

UNIVERSITY OF ESWATINI
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING
MAIN EXAMINATION PAPER NOVEMBER 2019

TITLE OF PAPER : ADVANCED CORPORATE REPORTING

COURSE CODE : ACF631 (M) NOVEMBER 2019

TOTAL MARKS : 100 MARKS

TIME ALLOWED : THREE (3) HOURS

- INSTRUCTIONS**
- 1 This paper consists of two sections, A and B. There are Two (2) Questions in Section A. Answer all the questions in section A. Section B consist of Three (3) questions. Answer any Two (2) Questions from section B.**
 - 2 Begin the solution to each question on a new page.**
 - 3 The marks awarded for a question are indicated at the end of each question.**
 - 4 Show the necessary working.**
 - 5 Calculations are to be made to zero decimal places of accuracy, unless otherwise instructed.**

Note: You are reminded that in assessing your work, account will be taken of accuracy of the language and general quality of expression, together with layout and presentation of your answer.

THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR OR SUPERVISOR.

SPECIAL REQUIREMENTS: CALCULATOR

INSTRUCTION

SECTION A

THERE ARE *TWO (2)* QUESTIONS IN THIS SECTION. YOU ARE REQUIRED TO ANSWER *ALL THE TWO (2) QUESTIONS* IN THIS SECTION. ALL THE QUESTIONS CARRY EQUAL MARKS

QUESTION ONE

Constance Ltd acquired 70% equity shares of Agyemang Ltd on 1st January, 2018 when the income surplus of Agyemang Ltd was E 10.2 million and capital surplus was E 8 million. The financial statements of the two companies for the year ended 31st December, 2018 were as follows:

Statement of Profit or Loss and other comprehensive income for the year ended 31/12/2018.

	Constance Ltd	Agyemang Ltd
	E'000	E'000
Revenue	56,500	34,600
Cost of Sales	(24,800)	(21,800)
Gross profit	31,700	12,800
Operating expenses	(16,300)	(5,100)
Operating profit	15,400	7,700
Other income	2,200	400
Finance costs	(2,400)	(2,000)
Profit before tax	15,200	6,100
Taxation	(3,500)	(1,130)
Profit for the year	11,700	4,970
Other comprehensive income	1,300	460
Total comprehensive income	13,000	5,430

Income Surplus for the year ended 31/12/2015

	Constance Ltd	Agyemang Ltd
	E'000	E'000
Balance b/f	42,800	18,600
Net profit for the year	11,700	4,970
Dividend paid	(2,500)	(1,200)
Balance c/f	52,000	22,370

Statement of financial position as at 31/12/2018

	Constance Ltd	Agyemang Ltd
	E'000	E'000
Property, plant and equipment	69,000	45,000
Investment in Benson Ltd	45,000	-
Other investment	24,000	10,000
	138,000	55,000
Current assets		

Inventories	16,200	9,500
Receivables	7,300	5,500
Bank	<u>1,900</u>	<u>1,000</u>
Total assets	163,400	71,000

Equity & Liabilities:

Equity:

Equity share capital	50,000	20,000
Capital surplus	14,000	12,500
Income surplus	<u>52,000</u>	<u>22,370</u>
	116,000	54,870
20% Loan note	12,000	10,000
Provision for deferred tax	15,000	1,500

Current liabilities:

Payables	18,200	4,080
Current tax	<u>2,200</u>	<u>550</u>
Total equity and liabilities	163,400	71,000

Additional information:

a) At the date of acquisition, land in the books of Agyemang Ltd with a carrying amount of E 8 millions had a fair value of E 10.5 million. On 31st December, 2018 the land has a fair value of E 12.5 million. These values have not been captured in the above financial statements.

b) Constance Ltd sold goods to the tune of E 8 million to Agyemang Ltd. Constance priced its sales at cost plus 25%. One-quarter of these goods are included in the inventories of Agyemang Ltd as at 31/12/2018.

c) Included in the trade receivables of Constance Ltd is an amount of E 1.5 million owed by Agyemang Ltd. But Agyemang Ltd has in its payables an amount of E 1 million owed to Constance Ltd. An investigation of the financial records showed that there is a cheque in transit.

d) It is the policy of the group to value non-controlling interest at fair value. The fair value of NCI at the date of acquisition was E 9.7million

e) As at 1st January, 2018, the goodwill has suffered an impairment loss of E 500,000. At 31st December, 2018 the goodwill was reviewed and there was an impairment loss of E 800,000.

f) On 1 January 2017, Constance Ltd sold a plant with a carrying value of E 3 million to Agyemang Ltd for E 4 million. The economic remaining life of the plant was 4 year as at 31 December 2017. The profit on the disposal was recorded as part of the other income.

Required

i) Prepare the Consolidated statement of profit or loss and other comprehensive income for the year ended 31st December, 2018 (10 Marks);

ii) Consolidated statement of changes in equity for the year ended 31 December 2017 (10 Marks)

iii) Consolidated statement of financial position as at 31st December, 2018 (10 Marks)

[Total: 30 Marks]

QUESTION TWO

The following list of account balances has been prepared by Dlamini manufacturing Company Limited, on 31 May 2008, which is the end of the company's accounting period:

	R	R
Authorised and issued 300,000 ordinary shares of R1 each, fully paid		300,000
100,000 8.4% cumulative preference shares of R1.00 each, fully paid		100,000
Revaluation surplus		50,000
Share premium reserve		100,000
General reserve		50,000
Retained earnings – 31 May 2018		283,500
Patents and trademarks		215,500
Freehold land at cost		250,000
Leasehold property at cost	75,000	
Amortisation of leasehold property – 31 May 2018		15,000
Factory plant and equipment at cost	150,000	
Accumulated depreciation – plant and equipment – 31 May 2018		68,500
Furniture and fixtures at cost	50,000	
Accumulated depreciation – furniture and fixtures – 31 May 2018		15,750
Motor vehicles at cost	75,000	
Accumulated depreciation – motor vehicles – 31 May 2018		25,000
10% loan notes (2010 – 2015)		100,000
Trade receivables/ trade payables	177,630	97,500
Bank overdraft		51,250
Inventories – raw materials at cost – 31 May 2018	108,400	
Purchases – raw materials	750,600	
Carriage inwards – raw materials	10,500	
Manufacturing wages	250,000	
Manufacturing overheads	125,000	
Cash	5,120	
Work in progress – 31 May 2018	32,750	
Sales		1,526,750
Administrative expenses		158,100

Selling and distribution expenses	116,800	
Legal and professional expenses	54,100	
Allowance for receivables – 31 May 2019	5,750	
Inventories – finished goods – 31 May 2018	<u>184,500</u>	—
	<u>2,789,000</u>	<u>2,789,000</u>

Additional information:

(a) Inventories at 31 May 2019 were:

	R
Raw materials	112,600
Finished goods	275,350
Work in progress	37,800

(b) Depreciation for the year is to be charged as follows:

Plant and equipment 8% on cost – charged to production

Furniture and fixtures 10% on cost – charged to admin

Motor vehicles 20% on reducing value – 25% admin
– 75% selling and distribution

(c) Financial, legal and professional expenses include:

	R
Solicitors' fees for purchase of freehold land during year	5,000

(d) Provision is to be made for a full year's interest on the loan notes.

(e) Income tax on the profits for the year is estimated at R40,000 and is due for payment on 28 February 2010.

(f) The directors recommended on 30 June that a dividend of 3.5p per share be paid on the ordinary share capital. No ordinary dividend was paid during the year ended 31 May 2018.

(g) The leasehold land and buildings are held on a 50 year lease, acquired ten years ago.

Required

From the information given above,

(a) Prepare the Income Statement of Dlamini Manufacturing Company Ltd. for the year to 31 May 2019 *(15 marks)* and

(a) Prepare a Statement of Financial Position at that date for publication in accordance with International Accounting Standards. *(15 marks)*

Notes to the financial statements are not required [Total: 30 Marks]

SECTION B

THERE ARE **THREE (3)** QUESTIONS IN THIS SECTION. YOU ARE REQUIRED TO ANSWER ANY **TWO (2) QUESTIONS** FROM THIS SECTION. ALL THE QUESTIONS CARRY EQUAL MARKS. 25 MARKS EACH TOTALLING 40 MARKS.

QUESTION THREE

Dream Big Ltd is a wholesaler and retailer of office furniture. Extracts from the company's financial statements are set out below:

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED:

	31 March 2019		31 March 2018	
	E'000	E'000	E'000	E'000
Revenue: - cash	12,800		26,500	
- credit	<u>53,000</u>	65,800	<u>28,500</u>	55,000
Cost of sales		(43,800)		(33,000)
Gross profit		22,000		22,000
Operating expenses		(11,200)		(6,920)
Finance costs: - loan no	(380)		(180)	
- overdraft	<u>(220)</u>	(600)	<u>-</u>	(180)
Profit before tax		10,200		14,900
Income tax expense		<u>(3,200)</u>		<u>(4,400)</u>
Profit for the year		<u>7,000</u>		<u>10,500</u>
Other comprehensive income:				
Gain on property revaluation		5,000		1,200
Total comprehensive income		12,000		11,700

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2019

	Stated Capital	Capital Surplus	Income Surplus	
	E'000	E'000	E'000	Total
Balances	b/f 8,500	2,500	15,800	26,800
Share issue	12,900	-	-	12,900
Comprehensive				
Income	-	5,000	7,000	12,000
Dividends paid	-	-	(4,000)	(4,000)
Balances c/f	21,400	7,500	18,800	47,700

STATEMENTS OF FINANCIAL POSITION AS AT 31 MARCH:

	2019	2018
	E'000	E'000
Assets		
Non-current assets (see note)		
Cost	93,500	80,000
Accumulated depreciation	(43,000)	(48,000)
	50,500	32,000
Current assets		
Inventory	5,200	4,400
Trade receivables	7,800	2,800
Bank	-	700
Total assets	63,500	39,900

Stated capital	21,400	8,500
Capital surplus	7,500	2,500
Income surplus	<u>18,800</u>	<u>15,800</u>
	47,700	26,800

Non-current liabilities

10% loan notes	4,000	3,000
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Current liabilities

Bank overdraft	3,600	-	
Trade payables	4,200	4,500	
Taxation	3,000	5,300	
Warranty provision	<u>1,000</u>	<u>11,800</u>	<u>300</u>
		<u>63,500</u>	<u>10,100</u>
			39,900

Note:

Non-current assets

During the year 2019, the company redesigned its display areas in all of its outlets. The previous displays had cost E10 million and had been written down by E9 million. There was an unexpected cost of E500,000 for the removal and disposal of the old display areas. Also during the year the company revalued the carrying amount of its property upwards by E5 million and the accumulated depreciation on these properties of E2 million was reset to zero.

All depreciation is charged to operating expenses.

Required:

Prepare a statement of cash flows for Dream Big Ltd for the year ended 31 March 2015 in accordance with IAS 7 - Statement of Cash Flows. **[Total Marks 20]**

QUESTION FOUR

Accountants prepare accounts based on a conceptual framework. This framework deals with, among other things, objectives for the preparation of accounts, qualitative characteristics of accounting information, concept of capital maintenance and recognition and measurement of the elements of financial statements.

Required:

- a) Outline **four** importance of the conceptual framework for financial reporting. (4 Marks)
- b) Identify **four** components of a financial statement and for each of them state the objective for preparing that component. (8 Marks)
- c. Explain **two** fundamental and **two** enhancing qualities of accounting information.(8 Marks)

[Total Marks 20]

QUESTION FIVE

(a) Explain what is meant by the following terms as per IAS 7

- | | |
|---------------------------|-----------|
| i. Statement of Cash flow | (3 Marks) |
| ii. Cash | (2 Mark) |
| iii. Cash equivalents | (2 Marks) |
| iv Operating activities | (2 Marks) |
| v. Investing activities | (2 Marks) |
| vi Financing activities | (2 Marks) |

(b) Under the International Financial Reporting Standards, IAS 2 deals with inventories. Define the following terms:

- | | |
|--------------------------|-----------|
| i. Inventories | (4 Marks) |
| ii. Net Realisable Value | (3 Marks) |

[Total Marks 20]