

NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY

DEPARTMENT OF ACCOUNTING

SECOND SEMESTER EXAMINATION: AUGUST 2009

ADVANCED FINANCIAL ACCOUNTING CAC 4202

TIME ALLOWED: 3 HOURS

INSTRUCTIONS TO CANDIDATES

ANWER ALL QUESTIONS

<u>QUESTION</u>	<u>TOPIC</u>	<u>MARKS</u>
1	CONSOLIDATED STATEMENTS	25
2	INVESTMENT PROPERTY	25
3	ANALYSIS OF FINANCIAL STATEMENTS	25
4	FOREIGN SUBSIDIARY	25

QUESTION 1 (25 marks)

1. Roots, Mpande and Midzi are all Zimbabwean agro based private limited companies whose functional currency is in US\$. Roots acquired 600 000 ordinary shares in Mpande on 1 January 2003 for \$ 1 020 000 when the reserves of Mpande were \$200000. Included in purchase price is 2% legal and accounting fees.

At the date of acquisition of Mpande, the fairvalue of its free hold property was considered to be \$400 000 greater than its value in the statement of financial position. Mpande acquired the property in January 2003 and the building element comprising 50% of total value is depreciated on cost over 40 years.

Additional Information

(a) Root (Pvt) Ltd acquired 225 000 ordinary shares of Midzi (Pvt) Ltd on 1 January 2006 for US \$500 000 when the reserves of Midzi were US \$150 000 the same date acquired 40% of preference shares of Mpande for \$80 000.

(b) Mpande (Pvt) Ltd manufacturers agricultural equipment used by both Root (Pvt) Ltd and Midzi (Pvt) Ltd .Transfers are made by Mpande (Pvt) Ltd at cost plus 25%. At 31 December 2008, Root (Pvt) Ltd had \$ 100 000 worth of this inventory and Midzi was holding \$ US 80 000.

(c) It is Roots (Pvt) Ltd policy to write off goodwill when it arises.

(d) Midzi (Pvt) Ltd paid a total dividend of \$25 000. Roots portion has not been received or accrued.

(e) Ignore deferred taxation
The trial balances for the three companies are as follows:

**Root (Pvt) Ltd
Mpande (Pvt) Ltd
Midzi (Pvt) Ltd**

US \$000
US \$000
US \$000

Bank ZB

200

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NUMPA
GES
of 5¹

	-
Bank overdraft CBZ	560
	-
ZB	80
	-
	-
Cash	50
	120
	20
Debentures - 12%	500
	100
	-
Freehold land and property	1950
	1250
	500
Inventory	575
	300
	265
Investments shares	1500
	-
	-
Preference shares	

	80
	-
	-
Ordinary shares of US \$1each	2000
	1000
	750
Other creditors	
	200
	50
	25
Plant and equipment	
	795
	375
	285
Preference shares 6%	
	-
	200
	-
Retained profit	
	1460
	885
	390
	\$000
	\$000
	\$000

Trade creditors

	480
	300
	275
Trade debtors	
	330
	290
370	!! PAGE
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REQUIRED

Prepare a statement of financial position for the group as at 31 December 2008 and the notes in compliance with IAS 28 only.

QUESTION 2 (25 marks)

2. Summit Ltd acquired a vacant land in Kariba on 2 April 2007. The reason for this acquisition was to construct 40 up market town house called Kariba Dream Land at a cost of US \$ 2100 000. These will be rented to executives. Construction commenced on 1 May 2007 and the capital expenditure was as follows: 30 June 2007 US \$ 2200 000 31 September 2007 – US \$ 4 800, 000 30 April 2008 US \$ 5000 000 and 31 May 2008 – US \$ 4000 000. The constructions were completed on 30 June 2008 and each town house was let at US \$ 3000 a month from 1 July 2008. The fair values for Kariba Dreamland were as follows:

	Land US \$	Buildings
31 March 2008	2120 000	-
1 August 2008	2135 000	16 100 000
31 March 2009	2180 000	17 300 000

Summit Ltd accounting policy on investment property is based on fair value model. The whole project was financed internally except for a 10% loan from Afrika Bank used to purchase the land.

REQUIRED

- (a) Show all journal entries for the above and the carrying amount for the property – Kariba Dreamland as it would be shown in the statement of financial position as at 31 March 2008 and 31 March 2009, (Ignore tax implications).
- (b) Show accounting policy and relevant notes accompanying the statement of financial position and the statement of comprehensive income for the year 31 March 2009 only. (25 Marks)

QUESTION 3 (25 marks)

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3. Super Stores (Pvt) Ltd operates nine supermarkets in Bulawayo and eleven in Harare. It also owns two wholesalers that supply goods to the supermarkets. The Managing Director and Finance Director receive the following reports: Daily, weekly and cost of sales, monthly management accounts and statements comparing ratio of gross profit to sales. PWC has recommended that Super Stores (Pvt) Ltd use ROI (Return and Investment) to measure each operation as this would be more useful for measuring stores performance.

REQUIRED

- (a) Explain the problems in measuring the ROI and the practical problems in developing and interpreting the ROI for internal use.
- (b) Explain briefly to the Managing Director the value and use of corporate failure prediction models for Super Stores Ltd with special reference to H – scores and Altman’s model.

QUESTION 4 (25 marks)

4. Hunyani River Ltd a company listed on the ZSE owns 80 % of Kafue River (Pvt) Ltd a company based in Zambia, Kafue River (Pvt) Ltd was acquired on 30 April 2007 when its retained profits were Kwacha 610 million. It was acquired for US \$ 220 million. The financial statements for Kafue River were as follows:

Statement of Financial Position (in Kwacha millions)

At 31 December 2008

Non Current Assets

P.P.E	1890
Net Current Assets	<u>645</u>
	<u>2535</u>
<u>Share Capital</u>	240
Share Premium	80
Retained earnings	1100
Loan 10 %	<u>1115</u>
	<u>2535</u>

Statement of Comprehensive Income for the year ended 31 December 2008

Turnover	3060
Cost of Sales	(2550)
Gross Profit	510
Admin and Distribution costs	(51)
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Interest payable	(102)
Taxation	<u>(153)</u>
Profit after Tax	<u>4</u>
<u>Interim dividend paid</u>	<u>(52)</u>
	<u>152</u>

Additional Information

(a) The fair value of net assets of Kafue River (Pvt) Ltd at acquisition was Kwacha 1040 million. There was no impairment at 31 December 2008

(b) Exchange Rates were as follows;

	<u>Kwacha to US \$</u>
30 April 2007	4.00
31 December 2007	4.6
1 January 2008	4.7
31 May 2008	5.3
30 June 2008	5.2
31 December 2008	5.00
Weighted average 2008	5.1

(c) Interim dividend was paid on 31 December 2008.

REQUIRED

(a) Translate the financial statements of Kafue River (Pvt) Ltd for consolidation purposes. **(12 marks)**

(b) Work out the goodwill to be effected in the group accounts of Hunyani River Ltd **(4 marks)**

What is the treatment of goodwill on additional purchase of shares in Kafue (Pvt)Ltd. **(1 mark)**

(c) What are the reasons for Hunyani Ltd for not consolidating the accounts of Kafue River (Pvt) Ltd. **(4 marks)**

(d) If Kafue River (Pvt) Ltd is not a subsidiary but a jointly controlled entity work out the comprehensive income figures to be consolidated by Hunyani River Ltd. **(4 marks)**