National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY SECOND SEMESTER 2014 EXAMINATION:JULY 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(20 marks)

Sunshine City Ltd has invested in North Ltd whose issued share capital was $10milloin denominated at 25 cents each. Earnings attributable to its ordinary shareholders for the year ended 31 March2010 was also $10 million.

Reporting date 31 March 2011

On1 July 2010 North Ltd issued eight million ordinary shares at full market value. On 1 January 2011 a bonus issue of one new ordinary share for every four ordinary shares held was made.Earnings attributable to ordinary shareholders for the year ended 31March 201 were $13800000.

Reporting date 31 March 2012

On 1 October 2012 North made a rights issue of two new ordinary shares at a price of $1.00 each for every five ordinary shares held.The market price of North's ordinary shares immediately prior to the offer was $2.4 each.Earnings attributable to ordinary shareholders for the ended 31 March 2012 were $19500000.

Reporting date 31 March 2013

On1 April 2012 North issued $20million 8% convertible loan .the terms of conversion on 1 April 2018 are that for every $100 loan stock ,50 ordinary shares will be issued at the option of the loan holders.Also on 1 April 2012 the directors of North were awarded share options on 12miillion ordinary shares exercisable from1 April 2018 at $1.5 per share. The average market value of North at 31 March 2014 was $2.5 each. The tax rate is 25%.Earnings attributable to ordinary shareholders for the year ended 31 March 2013 were $25200000.

Required

(a)Calculate the basic and diluted earnings per share for the years ended 2011,2012 and,2013.

Notes should be given for the year end 31 March 2013 only. (13 marks)

(b)What are the limitations of basic earnings per share. (5 marks)

(c)What is antidilutive. (2 marks)

Question 2(12 marks)

Compare the H-Score and the A-Score corporate failure prediction methods.

Question 3(25 marks)

Below are the summarised statements of financial position for three companies as at 31 March 2013

	Pezulu		Soda		Valley Investment	
Assets						
	$ million	$ million	$ million	$ million	$ million	
Non-current assets						
Property, plant and equipment		520		280		240
Investments		345		40		nil
		865		320		240
Current assets						
Inventory	142		160		120	
Trade receivables	95		88		50	
Cash and bank	8	245	22	270	10	180
Total assets		1,110		590		420
Equity and liabilities						
Equity shares of $1each		500		145		100
Share premium	100		nil		nil	
Retained earnings	130	230	260	260	240	240
		730		405		340
Non-current liabilities						
10% loan notes		180		20		nil
Current liabilities		200		165		80
Total equity and liabilities		1,110		590		420

Notes

(a)Investment in Soda

On 1April 2011 Pezulu acquired 116 million shares in Soda for immediate cash payment of 210 million and issued at par one 10% $100 loan note for every $200 shares acquired.Soda's retained earnings at the date of acquisition were $120 million.

b) Investment in Valley Investments

On 1 October 2012 Pezulu acquired 30 million shares in Valley Investments in exchange for 75 million of its own shares. The stock market value of Pezulu's shares at the date of this share exchange was $1·60 each.
Pezulu has not yet recorded the investment in Valley Investment.
(c) Pezulu's other investments, and those of Soda, are available-for-sale investments which are carried at their fair values as at 31 March 2012. The fair value of these investments at 31 March 2013 is $82 million and $37 million respectively.

Other relevant information:
(d) Pezulu's policy is to value non-controlling interests at their fair values. The directors of Pezulu assessed the fair value of the non-controlling interest in Soda at the date of acquisition to be $65 million.
There has been no impairment to goodwill or the value of the investment in Valley Investment.
(e) At the date of acquisition of Soda owned a recently built property that was carried at its (depreciated) construction cost of $62 million. The fair value of this property at the date of acquisition was $82 million and it had an estimated remaining life of 20 years.
For many years Soda has been selling some of its products under the brand name of "IKOKO'. At the date of acquisition the directors of Pezulu valued this brand at $25 million with a remaining life of 10 years. The brand is not included in Soda's statement of financial position.

The fair value of all other identifiable assets and liabilities of Soda were equal to their carrying values at thedate of its acquisition.
(f) The inventory of Soda at 31 March 2013 includes goods supplied by Pezulu for $56 million (at selling price from Pezulu). Pezulu adds a mark-up of 40% on cost when selling goods to Soda. There are no intra-group receivables or payables at 31 March 2013.
(gi) Valley Investment's profit is subject to seasonal variation. Its profit for the year ended 31 March 2013 was $100 million.$20 million of this profit was made from 1 April 2012 to 30 September 2012.
(viii) None of the companies have paid any dividends for many years.

Required:
Prepare the consolidated statement of financial position of Pezulu for the year ended 31 March 2013.(Notes are not required) (25 marrks)