ZCAS University

BAC3101 FINANCIAL REPORTING

END OF SEMESTER EXAMINATION

31ST MAY 2024

16 30 – 19 30 HOURS

TIME ALLOWED: THREE HOURS (plus 5 minutes to read through the paper)

INSTRUCTIONS:

1. Section A: this question is **compulsory** and must be attempted.
2. Sections B: Answer Three (3) questions from this section.
3. This question paper carries a total of **100 marks**.
4. Candidates must **not turn this page** until the invigilator tells them to do so.

SECTION A: Question 1 is compulsory and must be attempted

Question 1

On 1 May 2023 Karl bought 60% of Susan paying K76,000,000 cash. The summarised statements of financial position for the two entities as at 30 November 2023 are:

	Karl	Susan
	K'000	K'000
Non-current assets		
Property, plant & equipment	138,000	115,000
Investments	98,000	–
Current assets		
Inventory	15,000	17,000
Receivables	19,000	20,000
Cash	2,000	–
	272,000	152,000
Share capital	50,000	40,000
Retained earnings	189,000	69,000
	239,000	109,000
Non-current liabilities: 8% Loan notes	–	20,000
Current liabilities	33,000	23,000
	272,000	152,000

The following information is relevant:

(i) The inventory of Karl includes K8,000,000 of goods purchased for cash from Susan at cost plus 25%.

(ii) On 1 June 2023 Karl transferred an item of plant to Susan for K15,000,000. It's carrying amount at that date was K10,000,000, and its remaining useful life was 5 years.

(iii) Karl values the non-controlling interest using the fair value method. At the date of acquisition, the fair value of the 40% non-controlling interest was K50,000,000.

(iv) An impairment loss of K1,000,000 is to be charged against goodwill at the year-end.

(v) Susan earned a profit of K9,000,000 in the year ended 30 November 2023.

(vii) The loan note in Susan's books represents monies borrowed from Karl on 30 November 2023.

(vii) Included in Karl's receivables is K4,000,000 relating to inventory sold to Susan during the year. Susan raised a cheque for K2,500,000 and sent it to Karl on 29 November 2023. Karl did not receive this cheque until 4 December 2023.

Required:

Prepare the consolidated statement of financial position as at 30 November 2023. Please show all the workings.

(Total: 40 marks)

SECTION B: Attempt any THREE questions in this section

Question 2

(a) A loan note is issued for $1,000. The loan note is redeemable at $1,250. The term of the loan is five years and interest is paid at 5.9% pa. The effective rate of interest is 10%.

Required:

Show how the value of the loan note changes over its life.

(5 marks)

(b) Convert Co issues a convertible loan that pays interest of 2% per annum in arrears. The market rate is 8%, being the interest rate for an equivalent debt without the conversion option. The loan of $5 million is repayable in full after three years or convertible to equity. Discount factors are as follows:

Year	Discount factor at 8%
1	0.926
2	0.857
3	0.794

Required:

Split the loan between debt and equity at inception and calculate the finance charge for each year until conversion/redemption.

(20 marks)

Question 3

Your supervisor has gone on an annual leave and has left you the following write ups:

The International Accounting Standards Board's (IASB) Framework

The International Accounting Standards Board's (IASB) Framework for the Preparation and Presentation of Financial Statements (Framework) identifies assets, liabilities and equity as key elements of statement of financial position. Further the framework separates fundamental qualitative characteristics from enhancing qualitative characteristics and specifically identifies two underlying assumptions.

Mukula Timber Limited

Mukula Timber Limited has a policy of not acquiring non-current assets for use in Timber production but to lease them on a long-term basis. Management sent you for a ZICA CPD training workshop on the IFRS 16 leases updates and you were voted the best participant.

Mukula Timber Ltd entered a contract to lease an item of plant for use in its production from Kay Finance Ltd commencing 1 January 2016. The lease is for four years and requires an annual rental payment of K20 million on 31 December each year (in arrears). An initial deposit of K10 million was paid by Mukula Timber on 1 January 2016. Mukula Timber Ltd's incremental borrowing rate is 10% per annum. The fair value of the plant on 1 January 2016 was K500 million and its useful economic life was 10 years.

Mataba Limited

Mataba Limited has cash flow problems and the Chief Financial Officer wants you to look at the statement of financial position extracts below:

31 December:	2016	2015
	K' 000	K' 000
Equity share capital of K0.75each	22,500	15,000

Share premium		
Retained earnings	15,000	17,000
10% Loan notes	13,000	9,000
Notes:	21,000	18,000

(i) Profit for the year ended 31 December 2016 was K6, 000, 000 and the company paid dividends to equity shareholders before 31 December 2016.

(ii) In June 2016, the company issued bonus shares, 1 share for every 4 shares held financed by share premium and in November 2016 the rights issue was made at a premium. Both issues were correctly recorded in the statement of financial position.

Required:

In relation to the write up on:

(a) The International Accounting Standards Board's (IASB) Framework

(i) Define an asset and a liability in accordance with the IASB framework and give an example of each. (2 marks)

(ii) Explain the two fundamental qualitative characteristics of financial information specified in the IASB's framework. (4 marks)

(iii) Explain the two underlying assumptions according to the IASB framework. (4 marks)

(b) Prepare Mukula Timber's financial statement extracts in respect of the lease with Kay Finance for the year to 31 December 2017. (4 marks)

(c) Prepare Mataba Limited's cash flows from financing activities section according to IAS 7 Indirect method (6 marks)

(20 marks)

Question 4

A lessee enters into a five-year lease of a building which has a remaining useful life of ten years. **Lease payments are $50,000** per annum, payable at the beginning of each year.

The lessee incurs **direct costs of $20,000** and receives lease incentives of $5,000. there is no transfer of the asset at the end of the lease and no purchase option.

The interest rate implicit in the lease is not immediately determinable but the lessee's **incremental borrowing rate is 5%.**

At commencement date, the lessee pays the initial $50,000, incurs the direct costs and receives the lease incentive.

Required:

Show the effect of the transaction on financial statements.

(20 marks)

Question 5

Matanda Ltd has an intangible asset with a carrying amount of K200,000 as of 30th April 2024. The asset's recoverable amount is estimated to be K150,000.

Required:

(a) Prepare the necessary journal entries to account for the impairment loss in accordance with IAS 36 Impairment of Assets. (2 Marks)

(b) Explain the disclosure requirements related to impairment losses under IAS 36. (18 Marks)

(20 marks)

END OF TEST