



CHARTERED ACCOUNTANTS EXAMINATIONS

PROFESSIONAL LEVEL

P1: ADVANCED FINANCIAL REPORTING

MONDAY 15TH JUNE 2015

TOTAL MARKS – 100: TIME ALLOWED: THREE (3) HOURS

INSTRUCTIONS TO CANDIDATES

1. You have fifteen (15) minutes reading time. Use it to study the examination paper carefully so that you understand what to do in each question. You will be told when to start writing.
2. This paper is divided into TWO sections:

Section A: Attempt this ONE (1) compulsory question.
Section B: Attempt any THREE (3) questions.
3. Enter your student number and your National Registration Card number on the front of the answer booklet. Your name must **NOT** appear anywhere on your answer booklet.
4. Do **NOT** write in pencil (except for graphs and diagrams).
5. The marks shown against the requirement(s) for each question should be taken as an indication of the expected length and depth of the answer.
6. All workings must be done in the answer booklet.
7. Present legible and tidy work.
8. Graph paper (if required) is provided at the end of the answer booklet.
9. Present Value and Annuity tables are attached at the end of this question paper.

SECTION A

This question is compulsory and must be attempted

QUESTION ONE

The following are the draft statements of financial position of Pabana Plc, Mabana Plc and Nabana Plc as at 31st March 2015.

	Pabana Plc K'million	Mabana Plc K'million	Nabana Plc K'million
Assets			
Non –current			
Property, plant and equipment	1,980	871	1,171
Intangible assets	400	nil	nil
Financial assets	<u>1,918</u>	<u>660</u>	<u>nil</u>
	<u>4,298</u>	<u>1,531</u>	<u>1,171</u>
Current			
Inventories	819	515	241
Trade receivables	936	587	275
Cash and cash equivalents	<u>657</u>	<u>367</u>	<u>172</u>
	<u>2,412</u>	<u>1,469</u>	<u>688</u>
Total Assets	<u>6,710</u>	<u>3,000</u>	<u>1,859</u>
Equity and Liabilities			
Equity			
Share capital	2,230	1,110	744
Retained earnings	2,157	841	317
Other components of equity	<u>108</u>	<u>70</u>	<u>82</u>
Total Equity	<u>4,495</u>	<u>2,021</u>	<u>1,143</u>
Non – current liabilities	1,240	600	185
Current liabilities	<u>975</u>	<u>379</u>	<u>531</u>
Total Liabilities	<u>2,215</u>	<u>979</u>	<u>716</u>
Total Equity and Liabilities	<u>6,710</u>	<u>3,000</u>	<u>1,859</u>

The following information is relevant in the preparation of group accounts.

1. Pabana Plc acquired 100% of Mabana Plc's equity on 1st April 2012 for a cash consideration of K1,318 million. The fair value of identifiable net assets at acquisition date was K1,280 million. Mabana Plc's retained earnings and other components of equity at the date of acquisition were K141 million and K19 million respectively. There had been no new issue of share capital by Mabana Plc since the date of acquisition and the excess of the fair value of the net assets is due to an increase in the value of an item of plant which had a remaining useful economic life of 4 years at 1st April 2012.

Pabana Plc sold 30% of the total equity shares of Mabana Plc on 31st March 2015 for a cash consideration of K620 million.

The disposal has not yet been accounted for in the books of Pabana Plc.

2. Pabana Plc acquired 60% of Nabana Plc on 1st April 2013 for a cash consideration of K600 million. The fair value of identifiable net assets of Nabana Plc at acquisition was K960 million. Nabana Plc's retained earnings and other components of equity at 1st April 2013 were K197 million and K12 million respectively. There had been no new issue of share capital by Nabana Plc since the date of acquisition and the excess of the fair value of the net assets is due to an increase in the value of non – depreciable land.

The fair value of non-controlling interest at 1st April 2013 was K350 million.

3. Investments in Mabana Plc and Nabana Plc are **classified as financial assets through other comprehensive income in accordance with IFRS 9 'Financial instruments'**. The fair values of investments in Mabana Plc and Nabana Plc had not significantly changed since acquisition date. They are therefore recorded in the above statement of financial position at their respective costs.
4. Pabana Plc acquired 25% of the equity shares of Labana Plc on 1st January 2015 at a cost of K300 million payable on 1st January 2016. Labana Plc made an operating loss of K40 million for the year to 31st March 2015.

Pabana Plc has not yet accounted for the investment in Labana Plc. Pabana Plc has significant influence in the financial and operating activities of Labana Plc.

Ignore discounting.

5. Pabana Plc introduced a defined pension plan on 1st April 2010 known as 'Planner'. The net pension plan liability of K140 million has been included in the above non-current liability figure. This represents the balance at 31st March 2014. The company has not yet taken into account the movements in the pension plan for the year to 31st March 2015.

The following information relates to the pension plan for the year to 31st March 2015:

- (i) Pension benefits of K30 million were paid.
 - (ii) Net pension plan liability amounted to K160 million at 31st March 2015.
 - (iii) Current service costs were equal to K12 million.
 - (iv) A discount rate of 12% per annum must be used where appropriate.
 - (v) Pension contribution of K25 million was paid on 31st March 2015.
6. During the post acquisition period, Nabana Plc sold goods to Pabana Plc for K48 million. The goods had cost Nabana Plc K40 million to acquire. Pabana Plc paid for the goods in full on 30th June 2015. 30% of the goods had not been sold by Pabana Plc at 31st March 2015.

The transaction has been correctly accounted for in the above financial statements.

7. Financial assets in Mabana Plc are classified as through profit or loss and changes in fair values have been correctly accounted for in Mabana Plc financial statements.
8. Ignore deferred tax effects of the above transactions.
9. Investment in Labana plc and total purchased goodwill had not been impaired by 31st March 2015.
10. It is group policy to value non-controlling interests at fair value of net assets at acquisition.

Required:

Prepare, for Pabana Plc Group, the consolidated Statement of Financial Position as at 31st March 2015 in accordance with International Financial Reporting Standards and International Accounting Standards.

[Total: 40 marks]

SECTION B

Attempt only three questions

QUESTION TWO

(a) Transaction One

Babada Limited acquired a piece of machine from Casata Enterprises on a three year lease agreement starting on 1st September 2014. The machine had an economic useful life of five years at that date. It had a cash price of K66 million on the same date.

The lease agreement provides for the following:

- (i) Babada Limited is responsible for insuring the machine.
- (ii) Babada has an option to purchase the machine at the end of the lease period for K35 million.
- (iii) Babada is required to pay annual lease rentals of K16 million.
- (iv) Annual interest rate implicit in the lease is 10%.

The machine is expected to have a market value of K28 million at the end of the lease period.

On 1st September 2014, Babada Limited paid lease rentals of K32 million covering a period of two years.

Required:

Discuss the accounting treatment of the lease in the financial statements of Babada Limited for the year to 31st May 2015. (8 marks)

(b) Transaction Two

IAS 29 '*Financial Reporting in Hyperinflationary Economies*' applies where an entity's functional currency is that of a hyperinflationary economy. The standard provides for the general characteristics of the economic environment of a country which indicate the existence of hyperinflation.

Required:

Explain any four (4) characteristics of the economic environment of a country which indicate the existence of hyperinflation in accordance with IAS 29. (6 marks)

(c) Transaction Three

Rabada Limited motor vehicle was stolen on 1st February 2015. It had a carrying value of K5,000 at that date. The vehicle was insured and the insurance company had agreed to compensate Rabada for the loss. On 31st March 2015, the insurance company had however, not yet agreed on the compensation amount owing to misplaced records relating to the insured value of this vehicle.

On 10th May 2015, the insurance company agreed to pay Rabada K20,000 as compensation for the loss of a motor vehicle.

Note: Rabada Limited prepared its financial statements on 31st March 2015. They were authorised for issue on 30th May 2015.

Required:

Explain how this transaction was accounted for in the financial statements of Rabada Limited on 31st March 2015 and on 10th May 2015. (6 marks)

[Total: 20 marks]

QUESTION THREE

- (a) Ladaba Plc deals in electrical appliances, such as fridges, stoves and television sets to mention but a few. It had not until 1st December 2012 given any product performance guarantee to its customers. On 1st December 2012, it introduced performance guarantee on two of its products, fridges and television sets. One year and two years' performance guarantees are given to customers who buy fridges and television sets respectively. This is aimed at boosting dwindling sales for these products.

The average price of the company's fridges is K1,800 per fridge and K5,500 for each television set.

Over the ten years the company has been in existence, television sets' sales have accounted for 15% of the company's total sales, while fridges sales have only been 10%. These figures were 25% of total sales for television sets and 20% for fridges in the year to 30th November 2013 and the year to 30th November 2014.

In the year to 30th November 2013, 9.5% of television sales and 5% of fridges sales were returned and repaired. The actual figures for returns and repairs in the year to 30th November 2014 are not yet known. However, the directors expect 9% of television sets sold and 6% of fridges sold to be returned for repairs for the sales in the year ending 30th November 2014.

The average repair cost and sales figures for the year to 30th November 2013 and 30th November 2014 are as follows:

	30 th November:	
	2013	2014
Total sales (units)	100,000	150,000
Repair cost per unit:		
Television set (K)	412.5	412.5
Fridge (K)	126	126

The company has not taken out any insurance policy to cover repair costs. Further, the product performance guarantees have not been recorded in the financial statements of Ladaba Plc since their introduction.

Note: All sales units fall within respective product performance guarantee periods and ignore discounting.

Required:

- (i) Explain whether product performance guarantees being offered by Ladaba Plc meet the criteria to be recognised as a provision in its financial statements for the years to 30th November 2013 and 30th November 2014 in accordance with IAS 37' *Provisions, contingent assets and contingent liabilities*'. (6 marks)
- (ii) Explain how the above product performance guarantees would be accounted for in Ladaba Plc's financial statements for the year to 30th November 2014. (6 marks)

- (iii) Explain how your answer in (ii) above would be if Ladaba Plc were to take out insurance policy against repair costs? (2 marks)
- (b) Madala Plc acquired a piece of machine on 1st December 2012 from South Africa at a cost of 360,000 Rands. The machine was for its new line of business of selling dried fruits. On 30th November 2013, the machine was revalued to K159,000. However, the company, in the year to 30th November 2014, experienced stiff competition from new entrants into this kind of business. This prompted Madala Plc's directors to review the machine for any impairment loss at 30th November 2014. Its recoverable amount was equal to K102,000 as at that date.

The machine is depreciated at 25% per annum on straight line basis. It has no residual value. In addition, Madala Plc has a policy of transferring any revaluation surplus realised to retained earnings.

The functional and reporting currency of Madala Plc is Zambian Kwacha.
The following are the relevant exchange rates:

	Kwacha to Rand
1 st December 2012	K0.5000
30 th November 2013	K0.5600
30 th November 2014	K0.5800

N.B Assume 360,000 Rands took into account all the relevant costs relating to non-refundable duties, freight and installation.

Required:

Explain how this transaction will be accounted for in the financial statements of Madala Plc for the years to 30th November 2013 and 30th November 2014. (6 marks)

[Total: 20 marks]

QUESTION FOUR

The Chief Executive Officer of Medado Enterprises would like to know the effect of the following transactions on the company's ratios such as Earnings per Share (EPS) and Return on Capital Employed (ROCE) for the year ended 31st December 2014.

EPS and ROCE before taking into account the effects of the following transactions were:

EPS of 600 ngwee (based on profit after tax of K19.5 million and 32.5 million issued equity shares).

ROCE of 30% (based on profit before interest and tax of K30 million and net assets of K100 million).

Note: Assume a tax rate of 35% and that the transactions are independent of each other.

Transaction One

A piece of plant was acquired on 1st January 2013 at a cost of K1,000,000. On 31st December 2014, the plant was revalued to K750,000. Depreciation is charged at an annual rate of 20% on straight line basis while capital allowances are claimed on cost on straight line basis at a rate of 25%. The asset had never been revalued before 31st December 2014.

Depreciation charge, effects of revaluation and deferred tax effects of this transaction on the financial statements of Medado Enterprises in the year to 31st December 2014 have not been accounted for.

Transaction Two

A piece of machine was purchased on 1st January 2014 at a cost of K1,200,000. It is depreciated at 25% per annum on straight line basis. It has a nil residual value at the end of its economic useful life.

It is company policy to review machines for impairment annually.

The machine was reviewed for impairment on 31st December 2014 and the following net cashflows have been estimated for the asset's remaining economic useful life.

Year Ending	Net cash flows (K)
31 st December 2015	400,000
31 st December 2016	300,000
31 st December 2017	200,000

The company has a risk adjusted discount rate of 10% per annum.

The depreciation and the results of the impairment review are yet to be accounted for in the books of Medado Enterprises for the year ending 31st December 2014.

Transaction Three

Medado Enterprises bought a building on 1st April 2014. The company paid for the building by issuing 900,000 shares of its K2.00 each equity shares. The fair value of each share as at 1st April 2014 was K6.00. It was difficult to determine the fair value of the building.

Buildings are depreciated at 2% per annum on cost.

The transaction is yet to be recorded in the books of Medado Enterprises for the year ending 31st December 2014.

NOTE: Ignore deferred tax and income tax effects of transactions (2) and (3).

Required:

Recalculate ROCE and EPS for each transaction above and comment on the effect of each transaction on the ratios given above. **[Total: 20 marks]**

QUESTION FIVE

- (a) The Global Reporting Initiative ("GRI") Sustainability Reporting Guidelines gives guidance to entities on how to measure and report on managements' approach to the economic, environmental and social aspects that impact on their businesses.

Tundu Plc is a large company in the energy sector. The company has in the recent past been exposed by the press media for undertaking activities that pollute the environment. This has led to adverse publicity for the company in its markets. Directors of Tundu have taken some measures not only to prevent future pollution, but also to rectify past pollution to certain levels.

Required:

Prepare a report to the Directors of Tundu that explains the contents of a sustainability report relating to environmental issues in accordance with the GRI guidelines. (15 marks)

- (b) IAS 21' *The Effects of Changes in Foreign Exchange Rates*' prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. Further, the standard gives guidance as to the factors that an entity should consider in determining its functional currency.

Required:

Examine factors that should be considered by an entity to determine its functional currency. (5 marks)

[Total: 20 marks]

END OF PAPER

P1 ADVANCED FINANCIAL REPORTING SOLUTIONS

SOLUTION ONE

Pabana Plc Group

Consolidated statement of financial position as at 31st March 2015

K'million

Assets

Non- current

Property, plant & equipment 1,980+871+1,171+9.5W2	4,031.5
Goodwill W1	38
Investment in associate W3	297.5
Intangible assets	400
Financial assets	<u>660</u>
	<u>5,427</u>

Current

Inventory 819+515+241 – 2.4URP	1,572.6
Trade receivables 936+587+275 – 48 intragroup	1,750
Cash & cash equivalent 657+367+172 – 25 plan+620	<u>1,791</u>
	<u>5,113.6</u>

Total assets

10,540.6

Equity and liabilities

Equity

Share capital	2,230
Retained earnings W5	2,898.76
Other components of equity W7	<u>186.35</u>
	5,315.11
Non-controlling interests W8	<u>1,043.49</u>

Total equity

6,358.6

Liabilities

Non- current 1,240+600+185 -140 +160	2,045
Current 975+379+531+300 – 48 Intragroup	<u>2,137</u>

Total liabilities

4,182

Total equity and liabilities

10,540.6

Workings

W1 Goodwill

Mabana Plc	K'million	K'million
Consideration		1,318
Fair value of NCI at acquisition		nil
Fair value of identifiable net assets		<u>(1,280)</u>
Goodwill		<u>38</u>
Nabana Plc		
Consideration	600	
Fair value of NCI at acquisition	350	
Fair value of identifiable net assets	<u>(960)</u>	
Negative goodwill		<u>10</u>

W2 Fair value adjustment

Mabana Plc	K'million	K'million
Book value of net assets at acquisition:		
Share capital	1,110	
Retained earnings	141	
Other components of equity	<u>19</u>	
	1,270	
Fair value of net assets at acquisition	<u>1,280</u>	
Fair value adjustment		10
Depreciation on FV adj. $\frac{3}{4} \times 10$		<u>(7.5)</u>
		2.5
Nabana Plc		
Book value of net assets at acquisition:		
Share capital	744	
Retained earnings	197	
Other components of equity	<u>12</u>	
	953	
Fair value of net assets at acquisition	<u>960</u>	
Fair value adjustment		<u>7</u>
Net total fair value adjustment		<u>9.5</u>

W3 Investment in associate – Labana Plc

K'million

Cost of investment	300
Share of loss (25% x 40 x 3/12)	<u>(2.5)</u>
	<u>297.5</u>

W4 Defined benefit plan – net expense

K'million

Current service cost	12
Net interest 12% x 140	<u>16.8</u>
	<u>28.8</u>

Defined benefit – net actuarial loss/ (gain)

K'million

Net pension liability at 31 st March 2014	140
Current service cost	12
Net interest	16.8
Pension contribution paid	(25)
Net actuarial loss (bal. fig)	<u>16.2</u>
Net pension liability at 31 st March 2015	<u>160</u>

W5 Retained earnings

K'million

As per question – Pabana Plc	2,157
Labana Plc W3	<u>(2.5)</u>
Mabana Plc (841 – 141 – 7.5 W2) x 100%	692.5
Nabana Plc (317 – 197 – 2.4 URP) x 60%	70.56
Defined benefit plan – net expense W4	<u>(28.8)</u>
Negative goodwill W1	<u>10</u>
	<u>2,898.76</u>

Unrealised Profit (URP)

$$30\% \times (48 - 40) = \text{K}2.4\text{m}$$

W6 Movement on equity – disposal of 30% in Mabana Plc

K'million

Fair value of net assets in Mabana Plc at 31st March 2015:

As per question	2,021
Fair value adjustment	10
Depreciation on FV adjustment W2	(7.5)
Goodwill W1	<u>38</u>
	<u>2,061.5</u>

Value of NCI at 31st March 2015:

At 30%: 30% x 2,061.5	618.45
Consideration received	<u>620.00</u>
Positive movement on equity	<u>1.55</u>

W7 Other components of equity

K'million

As per question – Pabana Plc	108
Mabana Plc (70 – 19) x 100%	51
Nabana Plc (82 – 12) x 60%	42
Positive movement on equity W6	1.55
Defined benefit plan W4	<u>(16.2)</u>
	<u>186.35</u>

W8 Non – controlling interests

K'million

Mabana Plc W6	618.45
Nabana Plc $350 + \{40\% \times [(317 - 197 - 2.4) + (82 - 12)]\}$	<u>425.04</u>
	<u>1,043.49</u>

SOLUTION TWO

Transaction One

The accounting treatment of the transaction is dependent on whether it is a finance lease or an operating lease.

Under a finance lease, risks and rewards of ownership are substantially transferred to the lessee. It is therefore important to look at characteristics of finance lease in order to establish if the risks and rewards of ownership have been transferred to the lessee.

The characteristics of finance lease include the following:

- Lease period is substantially equal to the economic useful life of the asset.
- The present value of minimum lease payments is substantially equal to fair value of asset.
- Lessee has an option to buy the asset at a price that is less than expected fair value of asset at the end of lease period.
- Lessee is responsible for maintenance and insurance of asset.
- The asset involved is specialised and can only be used by lessee.

In Babada limited case, the lease period is not substantially equal to the economic useful life of the machine. The machine has an economic useful life of five (5) years while the lease period is only for three (3) years. Further, the present value of minimum lease payments of K39.79 million ($K16m \times 2.487$) is not substantially equal to machine's fair value of K66 million. It only represents 60% ($K39.79m / K66m$) of the machine's fair value. To be considered to be substantial the present value of minimum lease payments should at least be equal to 90% of fair value. Additionally, Babada Ltd is less likely to exercise the option to buy the machine at the end of lease period as its expected fair value at the end of lease period is less than the purchase price. Babada Ltd can only exercise the option to buy the machine if and only if K7 million ($K35m - K28m$) it will have to pay above the machine's expected fair value is less than the benefits that Babada expect to derive from using the machine.

However, responsibility for insuring the machine may point to Babada being substantially the owner of the machine.

Conclusion

Most of the lease agreement terms show that this is an operating lease and not a finance lease. Babada Ltd should therefore, not recognise the machine in its financial statements. However, lease rental payments should be recognised on straight line basis. The amount of K12 million ($K16m \times 9/12$) lease rental will be recognised as an expense in the statement of profit or loss for the year ended 31st May 2015. An asset of K20 million ($K32m - K12m$) will be recognised in the statement of financial position as at 31st May 2015.

Transaction Two

Characteristics of an economic environment of a country which indicate the existence of hyperinflation include

1. The general population prefers to keep its wealth in non-monetary assets or in relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power.
2. The general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency.
3. Sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short.
4. Interest rates, wages, and prices are linked to a price index.
5. The cumulative inflation rate over three years approaches, or exceeds, 100%.

Transaction Three

Rabada Limited must have considered IAS 37 'Provisions, contingent assets and contingent liabilities' and IAS 10 'Events after the reporting date'. It must have disclosed a contingent asset with respect to insurance claim. This is because the amount receivable from the insurance company was not known at 31st March 2015, though it was probable that economic benefits would flow to Rabada Ltd as a result of past event or transaction. The motor vehicle would have derecognised from the books of Rabada Ltd. Further, it would have been prudent and recognised a loss on stolen vehicle of K5,000.

The K20,000 compensation amount agreed by the insurance company on 10th May 2015, was an adjusting event as it provided the amount unknown at reporting date. Rabada Ltd should have revised its financial statements at 31st March 2015 by recognising a net gain of

K15,000 (K20,000 – K5,000) in the statement of profit or loss and a receivable of K20,000 under current assets in its statement of financial position.

SOLUTION THREE

a)

- i) A provision is a liability of uncertain timing or amount. The following should be met for a provision to be recognised in the financial statements:
- There must be an obligation, legal or constructive, as a result of past event or transaction
 - It should be probable that outflow of economic benefits will be required to settle it
 - There should be a reliable estimate of the amount

Product performance guarantees

Ladaba Plc has a legal obligation that arises when it sales television sets and fridges. Further, Ladaba Plc expected some customers to return some television sets and fridges for repair. This is evidenced by actual returns by customers in 2013. Thus, the probability of the company incurring repair costs on television sets and fridges is high.

Finally, the provision amount can be reliably estimated based on repair cost for each product.

Conclusion

The product performance guarantees should be recognised in the financial statements of Ladaba Plc as they have met the criteria to be recognised as a provision.

ii) Accounting for product performance guarantees

Television sets

A provision for expected repair costs relating to units expected to be returned by customers should be made in the financial statements. This amounts to K2,371,875 (979,687.5+1,392,187.5) W3 as at 30th November 2014. Labada Plc should make a prior year adjustment of K979,687.5 for the year to 30th November 2013 by adjusting opening retained earnings for the year to 30th November 2014. The actual figure relating to the year ending 30th November

2013 is considered in arriving at 2014 total provision as the two year guarantee period has not yet elapsed. K1,392,187.5 will be recognised as an expense in the statement of profit or loss for the year to 30th November 2014.

Fridges

The provision of K226,800 (W3) should be recognised in financial statements of Labada Plc for the year to 30th November 2014. However, a prior year adjustment amounting to K126,000 (W3) for the year to 30th November 2013 should be recognised. The prior year adjustment is based on actual figures. An expense of K100,800 (226,800- 126,000) should be recognised in the statement of profit or loss for the year ended 30th November 2014.

iii) Effects of taking out insurance policy

The amount recognised as a provision would not change if Ladaba Plc were to insure against repair costs arising from television sets and fridges returned by customers. Conversely, there would be a need for the company to recognise income receivable from the insurance company once the amount has become reasonably receivable.

b)

Machine

The machine will initially be recognised at value of K180,000 (W4) at 1st December 2012. At 30th November 2013, its value is K159,000. This is after depreciation charge for the year to 30th November 2013 of K45,000 (W4) and revaluation surplus of K24,000 (W4). The said depreciation charge will be expensed while revaluation surplus credited under other comprehensive income of the statement of profit or loss for the year to 30th November 2013. The revalued amount of K159,000 will be depreciated over the remaining economic useful life of three (3) years. This results in depreciation charge of K53,000 to be expensed in the year ending 30th November 2014. Impairment loss of K4,000 will not be expensed but deducted from revaluation surplus reserve. Transfer to retained earnings of K8,000 is credited to retained earnings and debited to revaluation surplus reserve. This leaves revaluation surplus reserve with a balance of K12,000 as at 30th November 2014. The machine will be shown at its recoverable amount of K102,000 at 30th November 2014.

Workings

W1 Sales Units

	2013	2014
Television sets:		
25% x 100,000	25,000	
25% x 150,000		37,500
Fridges:		
20% x 100,000	20,000	
20% x 150,000		30,000

W2 Returns

Expected

Television sets:		
9% x 37,500W1		3,375
Fridges:		
6% x 30,000W1		1,800

Actual

Television sets 9.5% x 25,000W1	2,375
Fridges 5% x 20,000W1	1,000

W3 Provision

Total repair cost:

Expected

Television set:		
3,375W2 x K412.50		K1,392,187.5
Fridges:		
1,800W2 x K126.00		K226,800

Actual:

Television sets 2,375W2 x K412.50	K979,687.5
Fridges 1,000W2 x K126.00	K126,000

W4 Machine

	K'000
1 st December 2012: Cost 360,000 Rands x K0.50	180
Dept'n 25% x K0.18m y/e 30 th November 2013	<u>(45)</u>

Carrying value at 30 th November 2013	135
Revaluation Surplus (bal.fig)	<u>24</u>
Revalued amount at 30 th November 2013	159
Dept'n 1/3 x K0.159m y/e 30 th November 2014	<u>(53)</u>
Carrying value at 30 th November 2014	106
Impairment loss (bal.fig)	<u>(4)</u>
Recoverable amount at 30 th November 2014	<u>102</u>
Revaluation surplus	24
Impairment loss	(4)
Transfer to retained earnings 1/3 x 0.024	<u>(8)</u>
Balance at 30 th November 2014	<u>12</u>

SOLUTION FOUR

Effects of transactions on EPS and ROCE:

In transaction 1 ROCE is reduced to 29.84% (29.8/99.88) while EPS to 593ngwee (19.2825/32.5).

In transaction 2 ROCE will be reduced to 29.69% (29.5616/99.5616) and EPS to 587ngwee (19.0616/32.5).

In transaction 3 ROCE is reduced to 28.41% (29.919/105.319) and EPS to 585ngwee (19.419/33.175).

Workings

Transaction 1

Plant (carrying value)	K'm	Plant (Tax base) 31 st December 2014(K'm)	
Cost	1	cost	1
Accum. Dep'tn (20% x 1) x2yrs	<u>(0.4)</u>	CA (25%x1) x 2yrs	<u>(0.5)</u>
Carrying value before revaluation	0.6	Tax base	<u>0.5</u>
Revaluation surplus (bal. fig)	<u>0.15</u>		
Revalued amount	<u>0.75</u>		
Taxable temporary difference K0.25m (0.75 – 0.5)			

Taxable temporary difference relating to income statement K0.05m $[(0.6 - 0.5)/2]$

Deferred tax to go to the income statement K0.0175m $(35\% \times 0.05)$

Deferred tax to revaluation reserve K0.0525 $(35\% \times 0.15)$

Deferred tax liability K0.0875m $(35\% \times K0.25m)$

Increase in deferred tax K0.07m $(0.0875m - 0.0175m)$

PBIT = $30 - 0.2 = K29.8m$

PAIT $19.5 - 0.2 - 0.0175 = K19.2825m$

Net assets $100 + 0.15 - 0.2 - 0.07 = K99.88m$ **OR** $100 + 0.15 - 0.2 - 0.0175 - 0.0525 = K99.88m$

Transaction 2

Recoverable amount K0.7616m $\{(K0.4m \times 0.909) + (K0.3m \times 0.826) + (K0.2m \times 0.751)\}$.

Impairment loss K0.1384m $(K0.9m - K0.7616m)$.

Depreciation charge $25\% \times K1.2m = K0.3m$

PBIT $30 - 0.1384 - 0.3 = K29.5616m$

PAIT $19.5 - 0.1384 - 0.3 = K19.0616m$

Net assets $100 - 0.1384 - 0.3 = K99.5616m$

Transaction 3

The building and shares are recognised at the fair value of shares of K5.4m $(900,000 \times K6.00)$.

Carrying value of building at 31st December 2013 K5.319m $\{5.4m - 0.081(2\% \times 5.4 \times 9/12)\}$.

PBIT $30 - 0.081 = K29.919m$

PAIT $19.5 - 0.081 = K19.419m$

Net assets $100 + 5.319 = K105.319m$.

Weighted average number of shares $(32.5 \times 3/12) + \{(32.5 + 0.9) \times 9/12\} = 33.175m$

SOLUTION FIVE

a)

Report:

To: Director of Tundu Plc

From: Sustainability Reporting Specialist

Date:

Subject: Sustainability Reporting Under GRI Guidelines

1. Introduction

This report outlines the contents of a sustainability report according with the Global Reporting Initiative (GRI) guidelines. It also highlights potential benefits and drawbacks to an entity of publishing a sustainability report.

2. The GRI and contents of sustainability reports

The Global Reporting Initiative (GRI) is a non-governmental, not for profit organisation whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines for voluntary use by organisations. The Report Contents section of the guidelines sets out the framework of a sustainability report.

According to the guidelines, a sustainability report must contain the following relating to the environment:

2.1 Vision and strategy

This includes a description of the entity's strategy with regard to sustainability.

2.2 Profile

This section of the report must give an overview the reporting entity and scope of the report.

2.3 Governance Structure and Management Systems

This section of the report must give a description of the entity's organisation structure, policies and management systems and stakeholder engagement efforts.

2.4 GRI Content Index

A table of the sustainability report contents. Among other issues, the GRI content Index requires an organisation to provide information on the environment. Specifically, the environmental information covers the broad areas of usage of materials, energy, waste management and so on.

2.5 Performance Indicators

These are specific measures of performance relating to the impact or effect of the entity's environmental measures. Trends and statistics in respect of the performance measures are highlighted.

b) Functional currency is the currency of the primary economic environment in which the entity operates.

The primary economic environment in which an entity operates is normally the one that in which it primarily generates and expends cash.

Factors considered determining functional currency

- i) The currency that mainly influences the sales price for goods and services. This will often be the currency in which sales prices for its goods and services are denominated and settled.
- ii) The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.
- iii) The currency that mainly influences labour, material and other costs of providing goods or services. This will often be the currency in which such costs are denominated and settled.

END OF SOLUTIONS

Present Value Table

Present value of 1 i.e. $(1 + r)^{-n}$

Where r = discount rate
 n = number of periods until payment

		<i>Discount rate (r)</i>									
<i>Periods</i>		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
(n)											
1		0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2		0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3		0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4		0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5		0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6		0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7		0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8		0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9		0.941	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10		0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11		0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.305
12		0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13		0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14		0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15		0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16		0.852	0.728	0.625	0.536	0.461	0.396	0.340	0.292	0.251	0.215
17		0.843	0.715	0.611	0.520	0.444	0.378	0.321	0.273	0.232	0.196
18		0.834	0.703	0.600	0.508	0.431	0.364	0.307	0.259	0.218	0.182
19		0.825	0.692	0.589	0.496	0.419	0.352	0.295	0.247	0.206	0.170
20		0.816	0.682	0.579	0.486	0.409	0.342	0.285	0.237	0.196	0.160
21		0.807	0.672	0.569	0.476	0.399	0.332	0.275	0.227	0.186	0.150
22		0.798	0.663	0.560	0.467	0.390	0.323	0.266	0.218	0.177	0.141
23		0.789	0.654	0.551	0.458	0.381	0.314	0.257	0.209	0.168	0.132
24		0.780	0.645	0.542	0.449	0.372	0.305	0.248	0.200	0.159	0.123
25		0.771	0.636	0.533	0.440	0.363	0.296	0.239	0.191	0.150	0.114
26		0.762	0.627	0.524	0.431	0.354	0.287	0.230	0.182	0.141	0.105
27		0.753	0.618	0.515	0.422	0.345	0.278	0.221	0.173	0.132	0.096
28		0.744	0.609	0.506	0.413	0.336	0.269	0.212	0.164	0.123	0.087
29		0.735	0.599	0.496	0.403	0.326	0.259	0.202	0.154	0.113	0.077
30		0.726	0.591	0.488	0.395	0.318	0.251	0.194	0.146	0.105	0.069
31		0.717	0.582	0.479	0.386	0.309	0.242	0.185	0.137	0.096	0.060
32		0.708	0.573	0.470	0.377	0.300	0.233	0.176	0.128	0.087	0.051
33		0.699	0.564	0.461	0.368	0.291	0.224	0.167	0.119	0.078	0.042
34		0.690	0.555	0.452	0.359	0.282	0.215	0.158	0.110	0.069	0.033
35		0.681	0.546	0.443	0.350	0.273	0.206	0.149	0.101	0.060	0.024
36		0.672	0.537	0.434	0.341	0.264	0.197	0.140	0.092	0.051	0.015
37		0.663	0.528	0.425	0.332	0.255	0.188	0.131	0.083	0.042	0.006
38		0.654	0.519	0.416	0.323	0.246	0.179	0.122	0.074	0.033	0.000
39		0.645	0.510	0.407	0.314	0.237	0.170	0.113	0.065	0.024	
40		0.636	0.501	0.398	0.305	0.228	0.161	0.104	0.056	0.015	
41		0.627	0.492	0.389	0.296	0.219	0.152	0.095	0.047	0.006	
42		0.618	0.483	0.380	0.287	0.210	0.143	0.086	0.038	0.000	
43		0.609	0.474	0.371	0.278	0.201	0.134	0.077	0.029		
44		0.600	0.465	0.362	0.269	0.192	0.125	0.068	0.020		
45		0.591	0.456	0.353	0.260	0.183	0.116	0.059	0.011		
46		0.582	0.447	0.344	0.251	0.174	0.107	0.050	0.002		
47		0.573	0.438	0.335	0.242	0.165	0.098	0.041			
48		0.564	0.429	0.326	0.233	0.156	0.089	0.032			
49		0.555	0.420	0.317	0.224	0.147	0.080	0.023			
50		0.546	0.411	0.308	0.215	0.138	0.071	0.014			

Annuity Table

Present value of an annuity of 1 i.e. $\frac{1 - (1 + r)^{-n}}{r}$

Where r = discount rate
 n = number of periods

		<i>Discount rate (r)</i>									
<i>Periods</i>		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
(n)											
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	1
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736	2
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487	3
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170	4
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791	5
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355	6
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868	7
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335	8
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759	9
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145	10
11	10.37	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495	11
12	11.26	10.58	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814	12
13	12.13	11.35	10.63	9.986	9.394	8.853	8.358	7.904	7.487	7.103	13
14	13.00	12.11	11.30	10.56	9.899	9.295	8.745	8.244	7.786	7.367	14
15	13.87	12.85	11.94	11.12	10.38	9.712	9.108	8.559	8.061	7.606	15
(n)	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	1.713	1.690	1.668	1.647	1.626	1.605	1.585	1.566	1.547	1.528	2
3	2.444	2.402	2.361	2.322	2.283	2.246	2.210	2.174	2.140	2.106	3
4	3.102	3.037	2.974	2.914	2.855	2.798	2.743	2.690	2.639	2.589	4
5	3.696	3.605	3.517	3.433	3.352	3.274	3.199	3.127	3.058	2.991	5
6	4.231	4.111	3.998	3.889	3.784	3.685	3.589	3.498	3.410	3.326	6
7	4.712	4.564	4.423	4.288	4.160	4.039	3.922	3.812	3.706	3.605	7
8	5.146	4.968	4.799	4.639	4.487	4.344	4.207	4.078	3.954	3.837	8
9	5.537	5.328	5.132	4.946	4.772	4.607	4.451	4.303	4.163	4.031	9
10	5.889	5.650	5.426	5.216	5.019	4.833	4.659	4.494	4.339	4.192	10
11	6.207	5.938	5.687	5.453	5.234	5.029	4.836	4.656	4.486	4.327	11
12	6.492	6.194	5.918	5.660	5.421	5.197	4.988	4.793	4.611	4.439	12
13	6.750	6.424	6.122	5.842	5.583	5.342	5.118	4.910	4.715	4.533	13
14	6.982	6.628	6.302	6.002	5.724	5.468	5.229	5.008	4.802	4.611	14
15	7.191	6.811	6.462	6.142	5.847	5.575	5.324	5.092	4.876	4.675	15