**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

ACCOUNTANCY DEPARTMENT



**PROGRAMS**

BACHELOR OF ACCOUNTING HONOURS DEGREE

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**COURSE:** **CORPORATE REPORTING 1** **(AC410)**

DURATION: 3 HOURS

**INSTRUCTIONS TO CANDIDATE**

(i) Answer all questions.
(ii) Only use of non-programmable silent hand-held calculators is permitted.
(iii) Cell phones are not allowed into the examination room.
(iv) For section A use the grid provided

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**Section A** (***Multiple choice-30 marks***)

1. The International Accounting Standards Board's (IASB) Framework for the Preparation and Presentation of Financial Statements (Framework) is the IASB's conceptual framework. Which one of the following does the Framework not cover?
   A. The format of financial statements
   B. The objective of financial statements
   C. Concepts of capital maintenance
   D. The elements of financial statements

2. Which of the following is a change of accounting policy under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*?
   *A.* Classifying commission earned as revenue in the statement of profit or loss, having previously classified it as other operating income
   *B.* Switching to purchasing plant using finance leases from a previous policy of purchasing plant for cash
   *C.* Changing the value of a subsidiary's inventory in line with the group policy for inventory valuation when preparing the consolidated financial statements
   *D.* Revising the remaining useful life of a depreciable asset

3. The body to which the International Accounting Standards Board is responsible is:
   A. The IFRS Advisory Council
   B. The IFRS Interpretations Committee
   C. The Monitoring Board
   D. The IFRS Foundation

4. The role of the International Financial Reporting Standards (IFRS) Advisory Council is to:
   A. Supervise the work of the IASB
   B. Appoint members to the IASB
   C. Inform the IASB of the Council's views on standard-setting projects
   D. Interpret the application of international standards

5. The fundamental qualitative characteristics of financial information are:
   A. Verifiability and understandability
   B. Relevance and comparability
   C. Faithful representation and comparability
   D. Relevance and faithful representation

6. The elements of financial statements which relate to financial position are:
   A. Income, expenses and equity
   B. Assets, liabilities and equity
   C. Income and expenses
   D. Assets, liabilities, income and expenses

7. An entity may change one of its accounting policies:
   A. If this would reduce the cost of preparing the financial statements
   B. Never
   C. If this would result in the provision of reliable and more relevant information
   D. Whenever it wishes to do so

8. International standard IFRS3 states that goodwill acquired in a business combination is:
   A. An asset which arises from assets acquired in the business combination that are individually identified
   B. An asset which arises from the acquired entity's strong customer relationships
   C. An asset which arises from the acquired entity's good reputation
   D. An asset which arises from assets acquired in the business combination that are not individually identified

9. Goodwill acquired in a business combination should subsequently be measured:
   A. At cost less accumulated impairment losses
   B. At cost
   C. At cost less accumulated depreciation
   D. At cost less accumulated amortisation

10. Recognition is the process of including within the financial statements items which meet the definition of an element according to the IASB's Conceptual Framework for Financial Reporting. Which of the following items should be recognised as an asset in the statement of financial position of a company?
    A. A skilled and efficient workforce which has been very expensive to train. Some of these staff are still in the employment of the company
    B. A highly lucrative contract signed during the year which is due to commence shortly after the year end
    C. A government grant relating to the purchase of an item of plant several years ago which has a remaining life of four years
    D. A receivable from a customer which has been sold (factored) to a finance company. The finance company has full recourse to the company for any losses

11. In order that a provision should be recognised in an entity's financial statements, it is necessary that:
    A. It is possible that an outflow of economic benefits will be required
    B. The entity has a legally enforceable obligation
    C. The entity has a present obligation
    D. The entity has a constructive obligation

12. The amount of a provision should be the "**best estimate**" of the expenditure required to settle the obligation concerned. This estimate:
   A. Should always be discounted to present value
   B. Must always be made on the basis of advice from independent experts
   C. Should be the amount that would rationally be paid to settle or transfer the obligation
   D. Should not be adjusted to reflect future events that may affect the amount of the required expenditure, whether or not those events are likely to occur

13. How should contingent assets be disclosed?
   A. Always disclosed in the notes to the financial statements
   B. Always recognised in the statement of financial position
   C. Disclosed in the notes if an inflow of economic benefits is probable
   D. Disclosed in the notes unless an inflow of economic benefits is only remotely possible

14. A company is preparing its financial statements for the year to 31 March 2023. Assuming that each of the following events occurs after 31 March 2023 but before the financial statements are authorised for issue, which one of them should be classified as a NON-ADJUSTING event?
   A. A change in tax rates that is announced in April 2023 and which has a material impact on the tax liability for the year to 31 March 2023
   B. The discovery of a major fraud that had occurred in January 2023
   C. The sale of inventories which were held on 31 March 2023 at a selling price greater than its cost.
   D. The bankruptcy of a customer who owed a substantial amount to the company at 31 March 2023

15. Deferred tax should be accounted for in relation to certain differences between taxable profit and accounting profit. The differences which require an entity to account for deferred tax are:
   A. Permanent differences
   B. Temporary differences
   C. Neither temporary differences nor permanent differences
   D. Both temporary differences and permanent differences

## SECTION B – (70 marks)

### Question 1

**Part A**

i. Explain the circumstances under which a parent may elect not to present consolidated financial statements. **(5 marks)**

ii. Two of the qualitative characteristics of information contained in the *IASB's Conceptual Framework for Financial Reporting* are understandability and comparability.
Explain the meaning and purpose of the above characteristics in the context of financial reporting. **(5 marks)**

**Part B**

On 1 October 2021, Moyo Co acquired 60% of Phiri Co's equity shares by means of a share exchange of one new share in Moyo Co for every two acquired shares in Phiri Co. In addition, Moyo Co will pay a further $0.54 per acquired share on 30 September 2022.

Moyo Co has not recorded any of the purchase consideration and its cost of capital is 8% per annum.

The market value of Moyo Co's shares at 1 October 2021 was $3.00 each

The summarized statements of financial position of the two companies as at 31 March 2022 are:

| | Moyo Co $'000 | Phiri Co $'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment(note(i)) | 25,400 | 13,500 |
| Financial asset: equity investments(note(iv)) | 5,500 | 2,000 |
| | 30,900 | 15,500 |
| **Current assets** | | |
| Inventory(note(iii)) | 12,700 | 5,300 |
| Other currents assets | 9,700 | 4,000 |
| | 22,400 | 9,300 |
| **Total assets** | **53,300** | **24,800** |

| | | |
|---|---|---|
| **Equity and liabilities** | | |
| **Equity** | | |
| Equity shares of $1 each | 20,000 | 9,000 |
| Retained earnings: | | |
| Brought forward at 1 April 2021 | 12,200 | 8,600 |
| Profit/(loss) for the year ended 31 March 2022 | 5,000 | (3 000) |
| | 37,200 | 14,600 |
| **Non-current liabilities** | | |
| Deferred tax (note(i)) | 5,000 | il |
| Current liabilities | 11,100 | 10,200 |
| **Total equity and liabilities** | **53,300** | **24,800** |

The following information is relevant:

i. At the date of acquisition, Moyo Co conducted a fair value exercise on Phiri Co's net assets which were equal to their carrying amounts (including Phiri Co's financial asset equity investments) with the exception of an item of plant which had a fair value of $2.5 million below its carrying amount. The plant had a remaining useful life of 30 months at 1 October 2021.

   The directors of Moyo Co are of the opinion that an unrecorded deferred tax asset of $1.2 million at 1 October 2021, relating to Phiri Co losses, can be relieved in the near future as a result of the acquisition. At 31 March 2022 the directors' opinion has not changed, nor has the value of the deferred tax asset.

ii. Moyo Co's policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, a share price for Phiri Co of $1.50 each is representative of the fair value of the shares held by the non-controlling interest.

iii. At 31 March 2022, Phiri Co held goods in inventory which had been supplied by Moyo Co at a mark-up on cost of 35%. These goods had cost Phiri Co $2.43 million.

iv. The financial asset equity investments of Moyo Co and Phiri Co are carried at their fair values at 1 April 2021. At 31 March 2022, these had fair values of $6.1 million and $1.8 respectively, with the change in Phiri Co's investments all occurring since the acquisition on 1 October 2021.

v. There is no impairment to goodwill at 31 March 2022.

**Required**

Prepare the following extracts from the Consolidated Statement of Financial Position of Moyo Co as at 31 March 2022:

(i) Goodwill **(14 Marks)**

(ii) Retained earnings **(12 Marks)**

**(iii)** Non-controlling interest **(4 Marks)**

**[Total: 40 marks]**

## Question 2

On 1 January 2023, Dargent Co acquired 75% of Latree Co's equity shares by means of a share exchange of two shares in Dargent Co for every three Latree Co shares acquired. On that date, further consideration was also issued to the shareholders of Latree Co in the form of $100 8% loan note for every 100 shares acquired in Latree Co. None of the purchase consideration, nor the outstanding interest on the loan notes at 31 March 2023, has yet been recorded by Dargent Co. At the date of Acquisition, the share price of Dargent Co and Latree Co is $3.20 and $1.80 respectively.

The summarized statements of financial position of the two companies as at 31 March 2023 are:

| | **Dargent Co $'000** | **Latree Co $'000** |
|---|---|---|
| **Assets** | | |
| **Non-currents assets** | | |
| Property, plant and equipment(note(i)) | 75,200 | 31,500 |
| Investment in Amery Co at 1 April 2022(noye(iv)) | 4,500 | 0 |
| | 79,700 | 31,500 |
| **Current assets** | | |
| Inventory(note(iii)) | 19,400 | 18,800 |
| Trade receivables(note(iii)) | 14,700 | 12,500 |
| Bank | 1,200 | 600 |
| | 35,300 | 31,900 |
| **Total assets** | **115,000** | **63,400** |
| **Equity and liabilities** | | |
| **Equity** | | |
| Equity shares of $1 each | 50,000 | 20,000 |
| Retained earnings-at 1 April 2022 | 20,000 | 19,000 |
| Profit for the year ended 31 March 2023 | 16,000 | 8,000 |
| | 86,000 | 47,000 |
| **Non-current Liabilities** | | |
| 8% loan notes | 5,000 | 0 |
| Current liabilities (note(iii)) | 24,000 | 16,400 |
| | 29,000 | 16,400 |
| **Total equity and liabilities** | **115,000** | **63,400** |

The following information is relevant:

i. At the date of acquisition, the fair values of Latree Co assets were equal to their carrying amounts. However, Latree Co operates a mine which requires to be decommissioned in five years' time. No provision has been made for these decommissioning costs by Latree Co. The present value (discounted at 8%) of the decommissioning is estimated at $4m and will be paid five years from the date of acquisition (the end of the mine's life).

ii. Dargent Co's policy is to value the non-controlling interest at fair value at the date of acquisition. Latree Co share price at that date can be deemed to be representative of the fair value of the shares held by non-controlling interest.

iii. The inventory of Latree Co includes goods bought from Dargent Co for $2.1million. Dargent Co applies a consistent mark-upon cost of 40% when arriving at its selling prices.

On 28 March 2023, Dargent Co dispatched goods to Latree Co with a selling price of $700 000. These were not received by Latree Co until after the year end and so have not been included in the above inventory at 31 March 2023.

At 31 March 2023, Dargent Co's records showed a receivable due from Latree Co of $3m, this differed to the equivalent payable in Latree Co's records due to goods in transit. The intra-group reconciliation should be achieved by assuming that Latree Co had received the goods in transit before the year end.

iv. The investment in Amery Co represents 30% of its voting share capital and Dargent Co uses equity accounting to account for this investment. Amery Co's profit for the year ended 31 March 2023 was $6m and Amery Co paid total dividends during the year ended 31 March 2023 of $2m. Dargent Co has recorded its share of the dividend received from Amery Co in investment income (and cash).

v. All profits and losses accrued evenly throughout the year.

vi. There were no impairment losses within the group for the year ended 31 March 2023.

**Required**

Prepare the consolidated statement of financial position for Dargent Co as at 31 March 2023.
**Show all workings** **(30 Marks)**

*******************************END OF PAPER*******************************

Student ID________________ Course Code ___________ Exam Date___________

Make sure you put your answer in line with the correct question number.

| | A | B | C | D |
|---|---|---|---|---|
| Example:<br>If Answer is **D** | | | | X |
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