UNIVERSITY EXAMINATIONS

UNIVERSITEITSEKSAMENS

UNISA university of south africa

FAC3704

May/June 2015

GROUP FINANCIAL REPORTING

Duration 2 Hours

100 Marks

EXAMINATION PANEL AS APPOINTED BY THE DEPARTMENT

Use of a non-programmable pocket calculator is permissible

Closed book examination

This examination question paper remains the property of the University of South Africa and may not be removed from the examination venue

THIS PAPER CONSISTS OF SEVEN (7) PAGES

PLEASE NOTE.

1 The paper consists of **TWO (2)** questions

2 All questions must be answered

3 All calculations must be shown

4 Ensure that you are handed the correct examination answer book (blue for accounting) by the invigilator

5 Each question attempted, must commence on a new (separate) page

6 **PROPOSED TIME-TABLE** (Avoid deviating from this as far as possible)

Question number	Subject	Marks	Time (minutes)
1	Consolidation of a group of entities	53	64
2	Change in ownership	47	56
	TOTAL	**100**	**120**

<u>QUESTION 1</u> (53 marks)(64 minutes)

Pizza Ltd is a company that provides Italian foods to restaurants and invests in other similar entities in South Africa All the companies in the Pizza Ltd Group have a 31 December year end

The following are extracts from the trial balances of the entities in the Pizza Ltd Group for the year ended 31 December 2014

	Pizza Ltd Dr/(Cr) R	Spaghetti Ltd Dr/(Cr) R	Risotto Ltd Dr/(Cr) R
Share capital – 500 000 ordinary shares	(1 000 000)	-	-
Share capital – 500 000 ordinary shares	-	(750 000)	-
Share capital – 500 000 ordinary shares	-	-	(500 000)
Retained earnings – 1 January 2014	(310 000)	(230 000)	(10 000)
Mark-to-market reserve – 1 January 2014	(13 830)	(23 755)	-
Accumulated depreciation – property, plant and equipment	(225 000)	(320 000)	(280 000)
Deferred tax relating to mark-to-market reserve	(4 569)	(6 527)	-
Trade and other payables	(325 000)	(80 000)	(465 000)
Profit for the year	(950 000)	(710 000)	(350 000)
Other comprehensive income (after tax) – fair value adjustments on investment in equity instruments	(6 101)	(4 718)	-
Property, plant and equipment	1 492 500	1 284 000	1 541 000
Investments in equity instruments at fair value			
– Investment in Spaghetti Ltd	822 000	-	-
– Investment in Gelato Ltd	120 000	-	-
– Investment in Mozzarella Ltd	50 000	-	-
– Investment in Risotto Ltd	-	480 000	-
– Investment in Tiramisu Ltd	-	225 000	-
Trade and other receivables	50 000	19 000	12 000
Cash and cash equivalents	70 000	12 000	11 000
Inventories	180 000	70 000	19 000
Ordinary dividends paid – 31 December 2014	50 000	35 000	22 000
	-	-	-

Additional information

Spaghetti Ltd

1 On 1 January 2010, Pizza Ltd acquired control over Spaghetti Ltd by acquiring 475 000 of the issued ordinary shares in Spaghetti Ltd for R805 000 On the acquisition date the equity of Spaghetti Ltd was as follows

	R
Share capital	750 000
Retained earnings	90 000
Mark-to-market reserve (relating only to the investment in Tiramisu Ltd)	12 247

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QUESTION 1 (continued)

On 1 January 2010, Spaghetti Ltd had no unidentified assets and liabilities and the fair value of all assets and liabilities were considered to be equal to the carrying amounts thereof, except for the following assets

	Carrying amount	Fair value
	R	R
Inventory	68 000	60 000
Trade receivables	15 000	10 000

Risotto Ltd

2 On 1 June 2014, Spaghetti Ltd acquired control over Risotto Ltd by acquiring 75% of the issued shares of Risotto Ltd On the acquisition date there were no unidentified assets and liabilities, and the fair value of all the identifiable assets and liabilities of Risotto Ltd were considered to be equal to the carrying amounts thereof The profit of Risotto Ltd was earned evenly during the current year

Gelato Ltd

3 On 4 March 2012, Pizza Ltd acquired a 40% interest in Gelato Ltd when the retained earnings of Gelato Ltd amounted to R80 000 The cost price of the investment in Gelato Ltd amounted to R115 000 and the goodwill that arose at acquisition date amounted to R3 000 In terms of the contractual agreement with other operators, Pizza Ltd exercises joint control over the economic activities of Gelato Ltd The arrangement was classified as a joint venture as per IFRS 11, *Joint Arrangements* On the acquisition date the fair value of all the identifiable assets and liabilities of Gelato Ltd were considered to be equal to the carrying amounts thereof

The following is an extract from the trial balance of Gelato Ltd on 31 December 2014

	Dr/(Cr)
	R
Share capital	(200 000)
Retained earnings – 1 January 2014	(215 000)
Profit for the year	(24 000)
Dividends paid – 31 December 2014	10 000

Intragroup transactions

4 On 1 July 2014, Spaghetti Ltd sold kitchen equipment with a carrying amount of R165 000 to Risotto Ltd for R180 000 The kitchen equipment had a remaining useful life of 3 years on the date of sale The entity's policy is to provide for depreciation over the expected useful life of the equipment using the straight-line method which is consistent with the tax allowance of the South African Revenue Service

Information relating to fair value adjustments:

5 **Equity investments of Pizza Ltd**

	Spaghetti Ltd	Gelato Ltd	Mozzarella Ltd
	R	R	R
Fair value adjustments 1 January 2014	12 000	3 000	2 000
Fair value adjustments for the current year	5 000	2 000	500
Fair value adjustments 31 December 2014	17 000	5 000	2 500

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QUESTION 1 (continued):

6 **Equity investments of Spaghetti Ltd**

	Risotto Ltd R	Tiramisu Ltd R
Fair value adjustments 1 January 2014	-	29 200
Fair value adjustments for the current year	-	5 800
Fair value adjustments 31 December 2014	-	35 000

Other information

7 The Pizza Ltd Group elected to measure non-controlling interests in an acquiree at its proportional share of the acquiree's identifiable net assets at acquisition date (partial goodwill method) On 31 December 2014 the directors of Pizza Ltd determined that the goodwill that arose on acquisition of Spaghetti Ltd had been impaired by R1 500

8 The Pizza Ltd Group measures investments in equity instruments at fair value through other comprehensive income

9 Pizza Ltd's policy is to account for joint ventures using the equity method as per IAS 28, *Investments in Associates and Joint Ventures*

10 Each share carries one vote and the issued share capital of all the entities in the group remained unchanged since 1 January 2010

11 The SA normal tax rate is 28% and capital gains tax is calculated at 66,6% thereof You may assume that the tax rate has remained unchanged since 1 January 2010

REQUIRED:

(a) Calculate the amount that will be disclosed as **goodwill** in the **consolidated statement of financial position** of the Pizza Ltd Group as at 31 December 2014 (6½)

(b) Prepare the **consolidated statement of profit or loss and other comprehensive income** for the Pizza Ltd Group for the year ended 31 December 2014 (your answer must begin with the line item – **"profit for the year"**) (26½)

(c) Prepare the **consolidated statement of changes in equity** of Pizza Ltd Group for the year ended 31 December 2014 (17)

(d) Discuss the accounting treatment of a **joint operation** in terms of IFRS 11, *Joint Arrangements* (3)

Please note Total columns are **not** required in the consolidated statement of changes in equity

Your answer must comply with the requirements of International Financial Reporting Standards (IFRS)

Comparative figures and notes to the consolidated financial statements are **not** required

All calculations must be shown and all amounts must be rounded off to the nearest R1

QUESTION 2 (47 marks)(56 minutes)

The Gold Ltd Group manufactures and sells medals for various sporting events across South Africa Extracts from the trial balances of the entities in the Gold Ltd Group for the year ended 31 December 2014 are as follows

	Gold Ltd R	Silver Ltd R	Bronze Ltd R
Debits			
Property, plant and equipment at carrying amount	1 520 000	1 265 965	562 540
Investments in equity instruments			
- Investment in Silver Ltd at fair value	750 000	-	-
- Investment in Bronze Ltd at fair value	112 000	-	-
- Investment in Tin Ltd at fair value	-	-	40 000
Loan to Bronze Ltd	120 000	-	-
Trade and other receivables	65 000	44 000	27 000
Inventories	99 000	62 000	33 000
Cash and cash equivalents	200 500	11 300	9 200
Cost of sales	502 200	501 900	399 700
Other expenses	156 700	26 600	55 460
Finance costs	36 958	28 000	18 800
Income tax expense	140 823	97 600	13 500
Dividends paid - 31 December 2014	20 000	10 000	5 000
	3 723 181	2 047 365	1 164 200
Credits			
Share capital - 200 000 ordinary shares	200 000	-	-
- 100 000 ordinary shares	-	100 000	-
- 50 000 ordinary shares	-	-	50 000
Retained earnings - 1 January 2014	1 626 211	709 100	217 800
Long-term borrowings	489 170	230 594	234 550
Trade and other payables	79 000	48 900	19 750
Loan from Gold Ltd	-	-	120 000
Revenue	1 140 000	855 400	522 100
Other income	58 800	49 900	-
Other comprehensive income - mark-to-market reserve (net after tax)	105 758	-	-
Deferred tax liability	24 242	9 971	-
	3 723 181	2 047 365	1 164 200

Additional information

Silver Ltd

1 On 1 January 2012, Gold Ltd acquired 40 000 ordinary shares of Silver Ltd for R120 800 and since that date exercised significant influence over the operating and financial policy decisions of Silver Ltd On that date the retained earnings of Silver Ltd amounted to R99 750 and the market value of one Silver Ltd share was R1,25 The goodwill that arose as a result of the acquisition of Silver Ltd amounted to R36 900

QUESTION 2 (continued)

2 The carrying amounts of the assets and liabilities of Silver Ltd on the acquisition date were considered to be fairly valued, except for a vacant piece of land with a carrying amount of R200 000 and a fair value of R212 292 This revaluation was not accounted for in the separate accounting records of Silver Ltd

3 On 1 October 2014, Gold Ltd acquired an additional 50 000 ordinary shares in Silver Ltd for R499 200 and obtained control of Silver Ltd from that date On 1 October 2014 the market price of one Silver Ltd share was R11,25 The assets and liabilities of Silver Ltd were fairly valued at this date

The **fair values** of the net identifiable assets and liabilities of Silver Ltd on 1 October 2014 were as follows

	Dr/(Cr) **R**
Property, plant and equipment	1 068 650
Cash and cash equivalents	37 800
Trade and other receivables	41 300
Inventories	55 400
Trade and other payables	(43 600)
Long-term borrowings	(152 050)
	1 007 500

Since 1 January 2012, the fair value of the vacant piece of land remained unchanged

4 On 31 December 2014, Gold Ltd revalued its equity investments to fair value for the first time The fair value of the investment in Bronze Ltd was equal to the cost thereof on 31 December 2014

5 Since 2013, Gold Ltd sold inventory to Silver Ltd at a mark-up of 25% on the cost price During the current year the total intragroup sales of inventory from Gold Ltd to Silver Ltd amounted to R52 450 (2013 R33 420) On 31 December 2014, Silver Ltd had inventory of R24 700 on hand that was purchased from Gold Ltd (2013 R22 580) On 31 December 2014, the inventory of R24 700 was written down to a net realisable value of R22 700 At year end this adjustment was not recorded in the separate financial statements of Silver Ltd

Bronze Ltd

6 On 1 January 2014, Gold Ltd acquired a 35% interest in Bronze Ltd for R112 000 In terms of a contractual agreement with the other operators, Gold Ltd exercises joint control over the economic activities of Bronze Ltd The arrangement is classified as a joint operation per IFRS 11, *Joint Arrangements* The contract specifies that all revenue, expenses, assets and liabilities are allocated according to the interests held by the operators

7 On 1 March 2014, Gold Ltd issued an interest bearing loan of R120 000 to Bronze Ltd Interest received by Gold Ltd amounting to R12 500 was included in "other income" The interest payment made by Bronze Ltd was included in "finance charges"

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QUESTION 2 (continued)

Other information

8 The Gold Ltd Group elected to measure the non-controlling interests at fair value (full goodwill method) At the current yearend goodwill was tested for impairment and it was determined that goodwill had not been impaired on 31 December 2014

9 The SA normal tax rate is 28% and the capital gains inclusion rate is 66,6% You many assume that the SA normal tax rate and the capital gains inclusion rate has remained unchanged since 1 January 2012

10 Each share carries one vote and the share capital has remained unchanged throughout the period 1 January 2012 to 31 December 2014

11 The profits of all the companies were earned evenly throughout the year (including intragroup transactions)

REQUIRED

(a) Prepare the **consolidated statement of profit or loss and other comprehensive income** for the Gold Ltd Group for the year ended 31 December 2014 (31½)

(b) Prepare **only** the **asset section** of the **consolidated statement of financial position** of the Gold Ltd Group as at 31 December 2014 (You may assume there is no deferred tax asset) (15½)

Your answer must comply with the requirements of International Financial Reporting Standards

Comparative figures and notes to the consolidated financial statements are **not** required

All calculations must be shown and all amounts must be rounded off to the nearest R1