ZCAS University

BAC4101 ADVANCED FINANCIAL REPORTING

END OF SEMESTER 1 EXAMINATIONS

JUNE 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

HY acquired 4 million of SG's equity shares paying K4.50 each and K500,000 (at par) of its 10% redeemable preference shares on 1st April 2007. At this date the accumulated retained earnings of SG were K8,400,000.

Reproduced below are the draft Statements of Financial Position of the two companies at 31st March 2010.

	K,000 HY	K,000 SG
Assets		
Non Current Assets		
Property, plant and equipment	42,450	22,220
Investment in Sibling:Equity	18,000	-
Preference	500	-
	60,950	22,220
Current Asset		
Inventories	9,850	6,590
Trade receivables	11,420	3,830
Cash and bank	490	-
	21,760	10,420
Total Assets	82,710	32,640
Equity and Liabilities		
Equity		
Equity capital K1 each	10,000	5,000
Retained earnings	52,640	15,280
	62,640	20,280
Non Current Liabilities		
10% Loan notes	12,000	4,000
10% Redeemable	-	2,000
Preference Capital	12,000	6,000
Current Liabilities		
Trade payables	5,600	3,810
Operating overdraft	-	570
Provision for income taxes	2,470	1,980

	8,070	6,360
Total equity and liabilities	82,710	32,640

Extracts from the unadjusted income statement of Sibling for the year to 31st March 20X8 are:

	K'000
Profit before interest and tax	5,400
Interest paid	
10% Loan notes	(400)
Preference dividend	(200)
Income taxes	(1,600)
Retained profit for period	3,200
The following information is relevant:	
	4,800

(1) Included in the property, plant and equipment of SG is a large area of development land at its cost of K5 million. Its fair value at the date SG was acquired was K7 million and by 31st March 2010 this had risen to K8.5 million. The group valuation policy for development land is that it should be carried at fair value and not depreciated.

(2) Also at the date that Sibling was acquired, its property, plant and equipment included plant that had a fair value of K4 million in excess of its carrying value. This plant had a remaining life of 5 years. The group calculates depreciation on a straight-line basis. The fair value of Sibling's other net assets approximated to their carrying values.

(3) During the year Sibling sold goods to HY for K1.8 million. Sibling adds a 20% mark-up on cost to all its sales. Goods with a transfer price of K450,000 were included in HY's inventory at 31st March 20X8.

The balance on the current accounts of the parent and subsidiary was K240,000 on 31st March 20X8.

REQUIRED

(a) Prepare the Consolidated Statement of Financial Position of HY at 31st March 20X8, assuming the group uses the proportion of net assets method for measuring Non- Controlling Interest. Goodwill is not impaired. (33 marks)

(b) Calculate the Non-Controlling Interest in the adjusted profit of SG for the year to 31st March 2018. (7 marks)

(Total: 40 marks)

SECTION B: Attempt any THREE questions in this section

Question 2

IAS 19 Employee Benefits is applied to all employee benefits other than those to which IFRS 2 Share-Based Payments applies. Accounting for short-term employee benefits is relatively straightforward. However, accounting for post-employment benefits can be rather more complex.

This particularly applies where post-employment benefits are provided via defined benefit plans.

REQUIRED: Explain:

a)The meaning of post employment benefits and the manner in which such benefits that are provided via defined contribution plans should be measured and recognised in the financial statements of employers.

(3 marks)

b) Why accounting for post-employment benefits provided via defined benefit plans is more complex than those provided via defined contribution plans in the financial statements of Employers

(2 marks)

c) The amounts that should be included in the financial statements of employers, regarding post-employment benefits (ignore the effect of actuarial gains and losses at this stage)

(2 marks)

MN Ltd. provides post-employment benefits to its employees through a defined benefit plan. The following data relates to the plan:

	Year ended 31st March 2009 K'000	**Year ended 31st March 2008 K'000**
Present Value of obligation at year end	36,000	33,000
Fair Value of plan assets at year end	31,000	30,000
Current service Cost	6,000	5,700
Benefits paid by plan	8,000	7,500
Contributions paid into plan during year	5,800	5,600
Discount rate at start of year	10%	9%

Expected rate of return on plan assets at start of year	7%	6%
Average remaining service lives of participating employees	20 Years	20 Years

On 1st April 2008, MN Ltd. had net unrecognised actuarial losses of K4.2 million. MN Ltd. accounts for actuarial gains and losses using the "corridor method".

d) Prepare extracts from MN's Statement of Financial Position at 31st March 2009 and from its Income Statement for the year ended 31st March 2009, relating to the defined benefits plan.

(13 marks)

(20 marks)

Question 3

RP Group, a public limited company in the financial sector, has a complex corporate structure with several subsidiaries, associates, and joint ventures. During the financial year ending on 31 October 20X9, the following events occurred:

1. The company financed a management buyout of one of its group companies, AB, by providing loan finance and retaining a 25% equity holding in AB. RP also appointed a main board director to AB.
2. RP Group received management fees, interest payments, and dividends from AB throughout the year.

Required:

(a) Determine whether the events described above require disclosure in the financial statements of RP Group under IAS 24 Related Party Disclosures. (6 marks)

(b) Identify the specific disclosures needed for related party transactions, including the nature of the relationship with AB, the amounts involved, and any outstanding balances.

(8 marks)

(c) Explain the implications of these related party transactions on RP Group's financial position, profit or loss, and overall performance in accordance with IAS 24 requirements.

Illustrate the impact of these transactions on the transparency and reliability of the financial statements.

(6 marks)

(20 marks)

Question 4

On 1 January 2021, Painting sells an item of machinery to Collage for its fair value of $3 million. The asset had a carrying amount of $1.2 million prior to the sale. The sale represents the satisfaction of a performance obligation, in accordance with IFRS 15 revenue from contracts with customers. Painting enters into a contract with Collage for the right to use the asset for the next five years. Annual payments of $500,000 are due at the end of each year. The interest rate implicit in the lease is 10%.

The present value of the annual lease payments is $1.9 million. The remaining useful life of the machine is much greater than the lease term.

Required:

Explain how Painting will account for the transaction on 1 January 2021.

(20 marks)

Question 5

An entity, XYZ Corporation, is preparing its financial statements for the year ending on 31 December 20X9. XYZ Corporation has multiple operating segments and is required to comply with IFRS 8, 'Operating Segments'. As the financial controller of XYZ Corporation, you are tasked with assessing and reporting the segments in accordance with the requirements of IFRS 8.

Required:

(a) Explain the process of identifying operating segments under IFRS 8. Discuss the factors that determine whether a component of XYZ Corporation qualifies as an operating segment. Provide insights into how the Chief Operating Decision Maker (CODM) is identified and the key considerations in determining reportable segments.

(5 marks)

(b) Discuss the criteria for aggregating operating segments under IFRS 8. Explain when and how XYZ Corporation can combine two or more operating segments into a single reportable segment. Provide examples and insights into the implications of aggregating segments, considering factors such as economic characteristics and reporting disclosures.

(7 marks)

(c) Outline the required disclosures for operating segments under IFRS 8. Detail the specific information that XYZ Corporation must disclose for each reportable segment, including profit or loss, revenue, expenses, assets, liabilities, and other relevant measures. **Discuss the challenges and considerations in preparing segment disclosures to ensure transparency and compliance with IFRS 8 requirements.**

(8 marks)

(20 marks)

END OF EXAMINATION