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**University Examinations 2015/2016**

FOURTH YEAR, FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE.

**BFC 3426: ADVANCED FINANCIAL REPORTING**

**DATE: AUGUST 2016 TIME: 2 HOURS**

**INSTRUCTIONS: -** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. The following is the profit and loss of North and South Ltd for the year ended 31st December 2010.

North Ltd South Ltd

Shs’000’ shs’000’

Sales 3,180.00 1,620.00

Profit before tax (462.00) (264.00)

Tax 185.40 120.00

Profit after tax 276.60 144.00

Extra ord. item 55.20 (60.00)

331.80 84.00

Less 0.00 0.00

Preference

div.(paid) (42.00) (18.00)

Ordinary div proposed (138.00) (36.00)

Retained profit 151.80 30.00

Bal.bfwd 113.40 62.40

Bal.cfwd 265.20 92.40

**Additional information**

North Ltd acquired 80% of the ordinary share capital of South Ltd on 1.4.2010; North sales include shs 132,000 to South, sales for South includes shs 34,800 to North. The cost of sales, marketing and administrative expenses of North were 2,650,800; 48,000 and 40,200 respectively and those for South for similar items were shs. 1, 298,400; 33,600, and 24,000. Included in the profit before tax of North are dividends of 21,600 receivable from South out of post acquisition profits.

**Required:**

To prepare the consolidated profit and loss account of the North group for the year ended 31st December 2010. (12 marks)

1. The issued and fully paid ordinary shares of Bigwa Ltd. on 1.1.2010 was as follows

20,000 10% Preference shares of shs. 10 each 200,000

800,000 ordinary shares of shs 10 per share 8,000,000

8,200,000

On 1st Oct, 2010 Bigwa issued a right issue of 1 for every 4 ordinary share @ shs 15 per share, the market price per share on the last day of trading on a cum right was shs. 25. The profit and loss for the year was shs. 231,080. The EPS for the previous year was shs. 28.

**Required:**

1. Calculate the theoretical ex-right price. (4 marks)
2. Earnings Per Share (EPS) (6 marks)
3. Distinguish between the following pairs: (8 marks)
4. A subsidiary and an associate
5. Carrying value and fair value of an asset
6. Significance influence and a controlling interest
7. Options and Warrants

**QUESTION TWO (20 MARKS)**

Meru Central Farmers Ltd. (MCF) had acquired 80% of Imenti Dairies Ltd. ordinary shares in 2010. On the same date, MCF acquired 20% of the ordinary shares in Afya Ltd. for shs. 200,000, MCF was assumed to have significant influence. The retained earnings of Afya were shs. 225,000 and the general reserve was shs. 60,000. Set out below are the consolidated accounts of MCF and its subsidiary Imenti Ltd and the individual accounts of the associated company (Afya Ltd)

Statements of financial position of the MCF Group (parent plus subsidiaries already consolidated) and Afya (an associate company) as at 31st December 2012.

MCF and Subsids Afya

Shs. Shs.

**Non-current assets**

Property, plant and equipment 1,725,000 592,500

Goodwill on consolidation 134,000

Investment in Afya 200,000

**Current assets**

Inventories 1,324,400 270,000

Trade receivables 1,510,500 270,000

Current account – Afya 22,500

Bank 362,000 45,000

**5,278,400 1,177,500**

**Current liabilities**

Trade payables 1,102,500 255,00

Taxation 277,500 60,000

Current account – MCF 22,500

1,380,000 337,500

**Total net assets 3,898,400 840,000**

**EQUITY**

Shs. 1 ordinary shares 1,875,000 375,000

General reserve 249,000 90,000

Retained earnings 1,459,400 375,000

**3,583,400 840,000**

Non-controlling interest 315,000 -

**3,898,400 840,000**

Statements of comprehensive income for the year ended 31December 20x2

MCF and subsids Afya

Shs. Shs.

Sales 3,290,000 750,000

Cost of sales 1,140,600 300,000

Gross profit 2,149,400 450,000

Expenses 1,077,000 225,000

Profit from operations 1,072,400 225,000

Dividends received 12,000 -

Share of associates’s profit - -

Profit before tax 1,084,400 225,000

Income tax expenses 277,500 60,000

Profit for the period 806,900 165,000

Required:

1. Prepare Group financial statements incorporating associate company (Afya Ltd) (15 marks)
2. Significance influence can be demonstrated with less than 20% of voting rights. Discuss. (5 marks)

**QUESTION THREE (20 MARKS)**

**Gonad Investments Group**

**Comparative Balance Sheet (shs in million)**

**Assets 2013 2012**

Cash 58 40

Accounts receivable 64 60

Short-term investments 24 0

Inventory 92 100

Prepaid insurance 6 12

Land 160 120

Buildings and equipment 162 150

Less: Accumulated depreciation (32) (40)

534 442

**Liabilities**

Accounts payable 52 40

Salaries payable 6 2

Income tax payable 12 16

Notes payable 40 0

Bonds payable 70 100

Less: Discount on bonds (2) (6)

**Shareholders’ Equity:**

Ordinary share capital 260 200

Share premium 58 40

Retained earnings 38 50

534 442

Gonda Investment Group Ltd.

Income Statements for the Year Ended December 31, 2013 (shs. in million)

**Revenues:**

Sales revenue 200

Investment revenue 6

Gain on sale of land 16 222

**Expenses:**

Cost of goods sold 120

Salaries expense 26

Depreciation expense 6

Bond interest expense 10

Insurance expense 14

Loss on sale of equipment 4

Income tax expense 18 198

**Net profit** 24

**Additional information from the accounting records:**

A portion of company land, purchased in a previous year for shs. 20 million, was sold for shs. 36 million. Equipment that originally cost shs. 28 million and which was one-half depreciated, was sold for shs. 10 million cash.

The common shares of Hema Ltd. were purchased for shs. 24 million as a short-term investment. Property was purchased for shs. 60 million cash for use as an office block.

On December 30, 2013, new equipment was acquired by issuing a 12%, five-year, shs. 40 million note payable to the seller.

On January 1, 2013, shs. 30 million of bonds was retired at maturity.

The increase in ordinary share capital account is attributed to the issuance of a 10% stock dividend (2 million shares) and the subsequent sale of 4 million shares. The market price of the shs. 10 par value ordinary shares was shs. 13 per share on the dates of both transactions.

Cash dividends of shs. 10 million were paid to shareholders.

**Required:**

1. Using the direct method prepare a cash flow statement as prescribed by IAS 7 (16 marks)
2. Describe the purpose of a cash flow statements (4 marks)

**QUESTION FOUR (20 MARKS)**

Ingwe University is a Nigerian based private international university with six branches in Africa: Accra, Nairobi, Cairo Kigali, Cape Twon and Arusha. The international chapter is jointly finded and administered by a German based venture capital fund. The chapter is jointly administrators are under strict instructions to comply with International financial reporting standard 8 (IFRS8) reporting on operating segment. The international chapter operates a management information system which provides its administrators with the information they require to plan and control the various businesses. The administrators reporting requirements are quite detailed and information is collected about the following international divisions: Accra, Cairo, Nairobi, Kigali, Cape Town and Arusha. The following information is available for the year ended 31 December 2015.

Centre Total Revenue Profit Assets

  

Accra 360 21 176

Nairobi 60 3 13

Cairo 125 5 84

Kigali 232 27 102

Cape Town 124 2 31

Arusha 974 63 445

**Required:**

1. Which of Ingwe university centres are reportable segments in accordance with IFRS 8 Operating segments? (8 marks)
2. What is the combined revenue of the reportable segment. (4 marks)
3. Describe the necessary conditions for identifying an operating segment. (4 marks)
4. What additional information about segments should Ingwe report in an interim financial statement (4 marks)

**QUESTION FIVE (20 MARKS)**

Megastore Ltd. is a chain of supermarket which regularly constructs its won stores. During the year ended 31st December, 2005, Mega Ltd. began work on a new sites. On 1st of January 2005, a leasehold land was acquired for 50 years at a price of shs. 50 million, it was considered that a further shs. 10 million would be required to build the store. Shs. 6 million of the additional 10 million would be spent on the construction of the store and shs. 4 million would be spent and fixtures and fittings. Past experience indicates that fixtures and fittings would have an average useful life of 10 years from the date of first use.

On 1st January 2005, Uchumi Ltd borrowed shs. 30 million to finance the project, the shs. 30 million carries no interest but is repayable on 31st December, 2007 at a premium of 10 million i.e. a total of shs. 40 million is to be paid in total.

The new store will be brought into use on 1st January, 2006

**Required:**

1. Assuming that the borrowing cost are capitalized where appropriate show:
2. The total amount to be included in fixed assets on 31st December, 2005 with respect to construction of the store. (9 marks)
3. The total amount to be charged in the profit and loss statement in the year ended 31st December, 2006. (5 marks)
4. Discuss the term qualifying asset and describe the provisions of IAS 23 (borrowing costs) with regard to borrowing costs. (6 marks)