisition of Arrive Ltd has not been recorded by Hurry Ltd.

Other relevant information.

(a) The fair value of Stay's land at date of acquisition was $20 million in excess of its carrying amount. By 31 December 2013 this excess had increased by another $5 million. Hurry's own land and buildings fair value at 31 December 2013 was $12 million in excess of the carrying value in the above recorded financial information. The fair value of some of Stay's plant at the date of acquisition was $20 million in excess of its carrying value and had a remaining life of four years –straight line depreciation is used.

At date of acquisition Stay had unaccounted deferred tax asset of $40million. Hurry Ltd directors believe that this should be recognised as a deferred asset. Income tax rate is 25%.

(b)The retained earnings of Stay Ltd and Arrive Ltd as reported in their separate financial records were $20 million and $200 million respectively on 1 January 2013. All profits accrue evenly throughout the year.

(c)An impairment test at 31 December 2013 showed that goodwill should be written down by $20 million.The investment in Arrive has not suffered an impairment.

Required:

Prepare the Consolidated Statement of Financial Position of Hurry Ltd as at 31 December 2013.

(25 marks)

Question 4 (20 marks)

Kariba Boats Manufacturing Company has the following abridged financial statements for the year ended 31 December 2013:

Statement of Financial Position

	$000
Non current assets	85000
Current assets	60000
Current liabilities	-25000
	12000
Share capital and reserves	80000
8% loan	40000
	12000

Statement of profit or loss and other comprehensive income

Turnover	50000
Profit before interest and tax	14000
Interest	-8000
Profit before tax	6000
Tax expense	-2000
Profit for the year	4000

Other Information:

Dividend paid during the year-$1.5 million. Retained profit for the year are included in reserves.

The company's Zimbabwe stock exchange price on 31 December 2013 was $9.00. Issued share capital was 10 million shares of $1.00 each.

Required

(a) Calculate the Altman's Z-Score and comment on it. (10 marks)

(b) Discuss any shortcomings of this Z-Score.(One of the directors of the company is sceptical of Z-Scores as he feels other ratios can bring same results) (5 marks)

(c) Methods of translating items in the above statements if the company is a subsidiary controlled by a Chinese company whose presentation currency is the yuan. (5 marks)

END OF EXAMINATION PAPER