# The Co-operative University of Kenya

**END OF SEMESTER EXAMINATION DECEMBER-2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS**

**UNIT CODE: CMFI 2305**

**UNIT TITLE: FINANCIAL REPORTING AND ANALYSIS**

**DATE: DECEMBER, 2019** **TIME:**

**INSTRUCTIONS:**

- Answer question **ONE (compulsory)** and any other **TWO** questions

**QUESTION ONE**

a) The following are the summarized statements of financial position as at 30th June 2019:

| | Puddle | | Straight | |
|---|---|---|---|---|
| | **sh.000** | **sh.000** | **sh.000** | **sh.000** |
| **Non-current assets** | | | | |
| Property, plant and equipment | 900 | | 500 | |
| Investments | 640 | | 0 | |
| | | **1,540** | | **500** |
| **Current assets** | | | | |
| Inventory | 250 | | 300 | |
| Trade receivables | 150 | | 150 | |
| Bank | 300 | | 150 | |
| | | **700** | | **600** |
| **Total assets** | | **2,240** | | **1,100** |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital (sh.1 each) | 500 | | 200 | |
| Retained earnings | 640 | | 400 | |
| | | **1,140** | | **600** |
| **Non-current liabilities** | | | | |
| Loan notes | | 200 | | 0 |
| **Current liabilities** | | | | |
| Trade payables | | 900 | | 500 |
| **Total equity and liabilities** | | **2,240** | | **1,100** |

**The following notes are relevant**:

i. Puddle acquired **80% of Straight two years ago** for **sh.640,000** cash. At the date of acquisition Straight had retained earnings of **sh.200,000**. On that date, the shares of Straight were trading at **Sh.3 per share**

ii. Puddle and Straight traded with each other and at the year end Puddle owed Straight **sh.150,000**. This is included in both sets of individual company figures.

iii. Included in the inventory of Puddle at the year-end was sh.**30,000** worth of goods purchased from Straight at a mark-up on cost of **25%**.
iv. Goodwill arising on acquisition of Straight has impaired by **sh.10,000** to date.

**Required:**
Prepare the consolidated statement of financial position for Puddle group as at 30 June 2019 **(14 marks)**

b) Discuss the concept of control and describe the various ways a company can gain control of another as per **IFRS 10- Consolidated Financial Statements (6 marks)**

c) Within the context of Revenue, elaborate on the following citing relevant examples
**i.** Performance obligation satisfied over time **(3 Marks)**

ii. Performance obligation satisfied at a point in time **(3 Marks)**

d) Highlight **FOUR** importance of earnings per share to an organization **(4 Marks)**

**QUESTION TWO**
a) Assume that Watts Plc. had at 31 December 2019:
- An issued capital of 1,000,000 ordinary shares of £0.50 each nominal value;
- Post-tax earnings after interest for the year of £1,150,000;
- Convertible 10% loan of £1,000,000
- An average market price per share of £4

The convertible loan is convertible into 250,000 ordinary shares of 50p each.
**Required**
Compute the diluted EPS for Watts Plc. **(8 Marks)**

b) Alpha Holdings had an issued share capital of 2,000,000 ordinary shares at 1 January 2019. The nominal value was £0.25 and the market value £1 per share. On 30 September 2019 the company made a rights issue of 1 for 4 at a price of £0.80 per share. The post-tax earnings were £4.5Million and £5Million for 2018 and 2019 respectively.

**Required:**
(i) Calculate the basic earnings per share for 2019. **(6 Marks)**
(ii) Restate the basic earnings per share for 2018. **(6 Marks)**

**QUESTION THREE**
a) Define the concept of significance influence as per IAS 28-Investment in Associates and describe the circumstances under which it can arise **(8 marks)**
b) Fakenstock, bought 100% of the equity of a subsidiary at the beginning of the year for £900 Million. At acquisition the subsidiary's share capital was £100 Million and retained earnings were £400 Million. The subsidiary had retained profits for the year of £200 Million. Goodwill has an infinite life and an impairment review of the sub at the first year-end revealed a value in use (VIU) of £780 Million and net realizable value (NRV) of £350 Million.
**Required:**
Calculate the balance of goodwill at the year-end after the impairment. **(6 marks)**

c) The Prince Group acquired 45,000 of the 100,000 £1 ordinary shares in Albert Plc.,four years ago, when the reserves of Albert Plc. were £505,000. The investment cost £276,000. At 31 December 2019, the fair value of Albert's net assets was £720,000. There had been no impairment in Albert.

**Required:**

Determine the value at which Albert should be shown at in the Prince Group consolidated statement of financial position as at 31st December 2019

**(6 marks)**

**QUESTION FOUR**

The following is an extract from the trial balance of Imecet Plc. at 31st October 2019:

| | Dr. | Cr. |
|---|---|---|
| | ***£000*** | ***£000*** |
| Property valuation | 11,216 | |
| Factory at cost | 2,700 | |
| Administration building at cost | 1,100 | |
| Delivery vehicles at cost | 500 | |
| Sales | | 10,300 |
| Inventory at 1st November 2018 | 1,100 | |
| Purchases | 6,350 | |
| Factory wages | 575 | |
| Administration expenses | 140 | |
| Distribution costs | 370 | |
| Interest paid (6 months to 30 April 2019) | 100 | |
| Accumulated profit at 1st November 2018 | | 3,701 |
| 10% Loan stock (2023) | | 2,000 |
| £1 Ordinary shares (includes issue on 1 May 2019) | | 4,000 |
| Share premium (after issue on 1 May 2019) | | 1,500 |
| Dividends (paid 1 June 2019) | 400 | |
| Rent Income | | 2,500 |
| Tax | 100 | |
| Deferred tax at 1st November 2018 | | 650 |
| | **24,651** | **24,651** |

**Other relevant information:**

i. One million £1 Ordinary shares were issued 1 May 2019 at the market price of £1.75 per ordinary share.

ii. The inventory at 31st October 2019 has been valued at £1,150,000.

iii. The tax balance in the trial balance represents the corporation tax for last year that had been underprovided. A current year's tax provision for £350,000 is required for the period ended 31 October 2019 and the deferred tax liability at that date has been calculated to be £725,000.

iv. No depreciation charges have yet been recognised for the year ended 31 October 2019. The depreciation rates are:
   - Factory – 5% straight-line.
   - Administration building – 3% straight-line.

- Delivery vehicles – 25% reducing balance. The accumulated depreciation at 31 October 2018 was £10,000. There were no new vehicles acquired in the year to 31 October 2019.

**Required:**

With reference to IAS 1, prepare the following financial statements:

a) Statement of Profit or Loss for Imecet for the year ended 31 October 2019.

b) Prepare the statement of changes in equity for Imecet for the year ended 31 October 2019.

c) Statement of Financial Position as at 31st October 2019

**(20 Marks)**

**QUESTION FIVE**

a) On 13th November 2019, Brown Plc. bought 80,000 units of Inventory, on credit, at Sh.10 each on the following terms:

- Trade Discount: 2.5%
- Cash discount: 2.0/10, Net 30

On 15th July 2019, 850 units were returned to the supplier for being of the wrong type. On 18th July, the company made a settlement of Sh. 230,000 and no balance remained unpaid by the end of the credit period.

**Required**

Record the transactions in the books of Brown Plc. using journal entries on the assumption that the company uses:

**i.** Periodic Inventory System **(5 Marks)**

**ii.** Perpetual Inventory System **(5 Marks)**

b) Using a clear illustration, discuss the **Five-Step Model** for revenue recognition (IFRS 15) from contracts with customer **(10 Marks)**