CERTIFIED PUBLIC ACCOUNTANTS (CPA)

ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 20 April 2026. Afternoon Paper. **Time Allowed: 3 hours.**

This paper consists of five (5) questions. Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) Explain **FOUR** benefits of rules-based accounting standards. (4 marks)

(b) IAS 29 (Financial Reporting in Hyperinflationary Economies), lays out the accounting treatment for financial statements of entities whose functional currency is the currency of a hyperinflationary economy.

Required:
Explain **THREE** indicators that may signal that an economy is hyperinflationary. (6 marks)

(c) In the context of reporting of the social and environmental impacts of corporate activity, explain **SIX** limitations of financial reporting that have led to the sustained push for more extensive disclosures. (6 marks)

(d) With reference to IPSAS 20 (Related Party Disclosures), describe **FOUR** entities that are deemed to be related parties. (4 marks)

(Total: 20 marks)

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QUESTION TWO

The statements of financial position of three companies as at 31 December 2025 are provided below:

	Patana Ltd. Sh."million"	**Salama Ltd. Sh."million"**	**Fundi Ltd. Sh."million"**
Assets:			
Non-current assets:			
Property, plant and equipment	4,860	2,100	1,530
Investments	4,450	750	250
	9,310	2,850	1,780
Current assets:			
Inventories	1,350	460	375
Trade receivables	1,720	520	125
Cash and bank balances	460	130	80
	3,530	1,110	580
Total assets	12,840	3,960	2,360
Equity and liabilities:			
Equity:			
Equity share capital (Sh.1.00 par value)	5,000	1,500	800
Revaluation surplus	3,000	1,200	500
Retained earnings	1,790	1,000	950
	9,790	3,700	2,250
Current liabilities:			
Trade payables	1,430	100	70
Taxation	940	120	40
Dividends proposed	680	40	-
	3,050	260	110
Total equity and liabilities	12,840	3,960	2,360

Additional information:

1. Patana Ltd. bought 900 million shares in Salama Ltd. On 1 January 2024 at a cost of Sh.2.50 per share paid in cash. On that date, the balance on the retained earnings of Salama Ltd. Stood at Sh.600 million and the revaluation surplus was zero. At the date of acquisition, the net assets of Salama Ltd. Were equal to their carrying values except for certain items of property, plant and equipment which had a fair value of Sh.400 million in excess of their carrying value. Patana Ltd. has had a policy of carrying property, plant and equipment at fair values. This policy is implemented across all group companies from the date of acquisition. Hence, the fair values were incorporated into the books of Salama Ltd. At the acquisition date and depreciation provided for appropriately.
2. Patana Ltd. Bought 640 million shares in Fundi Ltd. On 1 January 2025. The consideration for the purchase was Sh.3.00 per share in cash. In addition, it was agreed that a further payment of Sh.1.00 per share would be made on 31 December 2026 provided certain profit targets were met. The fair value of this component of the consideration was Sh.400 million on 1 January 2025 and Sh.520 million on 31 December 2025. The cash payment was recorded in the books of Patana Ltd., but no entry was made to record the contingent elements of the purchase price. On 1 January 2025, the retained earnings of Fundi Ltd. stood at Sh.830 million and the revaluation surplus at Sh.450 million. Fundi Ltd. has always had a policy of measuring property, plant and equipment at fair value, hence the carrying values of these assets were equal to their fair values at the acquisition date. Fundi Ltd. controls a famous brand name, not recognised in its books, which had a fair value of Sh.50 million or 1 January 2025. This brand was estimated to have a useful economic life of 20 years from that date.
3. Patana Ltd. wishes to use the fair value method to measure the non-controlling interest in Salama Ltd. at the acquisition date. The share price of Sh.2.50 should be used for this purpose. Patana Ltd. wishes to use the proportion of net assets method to measure the non-controlling interest in Fundi Ltd. at the acquisition date.
4. As at 31 December 2025, goodwill was assessed for impairment and the results showed that an impairment loss of Sh.200 million would be recognised in the case of Salama Ltd. and Sh.150 million in the case of Fundi Ltd. No impairment losses had been recognised in the year to 31 December 2024.
5. During the year ended 31 December 2025, Salama Ltd. bought goods from Fundi Ltd. for a total sum of Sh.20 million. These goods had cost Fundi Ltd. Sh.15 million. 60% of these goods remained unsold by Salama Ltd. as at 31 December 2025.
6. The dividends by both companies were proposed on 31 December 2025. No dividend was paid by any company during the year ended 31 December 2025. Patana Ltd. has not recognised its share of Salama Ltd.'s proposed dividend.
7. All workings and solutions should be shown to the nearest Sh.0.1 million.

Required:

Consolidated statement of financial position for the Patana Ltd. group for the year ended 31 December 2025 in accordance with IFRS. **(Total: 20 marks)**

QUESTION THREE

(a) Wanga Autos is a major car dealer in the country. The company is currently preparing its financial statement for the year ended 31 March 2026. The company sells cars in three different regions across the country. At the reporting date, the company has 300 cars (same type, model and age) whose fair value the company's directors would like to estimate.

The directors believe that the fair value should be based on inputs from the market which provides the highest net benefits from car sales.

Information about the three regions as follows:

Region	Total Market Volume (Number of cars)	Wanga Autos' sales volume (Number of cars)	Selling price per car (Sh.)	Transportation costs per car (Sh.)	Transaction costs per car (Sh.)
Northern Region	6,500	960	2,700,000	200,000	150,000
Southern Region	9,800	608	2,800,000	310,000	190,000
Western Region	5,000	800	2,500,000	250,000	250,000
Total	**21,300**	**2,368**			

Required:

Determine, with appropriate computations, what fair value should be placed on the 300 cars at 31 March 2026 in line with the requirements of IFRS 13 (Fair Value Measurements). (8 marks)

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(b) On 1 January 2022, Maiyo Ltd. granted 700 share appreciation rights (SARs) to each of its 400 employees. All of the rights vested on 31 December 2023 and could be exercised from 1 January 2024 up to 31 December 2025.

At the grant date, the value of each SAR was Sh.15 and it was estimated that 5% of the employees of Maiyo Ltd. would leave during the vesting period.

The fair values of the SARs were as follows:

Date	Fair Value of SARs (Sh.)
31 December 2022	14
31 December 2023	16
31 December 2024	17

At the employees who were expected to leave the employment did leave the company as expected before 31 December 2023. On 31 December 2024, 80 employees exercised their options when the intrinsic value of the right was Sh.15.5 and were paid in cash.

Required:
Advise Maiyo Ltd., with appropriate computations, on how the above transactions should have been accounted for in its financial statements up to 31 December 2024 in conformity with IFRS 2 (share - based Payment). (12 marks)
(Total: 20 marks)

QUESTION FOUR

(a) Athumani Ltd. has identified seven (7) divisions as operating segments. The following information is available in relation to the revenue, profit/loss and assets of these segments and other businesses for the year ended 31 December 2025:

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Operating segment	External sales Sh."000"	Inter-segment sales Sh."000"	Profit/loss Sh."000"	Assets Sh."000"
Motor spares	3,500	6,200	1,560	6,350
Farming equipment	2,990	0	(390)	3,300
Home appliances	2,450	0	(110)	2,960
Furniture	3,560	950	250	4,330
Plumbing materials	1,600	1,100	310	3,240
Glassware	4,880	3,970	1,080	7,600
Sporting goods	3,940	0	(130)	4,980
	22,920	12,220	2,570	32,760
Other businesses	5,600	0	940	6,100
	28,520	12,220	3,510	38,860

The management of Athumani Ltd. has determined that the operating segments do not have similar economic characteristics and share a majority of the aggregation criteria of IFRS 8 (Operating Segment). Both the "Motor Spares" and "Plumbing Materials" segments did not meet the quantitative thresholds in the previous year ended 31 December 2024.

Required:
Determine with suitable computations which of the segments should be deemed as reportable segments of the Athumani Ltd. for the year ended 31 December 2025 in accordance with the requirements of IFRS 8. (10 marks)

(b) Saikati Ltd. has three cash generating units (CGUs), a head office and a research facility. The carrying amounts of the assets and their recoverable amounts are as follows:

	Unit X	Unit Y	Unit Z	Head office	Research facility	Saikati Ltd.
	Sh."million"	Sh."million"	Sh."million"	Sh."million"	Sh."million"	Sh."million"
Carrying value amount	500	700	1,000	750	250	3,250
Recoverable amount	645	820	1,355	-	-	2,920

The assets of the head office can be reasonably allocated to the three CGUs as follows:
Unit X: Sh.95 million
Unit Y: Sh.280 million
Unit Z: Sh.375 million

The assets of the research facility cannot be reasonably allocated to the CGUs.

Required:
Assuming that all assets can be adjusted for impairment, show how the adjusted carrying values of the assets of Saikati Ltd. should be determined in line with IAS 36 (Impairment of Assets) after taking into account any impairment losses in the above scenario. Show the relevant financial statements extracts. (10 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The following information relates to Dakika Ltd. for the year ended 31 December 2025:

Extract statement of profit or loss for the year ended 31 December 2025:

	Sh."million"
Profit before interest and tax	60
Finance cost	(12)
Taxation	(16)

Extract statement of financial position as at 31 December 2025:

	Sh."million"
Equity:	
Equity share capital (Sh. 0.5 par value)	100
Share premium	85
Retained earnings	40

Additional information:

1. On 1 April 2025, Dakika Ltd. issued 50 million equity shares for Sh.2 per share. This price represents the market value of Dakika Ltd.'s equity shares on that date.
2. On 1 July 2025, Dakika Ltd. made a bonus issue of 15 million equity shares to its shareholders at par. It utilised its share premium for this issue.
3. The company has offered 10 of its directors an option to buy 1 million equity shares each at a price of Sh.1.80 per share. The option to buy the shares will vest on 1 January 2027. The company's shares have a market value of Sh.2 per share.
4. Dakika Ltd. has Sh.100 million 10% convertible loan. The loan will be converted into shares on 1 January 2029. The terms of conversion are 2,000 shares for every Sh.1,000 of convertible loan.
5. The shares issued under note (1) and note (2) above have been accounted for correctly.
6. The income tax rate applicable to Dakika Ltd. is 30%.

Required:

(i) Basic earnings per share (EPS) for Dakika Ltd. for the year ended 31 December 2025. (4 marks)

(ii) Diluted earnings per share (DEPS) for Dakika Ltd. for the year ended 31 December 2025. (4 marks)

(b) Zamba Ltd. manufactures equipment for lease or sale and makes up its financial statements at 31 December.

On 31 December 2025, Zamba Ltd., leased out equipment under a 10-year finance lease. The selling price of the leased item was Sh.50 million and the present value of the minimum lease payments was Sh.47 million. The carrying value of the leased asset was Sh.40 million and the present value of the residual value of the equipment when it reverts back to Zamba Ltd. at the end of the term is Sh.2.8 million.

Zamba Ltd. has shown sales of Sh.50 million and cost of sales of Sh.40 million in its financial statements.

Required:
Show how the above transaction should be correctly accounted for in the financial statements of Zamba Ltd. for the year ended 31 December 2025 in accordance with IFRS 16 (Leases). (6 marks)

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(c) On 1 January 2025, Jamago Ltd. raised finance by issuing a two-year deeply discounted 2% bond with a nominal value of Sh.20 million. This bond was issued at a discount of 5% and was redeemable at a premium of Sh.2.15 million. There were no issue costs and the bond has an effective rate of 10%. Jomago Ltd.'s year end is 31 December.

Required:
Show how the above transaction should be accounted for in the financial statements of Jomago Ltd. for the year ended 31 December 2025 in accordance with IFRS 9 (Financial Instruments) (6 marks)

(Total: 20 marks)

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CERTIFIED PUBLIC ACCOUNTANTS (CPA)

ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 1 December 2025. Afternoon Paper. **Time Allowed: 3 hours.**

This paper consists of five (5) questions. Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) In the context of IPSAS 22 (Disclosure of Financial Information about the General Government Sector (GGS)), highlight **SIX** disclosures that should be made in respect of the GGS. (6 marks)

(b) With reference to IAS 24 (Related Party Disclosures), explain **TWO** reasons why it is important to disclose related party relationships and transactions in financial statements. (4 marks)

(c) With reference to the Conceptual Framework for Financial Reporting, explain **TWO** constraints that might hinder the achievement of the fundamental qualitative characteristics of financial information. (4 marks)

(d) In the context of IFRS 3 (Business Combinations), describe **THREE** factors that should be considered when determining which entity is the acquirer. (6 marks)

(Total: 20 marks)

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QUESTION TWO

Pete Limited, a public limited company, is the parent company in a group that operates in the money market industry.

The following completed statements of profit or loss and other comprehensive income were extracted from the financial records of Pete Limited and its investment companies, Dave Limited and Elly Limited for the year ended 31 October 2025:

Statements of profit or loss and other comprehensive income for the year ended 31 October 2025:

	Pete Limited Sh."million"	Dave Limited Sh."million"	Elly Limited Sh."million"
Revenue	5,340	4,780	3,520
Cost of sales	(2,860)	(2,570)	(1,080)
Gross profit	2,480	2,210	2,440
Distribution costs	(590)	(480)	(580)
Administrative expenses	(870)	(720)	(720)
Profit from operations	1,020	1,010	1,140
Finance costs	(230)	(180)	(220)
Profit on disposal of subsidiary	220	-	-
Profit before tax	1,010	830	920
Income tax expense	(310)	(250)	(280)
Profit for the year	700	580	640
Other comprehensive income:			
Gain on property revaluation	190	150	-
Total comprehensive income	890	730	640

Additional information:

1. Pete Limited acquired an 80% controlling interest in Dave Limited on 1 November 2020 when the retained earnings of Dave Limited amounted to Sh.430 million. Dave Limited had in issue 200,000, Sh.10 ordinary shares. The acquisition consideration comprised of an immediate cash payment of Sh.2,740 million on 1 November 2020.
2. The fair value of net assets of Dave Limited at the date of acquisition exceeded their carrying amounts by Sh.720 million. This excess related to an item of plant whose remaining useful life on 1 November 2020 was eight (8) years.

3. Pete Limited acquired a 70% controlling interest in Elly Limited on 1 August 2021 for cash consideration of Sh.1,120 million. Elly Limited had in issue 100,000 Sh.10 ordinary shares and retained earnings of Sh.360 million at the date of acquisition. The fair value of net assts of Elly Limited approximated their carrying amounts at the date of acquisition.
4. Pete Limited values the non-controlling interest at fair value. The fair value of non-controlling interests in Dave Limited and Elly Limited amounted to Sh.610 million and Sh.420 million respectively at the dates of acquisition.
5. Pete Limited disposed of 20% of the ordinary shares in Elly Limited on 1 August 2025 for cash proceeds of Sh.540 million. The retained earnings of Elly Limited at 1 November 2024 were Sh.980 million. The fair value of the retained interest in Elly Limited was estimated at Sh.1,220 million on 1 August 2025. The disposal of shares in Elly Limited has been accounted for in the individual financial statements of Pete Limited.
6. Impairment tests performed on 31 October 2025 revealed that goodwill arising on acquisition of Dave Limited had been impaired to the extent of 15% until 31 October 2024 and a further 5% during the year ended 31 October 2025. No impairment was reported with respect to Elly Limited.
7. Profit and losses of the group companies accrued evenly over the year.

Required:

(a) Calculate the gain or loss arising from disposal of shares in Elly Limited to be presented in the consolidated statement of profit or loss and other comprehensive income. (6 marks)

(b) Pete Group Limited's consolidated statement of profit or loss and other comprehensive income for the year ended 31 October 2025. (14 marks)

(Total: 20 marks)

QUESTION THREE

(a) Uzuri Limited, a public limited company whose financial year ends on 30 September, offers stock options to its full time employees.

On 1 October 2021, the company directors offered 5,000 stock options to each of its 300 employees on condition that they remain in employment until 30 September 2025.

The fair value of each option was Sh.16 at 1 October 2021. At the grant date, it was estimated that 10% of the employees would leave the company over the vesting period.

At 30 September 2022, ten (10) employees had left the company and the estimate of the leavers remained the same.

At 30 September 2023, another fifteen (15) employees left the company and the estimate of the possible leavers was revised to 15% over the vesting period.

At 30 September 2024, another eight (8) employees left the company and the estimate of leavers remained at 15% of the employees over the vesting period.

At the vesting date of 30 September 2025, additional seven (7) employees had left the company and therefore forfeited their stock options.

Required:

Analyse the accounting treatment of the above share-based payment transactions in the financial statements of Uzuri Limited for each of the years ended 30 September: 2022, 2023, 2024 and 2025 in line with International Financial Reporting Standard (IFRS) 2 "Share-based payments". (8 marks)

(b) On 31 December 2023, Amasa Ltd. purchased Sh.10 million 5% bonds issued by Jamii Ltd. at par value. The bonds are repayable on 31 December 2026 and the effective rate of interest is 8%. Amasa Ltd.'s business model is to collect the contractual cash flows over the life of the asset.

As at 31 December 2023, the bonds were considered to be low risk and as a result, the 12-month expected credit losses were expected to be Sh.10,000. On 31 December 2024, Jamii Ltd. paid the coupon interest. However, as at that date, the risks associated with the bonds were deemed to have increased significantly.

The present value of the cash shortfall for the year ending 31 December 2025 was estimated to be Sh.462,963 and the probability of default is 3%. On 31 December 2024, it was also anticipated that no further coupon payments would be received during the year ending 31 December 2026 and only a portion of the nominal value of the bonds would be repaid. The present value of the bonds was assessed to be Sh.6,858,710 with a 5% likelihood of default in the year ended 31 December 2026.

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Required:
With reference to the IFRS 9 (Financial Instruments), demonstrate the financial reporting treatment of the bonds, including any impairment losses, in the financial statements of Amasa Ltd:

(i) As at 31 December 2023. (4 marks)

(ii) For the year ended 31 December 2024. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The adoption of sustainable practices at the corporate level could help companies to make a positive contribution towards the attainment of Sustainable Development Goals (SDGs).

Required:

(i) Explain the meaning of "corporate sustainability". (2 marks)

(ii) Describe the **THREE** impact areas of corporate sustainability that companies which adopt corporate sustainable practices are required to report on. (6 marks)

(b) Kasuku Ltd. issued a Sh.5,000,000, 18% convertible loan note at par on 1 November 2022 with interest payable annually in arrears. Three years later, on 31 October 2025, the loan note becomes convertible into equity shares on the basis of Sh.100 of loan note for 50 equity shares or it may be redeemed at par in cash at the option of the loan note holder.

Kasuku Ltd.'s accountant has observed that the use of a convertible loan note was preferable to a non-convertible loan note as the latter would have required an interest rate of 24% in order to make it attractive to investors.

The present value of Sh.1.00 receivable at the end of the year, based on discount rates of 18% and 24% are given below:

Year	**18%**	**24%**
1	0.847	0.806
2	0.718	0.650
3	0.609	0.524

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Required:
The accounting treatment for Kasuku Ltd.'s convertible loan note in the:

(i) Statements of profit or loss for the years ended 31 October 2023, 2024 and 2025. (6 marks)

(ii) Statement of financial position as at 31 October 2023, 2024 and 2025.

(Assume that the share option is taken on 31 October 2025). (6 marks)

(Total: 20 marks)

QUESTION FIVE

Delight Limited, a private limited company started business during the last quarter of the year ended 31 August 2024 and prepared its financial statements based on the traditional historical cost convention. However, the directors are concerned that the values of the company assets may be substantially understated and profit overstated especially in times of changing prices.

The following draft historical cost financial statements relate to the company:

Opening statement of financial position as at 1 September 2024:

Assets:	**Sh."000"**
Non-current assets:	
Property at cost (Land: Sh.20 million)	45,000
Office equipment at cost	4,000
	49,000
Current assets:	
Inventory	22,500
Accounts receivable	14,400

	Sh."000"
Cash and cash equivalents	6,200
Total assets	92,100
Equity and liabilities:	
Equity:	
Ordinary share capital (Sh.10 par value)	60,000
Non-current liabilities:	
Long-term loans	16,800
Current liabilities:	
Accounts payable	13,600
Current tax	1,700
Total equity and liabilities	92,100

Statement of profit or loss for the year ended 31 August 2025:

	Sh."000"
Revenue	121,600
Cost of sales	(79,200)
Gross profit	42,400
Distribution costs	(14,200)
Administrative expenses	(22,800)
Operating profit	5,400
Finance costs	(600)
Profit before tax	4,800
Income tax expense	(1,420)
Profit for the year	3,380

Additional information:

1. The inventory at 31 August 2025 was valued at a cost of Sh.23,400,000 and was purchased when the retail price index averaged 200.
2. On 1 January 2025, the company acquired a new motor vehicle at a cost of Sh.4,200,000 and paid in cash.
3. Finance costs, distribution costs and administrative expenses other than depreciation, were paid for in cash during the year ended 31 August 2025.
4. Depreciation on non-current assets has been provided based on cost at the provided rates and allocated as follows:

Asset	Rate per annum	Allocation
Building	2%	Administrative expense
Office equipment	10%	Administrative expense
Motor vehicles	20%	Distribution cost

5. The company paid the tax obligation relating to the year ended 31 August 2024.
6. Sales and purchases for the year ended 31 August 2025 were on credit basis. During the year ended 31 August 2025, cash received from credit customers amounted to Sh.118,000,000 while cash paid to credit suppliers was Sh.81,200,000.
7. On 1 May 2025, the company invited the current ordinary shareholders to subscribe for a rights issue at par value on the basis of one (1) new share for every five (5) held.
8. The general retail price indices (R.P.I.s) were as follows:

1 September 2024	112.5
1 January 2025	150
1 March 2025	180
1 May 2025	200
31 August 2025	225

9. Assume all cash income and expenses accrued evenly over the year.

Required:

(a) Inflation-adjusted statement of profit or loss for the year ended 31 August 2025. (10 marks)

(b) Inflation-adjusted statement of financial position as at 31 August 2025. (10 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 18 August 2025. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

S Ltd. acquired equity shares in M Ltd. and B Ltd. in the last three years. The statements of financial position for the three companies as at 31 December 2024 are given below:

	S Ltd. Sh."000"	M Ltd. Sh."000"	B Ltd. Sh."000"
Assets:			
Non-current assets:			
Property, plant and equipment	102,800	101,120	88,480
Investment property	23,600	-	-
Investment in:			
M Ltd.	112,000		
B Ltd.	88,000		
Current assets	25,280	20,224	17,696
Total assets	351,680	121,344	106,176
Equity and liabilities:			
Equity:			
Share capital (Sh.1.00 par value)	160,000	64,000	56,000
Retained earnings	101,480	22,784	19,936
Other components of equity	9,400	1,920	1,680
	270,880	88,704	77,616
Non-current liabilities	15,168	12,134.40	10,617.60
Current liabilities	65,632	20,505.60	17,942.40
Total equity and liabilities	351,680	121,344	106,176

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Additional information:

1. The following information relates to the acquisition of the equity shares in M Ltd. and B Ltd.:

Company	Date of acquisition of equity shares in company	Percentage of shareholding acquired	Purchased full goodwill arising from the acquisitions Sh."000"
M Ltd.	1 January 2022	80%	44,800
B Ltd.	30 June 2023	60%	38,400

At the date of acquisition, the assets and liabilities of B Ltd. were already at fair value. However, an upward fair value adjustment of Sh.4,400,000 was required with respect to production machinery of M Ltd. The remaining useful life of this production machinery as at the date of acquisition was five years. It is the policy of the group to measure non-controlling interest at fair value.

2. The consolidated retained earnings and other components of equity recognised in the consolidated financial statements of S Group as at 31 December 2023 were Sh.63,519,200 and Sh.3,360,000 respectively. Non-controlling interest recognised under equity of the consolidated statement of financial position as at 31 December 2023 was Sh.20,000,000. All consolidation adjustments, unless otherwise stated, were correctly stated in the opening consolidated financial statements.

3. There were no intercompany transactions between S Ltd. and any of the subsidiaries acquired before the current accounting year. However, in the year ended 31 December 2024, M Ltd. sold goods worth Sh.2,240,000 to B Ltd. at a margin of 20%. Of these goods, 30% were yet to be sold as at 31 December 2024.
4. The purchased goodwill arising from the acquisitions as presented in note (1) are the original goodwill amounts and are thus before any impairment loss. As at 31 December 2024, an impairment review was carried out on the two subsidiaries using the impairment testing procedure recommended under IAS 36 (Impairment of Assets) for cash generating units. Each subsidiary was a cash generating unit. The recoverable amounts of the net assets of M Ltd. and B Ltd. as at 31 December 2024 were Sh.133,244,800 and Sh.116,544,000 respectively. No impairment loss has been recognised in respect of the goodwill in both subsidiaries in the previous years.
5. S Ltd. owns a building which was formerly used as an administration office. At the beginning of the year 2024, S Ltd. rented the building to M. Ltd. at an annual rental of Sh.2,000,000 and has as a result accounted for the building as an investment property. The carrying value of the building at the date of transfer to M. Ltd. (which approximated the fair value) was Sh.22,400,000. It is the policy of S Ltd. to measure investment properties at fair value. A fair value gain of Sh.1,200,000 has been recognised by S Ltd. at 31 December 2024. The estimated remaining useful life of the building as at the date of transfer was 20 years. M Ltd. uses the building for administrative purposes. M Ltd. has paid the rental for the current year and charged it as an expense. S Ltd. has included the rental income for the year as other income in the current year's statement of profit or loss.
6. The summarised financial performance of the three companies for the year ended 31 December 2024 from their individual statements of profit or loss and other comprehensive income (before any consolidation adjustment) is presented below:

	S Ltd. Sh."000"	**M Ltd. Sh."000"**	**B Ltd. Sh."000"**
Profit for the year	16,598.40	28,499.20	28,800
Other comprehensive income	815.20	712	736

Required:
Consolidated statement of financial position for S Group as as at 31 December 2024. **(Total: 20 marks)**

QUESTION TWO
(a) You are a newly qualified accountant in your second year of employment in a medium-sized company. Your immediate supervisor is on sick leave and you are due for study leave. You have been informed by the Finance Director that you must complete a task which should have been completed by your immediate supervisor before you proceed on leave. The deadline for completion of the task appears unrealistic given the complexity of the task.

You feel that you are not sufficiently experienced to undertake the task alone and for this reason would need additional support and supervision to complete it to the required standard. The Finance Director appears unable or unwilling to offer the necessary support on this regard. Should you try to complete the task within the proposed time frame but fail to meet the expected quality standards, you could face grave consequences on your return from study leave.

You feel intimidated by the Finance Director and also feel pressured to do what you can for your employer.

Required:
Using the IFAC Code of Ethics as a guide, explain **THREE** ethical principles that would apply in the above scenario. (6 marks)

(b) On 1 January 2024, Kayamba Ltd. had 2 million ordinary shares in issue. On 30 April 2024, the company issued 270,000 ordinary shares at full market price. On 31 July 2024, the company made a rights issue of 1 for 10 at Sh.2.0 per share. The fair value of the ordinary shares on the last day before the rights issue was Sh.3.10.

On 30 September 2024, the company made a 1 for 20 bonus issue. The profit attributable to ordinary shareholders for the year ended 31 December 2024 was Sh.40 million.

The reported earnings per share for the year ended 31 December 2023 was Sh.18.6.

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Required:
Applying the requirements of IAS 33 (Earnings Per Share), compute:

(i) The basic earnings per share (EPS) for the year ended 31 December 2024. (7 marks)

(ii) The restated earnings per share (EPS) for the year ended 31 December 2023. (1 mark)

(c) Akili Ltd. decided to sell off one of its major production plants which had become surplus to the company's requirements. As at 31 January 2025, all the criteria were met for the plant to be classified as held for sale. On 31 July 2025, there was material evidence that the original sale plan would change and hence, it was considered not appropriate to retain the production plant as held for sale. The plant is carried under the cost model.

Details of the plant are as follows:

	Sh."million"
Cost of acquisition as at 1 August 2022	20
(Depreciation rate on the straight-line method to nil residual value was 10%)	
At 31 January 2025:	
Fair value	14
Costs to sell	0.4
At 31 July 2025:	
Recoverable amount	15.2

Required:
In line with the requirements of IFRS 5 (Non-Current Assets Held for Sale and Discontinued Operations), recommend how the above transactions should be accounted for in the financial statements of Akili Ltd. for the year ended 31 July 2025. (6 marks)

(Total: 20 marks)

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QUESTION THREE

(a) IFRS 17 (Insurance Contracts), which has an effective date of 1 January 2023, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.

Required:
Explain any **FOUR** exemptions from the requirements of IFRS 17. (8 marks)

(b) In the context of IPSAS 36 (Investments in Associates and Joint Ventures), explain how an entity should proceed after discontinuing the use of the equity method with respect to accounting for associates and joint ventures. (6 marks)

(c) Explain **THREE** difficulties that a reporting entity might face in recognising and measuring the financial effects of environmental matters. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) On 1 April 2022, each of the nine (9) directors of Njata Ltd. received 21,000 share options from the company. Njata Ltd. prepares its financial statements up to 31 March of each year. The condition attached to the award of the share options is that the directors must remain in the employment of Njata Ltd. for three (3) years. The fair value of each share option as at the grant date was Sh.100. The fair value of each share option as at 31 March 2023, 31 March 2024 and 31 March 2025 was Sh.105, Sh.110 and Sh.115 respectively.

As at 31 March 2023, it was estimated that four (4) directors would leave before the end of the three (3) years. Due to an improvement in the economic conditions, the estimate of the number of directors who were going to leave was revised to two (2) directors as at 31 March 2024.

The expense for the year as regards the share options had not been included in the statement of profit or loss for the current year and no director had left by 31 March 2024.

Required:
Advise the directors of Njata Ltd. on how to account for the above transactions in the company's financial statements, in accordance with IFRS 2 (Share-Based Payment), as at 31 March 2024. (8 marks)

(b) On 1 January 2024, Pambana Ltd. acquired large-scale, custom-made equipment and leased it to Mambo Ltd. for six (6) years. Mambo Ltd. makes annual payments of Sh.10 million, commencing on 31 December 2024. The equipment has a useful life of seven (7) years. Mambo Ltd. is responsible for insuring and maintaining the equipment and is required to pay an additional Sh.1.5 million at the end of each year provided that a defined performance target is met.

Mambo Ltd. has guaranteed that the value of the equipment as at 31 December 2029 will not be less than Sh.1 million, although Pambana Ltd. anticipates that the open market value as at that date will be approximately Sh.2.5 million. The costs incurred by Pambana Ltd. and Mambo Ltd. in arranging the lease amounted to Sh.2.1 million and Sh.1.6 million respectively.

The rate of interest implicit in the lease is 9.49% per annum. Mambo Ltd. achieved the defined performance target as at 31 December 2024 and made the required payment.

The following present value factors are given:

Year	**1**	**2**	**3**	**4**	**5**	**6**
Present value factor-discount rate 9.49%	0.9133	0.8342	0.7619	0.6958	0.6355	0.5804

Required:
Explain how Pambana Ltd. would account for the lease in its financial statement for the year ended 31 December 2024 in conformity with the requirements of IFRS 16 (Leases). (12 marks)
(Total: 20 marks)

QUESTION FIVE

(a) Urembo Ltd. operates a defined benefit scheme which as at 31 December 2023 was in deficit by Sh.360 million. The following information has been provided for the year ended 31 December 2024:

	Sh."million"
Current service cost	165
Cash contributions into the scheme	300
Benefits paid during the year	240
Net loss on curtailment	33
Gain on re-measurement of liability as at 31 December 2024	27

The rate of interest applicable to corporate bonds was 5% as at 31 December 2023. The cash contributions into the scheme have been correctly accounted for in the financial statements for the year ended 31 December 2024. This is the only entry that has been made in respect of defined benefit scheme.

Required:
Recommend the correct accounting treatment for the above transactions to the directors of Urembo Ltd. in the financial statements for the year ended 31 December 2024, including financial statements extracts, in accordance with IAS 19 (Employee Benefits). (12 marks)

(b) The Financial Accountant of Auma Ltd. is in the process of finalising the company's financial statements for the year ended 31 July 2025. The following matters are being considered for deferred tax purposes:

1. At the year end, Auma Ltd.'s property, plant and equipment had a tax base and carrying value of Sh.72 million and Sh.95 million respectively.
2. The company's provision for decontamination costs was Sh.11 million at the year end. These costs had been appropriately discounted. Decontamination costs are tax deductible when paid.
3. The company had inventory with a carrying value of Sh.24 million. This did not agree with the tax base because of a Sh.3 million write-down by Auma Ltd. for obsolete items. Tax relief is only granted for inventories upon sale.
4. The company incurred Sh.15 million with respect to the development of a new software during the financial year. This software was capitalised and will be amortised over the next five (5) years. A full year's amortisation charge is required in the first year upon completion or purchase. This charge was deducted in the current year's financial statements.

   The company's income tax rate is 30%.

Required:
Auma Ltd.'s deferred tax liability as at 31 July 2025 in accordance with IAS 12 (Income Taxes). (8 marks)
(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

TUESDAY: 22 April 2025. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) The Conceptual Framework for Financial Reporting states that financial information is only useful if it is relevant and a faithful representation of an entity's transactions.

Required:
With reference to the above statement, discuss the **TWO** fundamental qualitative characteristics of useful financial information mentioned, citing how they are applied while preparing financial reports. (6 marks)

(b) With regards to International Accounting Standard (IAS) 19 "Employee Benefits", explain the accounting treatment of the defined benefit plan asset (pension surplus) in the financial statements of an employer (contributor). (4 marks)

(c) The International Financial Reporting Standard (IFRS) Practice Statement: Management Commentary provides a framework for the preparation and presentation of management commentary on a set of financial statements.

However, it is not mandatory for entities to produce a management commentary.

Required:
In light of the above statement, discuss **FOUR** purposes of management commentary. (4 marks)

(d) In view of the International Financial Reporting Standard (IFRS) 5 "Non-current Assets Held for Sale and Discontinued Operations", analyse the presentation and disclosure requirements for discontinued operations. (6 marks)

(Total: 20 marks)

QUESTION TWO

Rock Limited, a public limited entity acquired 80% equity shareholding in Paper Limited, another public limited entity on 1 April 2024.

The acquisition consideration comprised of an immediate cash payment of Sh.2,400 million made on 1 April 2024 and a further cash payment of Sh.1,331 million deferred until 1 April 2026. No accounting entries have been made in respect of the deferred cash consideration. Rock Limited has a cost of capital of 10%.

On 1 October 2024, Rock Limited together with another entity entered into a joint arrangement to jointly control Scissors Limited, a public limited entity. Effectively, Rock Limited purchased 50% of the equity shares of Scissors Limited for an immediate cash consideration of Sh.1,500 million. The following financial statements relate to the group of companies:

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Statements of profit or loss for the year ended 31 March 2025:

	Rock Limited Sh."million"	Paper Limited Sh."million"	Scissors Limited Sh."million"
Revenue	8,520	5,180	6,240
Cost of sales	(5,510)	(3,440)	(4,220)
Gross profit	3,010	1,740	2,020
Distribution costs	(830)	(470)	(520)
Administrative expenses	(860)	(520)	(580)
Profit before tax	1,320	750	920
Income tax expense	(450)	(230)	(280)
Profit for the year	870	520	640

Statement of financial position as at 31 March 2025:

	Rock Limited Sh."million"	Paper Limited Sh."million"	Scissors Limited Sh."million"
Assets:			
Non-current assets:			
Property, plant and equipment	4,260	3,630	3,190
Investments: Paper Limited	2,400	-	-
Scissors Limited	1,500	-	-
	8,160	3,630	3,190
Current assets	3,720	2,270	1,610
Total assets	11,880	5,900	4,800
Equity and liabilities:			
Equity:			
Ordinary Sh.10 share capital	5,000	2,000	2,000
Share premium	500	200	-
Retained earnings	3,380	1,800	1,200
	8,880	4,000	3,200
Current liabilities	3,000	1,900	1,600
Total equity and liabilities	11,880	5,900	4,800

Additional information:

1. At the date of acquisition, the fair value of Paper Limited's net assets approximated their carrying amount, with the exception of some office equipment whose carrying amount was Sh.560 million below its fair value. At this date, the office equipment had a remaining economic useful life of eight (8) years.
   Depreciation on office equipment is an administrative cost. No fair value adjustments were necessary with respect to acquisition of Scissors Limited.
2. Rock Limited measures the non-controlling interests in subsidiaries at fair value. The fair value of the non-controlling interest of Paper Limited at the date of acquisition was Sh.860 million.
3. During the year ended 31 March 2025, Paper Limited sold goods to Rock Limited for Sh.500 million at a mark-up on cost of 25%. Half (½) of these goods were still held by Rock Limited at 31 March 2025 and the balance payable was still outstanding.
4. Impairment review performed on 31 March 2025 revealed that both goodwill on acquisition of Paper Limited and interest in Scissors Limited were unimpaired.
5. Incomes and expenses of the group of companies are deemed to have accrued evenly throughout the year.

Required:

(a) Consolidated statement of profit or loss for the year ended 31 March 2025. (10 marks)

(b) Consolidated statement of financial position as at 31 March 2025. (10 marks)

(Total: 20 marks)

QUESTION THREE

(a) International Public Sector Accounting Standard (IPSAS) 35 "Consolidated Financial Statements" states: "An entity controls another entity when it is exposed, or has rights to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity".

Required:

With reference to IPSAS 35 "Consolidated Financial Statements", describe the "power over the other entity". (6 marks)

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(b) The following condensed consolidated financial statements for the year ended 31 December 2024 relate to Elektra Limited and its investment companies.

Elektra Group deals in a wide range of electronic products.

Elektra Group
Condensed consolidated statement of profit or loss for the year ended 31 December 2024:

	Sh.“million”
Revenue	640,000
Cost of sales	(250,000)
Gross profit	390,000
Operating expenses	(220,000)
Profit from operations	170,000
Net finance expenses	(6,000)
Profit before tax	164,000
Income tax expense	(46,000)
Profit for the year	118,000
Attributable to the owners of the parent	86,000
Attributable to the non-controlling interests	32,000
	118,000

Elektra Group
Condensed consolidated statement of financial position as at 31 December 2024:

	Sh.“million”
Assets:	
Non-current assets	960,000
Current assets	260,000
Total assets	1,220,000
Equity and liabilities:	
Ordinary share capital (Sh.10 par value)	300,000
Share premium	100,000
Retained earnings	333,000
Equity attributable to owners of parent	733,000
Equity attributable to non-controlling interests	72,000
Total equity	805,000
Non-current liabilities	250,000
Current liabilities	165,000
Total equity and liabilities	1,220,000

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Additional information:

1. Information provided by the Chief Operating Officer (COO) comprised of:

Division	Segment revenue	Intersegment revenue	Segment expenses	Intersegment profit	Segment assets	Segment liabilities
	Sh.“million”	Sh.“million”	Sh.“million”	Sh.“million”	Sh.“million”	Sh.“million”
Production	380,000	130,000	257,000	25,000	490,000	154,000
Wholesale	240,000	45,000	160,000	18,000	205,000	103,000
Retail	130,000	25,000	90,000	7,000	176,000	98,000
Online	90,000	-	65,000	-	148,000	60,000

2. Other elements of financial statements include:

	Sh.“million”
Finance costs	24,000
Income from interest-bearing securities	18,000
Other general expenses	48,000
General investments	144,000
Other general assets	57,000

3. Information on intersegment expenses is not available. No capital investments were made during the year.

Required:
Segment financial information in accordance with International Financial Reporting Standard (IFRS) 8 “Operating Segments”. (14 marks)

(Total: 20 marks)

QUESTION FOUR

Collin Limited, a private limited company, has experienced dwindling sales in the recent years largely due to stiff competition.

The company directors, who are also the main shareholders would like to transfer the assets and liabilities of Collin Limited to a newly formed company, Tobin Limited with effect from 1 April 2025.

The following is the latest statement of financial position of Collin Limited as at 31 March 2025:

Assets	**Sh."000"**	**Sh."000"**
Non-current assets:		
Land and buildings		48,500
Plant and machinery		27,115
Motor vehicles		9,940
Furniture and equipment		4,260
		89,815
Current assets:		
Inventories	10,550	
Accounts receivable	7,370	17,920
Total assets		107,735
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.10 each		80,000
12% redeemable preference shares of Sh.10 each		45,000
Share premium		4,000
Retained earnings (losses)		(41,760)
Total equity		87,240
Current liabilities:		
Accounts payable	16,605	
Bank overdraft	3,890	20,495
Total equity and liabilities		107,735

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Additional information:

1. The authorised share capital of Tobin Limited is Sh.100 million comprising of ordinary shares of Sh.10 par value.
2. Tobin Limited issued new ordinary shares in favour of the preference shareholders in Collin Limited on the basis of three (3) new ordinary shares for every five (5) preference shares held.
   These ordinary shares were credited at Sh.6 each and the preference shareholders in Collin Limited agreed to pay up the balance immediately to make their ordinary shares fully paid.
3. Preference dividends in Collin Limited were two years in arrears and the new company issued 540,000 fully paid ordinary shares of Sh.10 each as final settlement of the arrears.
4. Tobin Limited also issued new ordinary shares in favour of the ordinary shareholders in Collin Limited on the basis of two (2) new ordinary shares for every five (5) ordinary shares held. These ordinary shares were credited at Sh.4 each and the ordinary shareholders in Collin Limited committed to pay up the balance immediately to make their ordinary shares fully paid.
5. The assets of Collin Limited were transferred to the new company at the following fair values:

	Sh."000"
Land and buildings	52,400
Plant and machinery	22,220
Motor vehicles	7,170
Furniture and equipment	3,320
Inventories	10,130
Accounts receivable	6,830

6. The current liabilities were taken over by Tobin Limited at their book values.
7. Liquidation expenses of Collin Limited amounted to Sh.12,800,000 and were paid for by Tobin Limited.
8. Assume all the transactions were completed by the close of business on 1 April 2025.

Required:

(a) The following ledger entries to close off the books of Collin Limited:

(i) Realisation account. (6 marks)

(ii) Preference shareholders sundry members account. (2 marks)

(iii) Ordinary shareholders sundry members account. (2 marks)

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(b) Journal entries in the books of Tobin Limited to record the acquisition of Collin Limited. (Narrations not required). (6 marks)

(c) Opening statement of financial position as at 1 April 2025. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The following financial information as at 31 December 2024 relates to Uwezo Bank Limited:

	Sh."million"
Interest on loans and advances to customers	1,550
Interest on deposits with other banks	472
Interest on deposits from other banks	287
Interest on customer deposits	1,383
Interest on long term borrowings	386
Interest on government securities	501
Other interest income	200
Other interest expenses	204
Fees, commission and foreign exchange gain	3,350
Administrative expenses	1,469
Other operating expenses	1,396
Ordinary share capital	5,500
Share premium	2,800
Revaluation reserve	440
Retained profit as at 1 January 2024	2,738
Loan loss reserve	3,750
Loans and advances to customers	7,980
Customer deposits	6,640
Long term borrowings	3,510
Cash and balances with Central Bank	3,190
Money on demand and short term deposits	1,978
Deposits with other commercial banks	3,772
Deposits from other commercial banks	2,392
Equity investments	726
Investments in government securities	3,856
Property and equipment	5,042
Intangible assets	2,592
Other receivables	1,994
Other payables	2,037
Deferred tax	385
Current tax payable	232
Income tax expense	302
Gain on equity investments	60

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Required:

(i) Statement of profit or loss for the year ended 31 December 2024. (6 marks)

(ii) Statement of financial position as at 31 December 2024. (6 marks)

(b) On 1 October 2022 Benny Limited acquired an investment in 5% loan stock with a nominal value of Sh.60,000,000 at a discount of 5% and incurred Sh.1,200,000 transaction costs. The loan stock will be redeemable at a premium of Sh.3,576,000 on 30 September 2025.

The effective rate of interest on the loan stock approximated 8% per annum.

Benny Limited operates in a business model where it holds debt financial assets to collect the contractual cash flows comprising of coupon interest payments and capital repayment on redemption, but also to sell the assets if an opportunity for investments with higher returns arises.

The credit risk on the loan stock has been significantly low and the expected credit losses are negligible.

The fair values of the loan stock were as follows:

	Sh."000"
30 September 2023	66,000
30 September 2024	62,400

Required:
Using suitable calculations, illustrate the accounting treatment of the above transactions in the financial statements of Benny Limited for the years ended 30 September 2023, 2024 and the year ending 30 September 2025 (Round off your answers to the nearest thousand). (8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 2 December 2024. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) Big Ltd. agrees to guarantee Sh.100 million bank loan taken by its subsidiary, Small Ltd. There are no current indications that Small Ltd. will default on the loan and it is forecasted to generate sufficient cash flows to service its debt in the next year.

Required:
Analyse whether or not a liability should be recognised by Big Ltd. with reference to the Conceptual Framework. (2 marks)

(b) Almasi Ltd., a company, which explores for mineral resources, acquired a project to research and develop a new mining process as part of a business combination. It does not intend to complete the project, as the completed process would compete with one of its own developed processes. Instead, Almasi Ltd. will stop the project and prevent competitors from accessing it.

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Required:
Discuss how fair value may be determined with reference to highest and best use, in order to apply the requirements of International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement". (3 marks)

(c) An entity may determine that a fair value may not be achieved by compliance with International Financial Reporting Standards (IFRSs). If compliance would be misleading, departure from the requirements of a standard is permitted. However, this is extremely rare.

Required:
Describe **FOUR** disclosure requirements in relation to the departure in order to achieve fair presentation. (4 marks)

(d) An entity shall include in its interim financial report an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

Required:
Describe **FIVE** disclosures required as per interim reporting. (5 marks)

(e) The choice of measurement basis should reflect the characteristics of the element and reduce measurement uncertainty. Measurement of insurance contracts affects the amount presented in the income statement and statement of financial position.

Required:
Evaluate **THREE** methods of measuring insurance contracts in the initial and subsequent measurements. (6 marks)
(Total: 20 marks)

QUESTION TWO

H Limited, a public limited company which operates in the manufacturing sector has made investments in other companies. The following draft statements of profit or loss and other comprehensive income for the year ended 30 September 2024 relate to H Limited and its investment companies:

	H Limited Sh. "million"	S Limited Sh. "million"	R Limited Sh. "million"
Revenue	6,200	2,840	2,120
Cost of sales	(4,680)	(1,640)	(1,180)
Gross profit	1,520	1,200	940
Other income	315	105	60
	1,835	1,305	1,000
Distribution costs	(330)	(165)	(180)
Administrative expenses	(240)	(140)	(80)
Other expenses	(195)	(120)	(60)
Operating profit	1,070	880	680
Finance costs	(80)	(65)	(50)
Finance income	90	70	110
Profit before tax	1,080	885	740
Income tax expense	(285)	(145)	(140)
Profit for the year	795	740	600
Other comprehensive income:			
Gain on property revaluation	160	50	80
Total comprehensive income for the year	955	790	680

Additional information:

1. H Limited had acquired a 25% equity interest in R Limited several years ago for a cash consideration of Sh.1,800 million when the retained earnings of R Limited stood at Sh.2,040 million and had no other reserves. On 1 April 2024, H Limited acquired a further 50% equity holding in R Limited for a cash consideration of Sh.3,500 million. The retained earnings of R Limited as at 1 October 2023 amounted to Sh.3,940 million. The original 25% interest in R Limited was considered to be fairly valued at the equity-accounted value as at 1 April 2024. The fair values of net assets of R Limited which approximated their carrying amounts were Sh.4,900 million as at 1 April 2024.
2. H Limited had also acquired 80% of 500 million equity shares in S Limited on 1 October 2022. This acquisition involved a cash consideration of Sh.2,300 million and a share exchange on the basis of 2 shares in H Limited for every 3 shares acquired in S Limited. The market price of one H Limited's share at 1 October 2022 was Sh.15 per share.

   The carrying amount of net assets of S Limited at acquisition was Sh.5,100 million, but the fair value of net assets at 1 October 2022 was Sh.5,300 million. The fair value increase was due to an unrecognised customer list which had a remaining economic useful life of five (5) years at the date of acquisition.
3. The group policy is to measure the non-controlling interests at their fair values at the date of acquisition. The fair value of non-controlling interests in S Limited was Sh.800 million and in R Limited was Sh.540 million at the respective dates of acquisition.
4. Assume that all incomes, expenses, gains and losses accrued evenly throughout the year.
5. No impairment on goodwill was reported during the year ended 30 September 2024.

Required:

(i) Goodwill arising on acquisition of S Limited and R Limited. (6 marks)

(ii) Consolidated statement of profit or loss and other comprehensive incomes for the year ended 30 September 2024. (14 marks)

(Total: 20 marks)

QUESTION THREE

(a) With regards to International Financial Reporting Standard (IFRS) 9 "Financial Instruments: Recognition and Measurement":

(i) Describe **TWO** characteristics of derivatives. (4 marks)

(ii) Explain how derivatives are measured in the financial statements of an entity. (4 marks)

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(b) The following is an extract of the statement of financial position of Birika Limited as at 31 August 2024:

Equity	**Sh. "000"**
Ordinary share capital (Sh.10 par value)	94,500
Share premium	4,000
Retained profit	21,960
Total equity	120,460
Non-current liabilities:	
14% convertible loan note	40,000
9% bank loan	60,000
	100,000

Additional information:

1. The company reported a total profit of Sh.31,810,000 for the year ended 31 August 2024, which included a loss of Sh.4,160,000 from an independent business operation that was discontinued during the year.
2. On 1 November 2023, the company issued 3,150,000 new ordinary shares at fair value as a consideration for the acquisition of new property.
3. On 1 January 2024, the current ordinary shareholders were invited to subscribe for a rights issue on the basis of one (1) new share for every two (2) held at a price of Sh.15 per share, when the market price per share on cum rights basis was Sh.24.
4. The 14% convertible loan note in issue is convertible into ordinary shares at the holder's option on the basis of fifty (50) ordinary shares for each Sh.100 of the loan note. On 1 March 2024, holders of Sh.20,000,000 of the convertible loan note exercised their conversion option.
5. The corporate tax rate applicable to Birika Limited is 30%.

Required:

(i) Calculate the basic earnings per share (BEPS) for the year ended 31 August 2024. (8 marks)

(ii) Calculate the diluted earnings per share (DEPS) for the year ended 31 August 2024. (4 marks)

(Total: 20 marks)

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QUESTION FOUR

The following are the consolidated financial statements of Ndovu Group for the year ended 30 September:

Consolidated statements of financial position as at:

Assets:	**30 September 2024 Sh."million"**	**30 September 2023 Sh."million"**
Non-current assets:		
Property, plant and equipment	15,900	10,150
Goodwill	12,060	11,560
Investment in associate	3,875	3,375
	31,835	25,085
Current assets:		
Inventory	2,970	2,780
Accounts receivable	2,440	2,060
Cash and cash equivalents	1,310	875
Total assets	38,555	30,800
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	10,000	8,000
Share premium	1,500	1,200
Revaluation surplus	4,680	3,280
Retained earnings	10,090	6,780
Equity attributable to group owners	26,270	19,260
Non-controlling interests	1,940	2,000
Total equity	28,210	21,260

Non-current liabilities:		
Bank loans	2,500	1,875
Deferred tax	940	650
Current liabilities:		
Accounts payable	4,375	4,530
Current tax	2,530	2,485
Total equity and liabilities	38,555	30,800

Consolidated statement of profit or loss and other comprehensive incomes for the year ended 30 September 2024:

	Sh."million"
Revenue	13,060
Cost of sales	(3,970)
Gross profit	9,090
Operating expenses	(3,250)
Profit from operations	5,840
Gain on disposal of subsidiary	350
Finance costs	(220)
Share of profit of associate	720
Profit before tax	6,690
Income tax expense	(1,400)
Profit for the year	5,290
Other comprehensive income:	
Gain on property revaluation	1,400
Total comprehensive income for the year	6,690
Profit for the year:	
Attributable to the group owners	4,690
Attributable to the non-controlling interests	600
	5,290
Total comprehensive income for the year:	
Attributable to the group owners	6,090
Attributable to the non-controlling interests	600
	6,690

Additional information:

1. Depreciation of Sh.2,400 million was charged during the year ended 30 September 2024.

   Plant with a carrying amount of Sh.1,560 million was sold for Sh.1,720 million. The gain on disposal was recognised in operating costs. Property was revalued during the year resulting in a revaluation gain of Sh.1,400 million being recognised.

2. During the year ended 30 September 2024, Ndovu Limited acquired 75% of the ordinary share capital of Simba Limited paying cash consideration of Sh.9,400 million.

   The non-controlling interest (NCI) was measured at its fair value of Sh.2,125 million at the date of acquisition.

   The fair value of Simba Limited's net assets at acquisition was made up as follows:

	Sh. "million"
Property, plant and equipment	8,000
Inventory	940
Accounts receivable	1,500
Cash and cash equivalents	500
Accounts payable	(1,375)
Current tax	(250)
Net assets at acquisition	9,315

3. During the year ended 30 September 2024, Ndovu Limited also disposed of its entire 80% ordinary shareholding in Kifaru Limited for cash proceeds of Sh.5,300 million. This subsidiary was not considered as a separate unit of operation. Kifaru Limited had been acquired several years ago for cash consideration of Sh.3,750 million.

   The NCI of 20% was measured at its fair value of Sh.2,000 million at acquisition and the fair values of Kifaru Limited's net assets were Sh.4,600 million at that date. Goodwill had not suffered any impairment.

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At the date of disposal, the net assets of Kifaru Limited were carried in the consolidated statement of financial position as follows:

	Sh. "million"
Property, plant and equipment	4,530
Inventory	1,030
Accounts receivable	750
Cash and cash equivalents	300
Accounts payable	(510)
Net assets at disposal	6,100

Required:
A consolidated statement of cash flows for Ndovu Group for the year ended 30 September 2024 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(Total: 20 marks)

QUESTION FIVE

(a) On 1 July 2020, Mariana Manufacturers entered into a four-year lease of factory equipment from a supplier. The annual lease payment of Sh.2,662,000 was payable at the beginning of each year, starting on 1 July 2020. At the inception of the lease, the factory equipment's remaining economic useful life was seven (7) years and the lease contract contained a bargain purchase option which was reasonably certain to be exercised at the expiry of the lease term. The interest rate implicit in the lease was determined at 10% per year.

The initial direct costs incurred by Mariana Manufacturers at the inception of the lease amounted to Sh.280,000.

Required:
With suitable calculations, demonstrate the accounting treatment of the above lease transactions in the financial statements of Mariana Manufacturers (lessee) for the years ended 30 June 2021, 2022, 2023 and 2024. (6 marks)

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(b) Kristal Limited was established on 1 January 2023. The company prepares its financial statements based on historical cost basis as follows:

Opening statement of financial position
As at 1 January 2023:

Non-current assets:	**Sh."000"**
Land at cost	105,000
Plant and equipment at cost	108,000
	213,000
Current assets:	
Inventory	87,000
Cash at bank	60,000
Total assets	360,000
Equity and liabilities:	
Ordinary share capital (Sh.10 par value)	270,000
Non-current liabilities:	
Bank loan	90,000
Total equity and liabilities	360,000

Statement of profit or loss
For the year ended 31 December 2023:

	Sh."000"	**Sh."000"**
Revenue		175,000
Cost of sales:		
Opening inventory	87,000	
Add purchases	131,250	
Goods available for sale	218,250	
Less closing inventory	(161,875)	(56,375)
Gross profit		118,625

Expenses:		
Staff salaries	21,875	
Depreciation	17,010	
Other expenses	26,250	(65,135)
Profit before tax		53,490
Income tax expenses		(12,250)
Profit for the year		41,240

Additional information:

1. On 1 April 2023, Kristal Limited purchased a new motor vehicle at a cost of Sh.5.4 million and paid in cash.
2. On 30 September 2023, the company issued new ordinary shares at par value with cash proceeds being Sh.18 million.
3. Staff salaries and other expenses were paid for in cash during the year ended 31 December 2023.
4. During the year ended 31 December 2023, cash receipts from customers amounted to Sh.130 million while suppliers were paid Sh.100 million.
5. Depreciation is provided as follows:
   - Plant and equipment 15% per annum, reducing balance basis.
   - Motor vehicles 20% per annum, straight line basis.
6. The inventory held on 31 December 2023 was purchased when the retail price index averaged 185.
7. The relevant general retail price indices (RPI) were as follows:

Date	**RPI**
1 January 2023	120
1 April 2023	135
30 June 2023	175
30 September 2023	180
31 December 2023	220

8. Assume that incomes and expenses accrued evenly throughout the year and that all sales and purchases were made on credit basis during the year ended 31 December 2023.

Required:

(i) Inflation-adjusted statement of profit or loss for the year ended 31 December 2023. (6 marks)

(ii) Inflation-adjusted statement of financial position as at 31 December 2023. (8 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 19 August 2024. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) Five years ago, the Ministry of Tourism constructed a public picnic facility to promote domestic tourism at a highly subsidised fee. The original cost of the facility was Sh.750 million and it was expected to provide services to one million tourists each year over its estimated 25-year useful life.

Due to economic hardships suffered by the citizenry, the number of tourists visiting the picnic facility drastically reduced. The revised estimate of the number of local tourists expected to continue with the visits approximated 14 million tourists over the remaining 20 years.

The current replacement cost of a new picnic facility is Sh.900 million. The facility is depreciated using the straight-line method.

Required:

Calculate the impairment loss on the picnic facility (if any) using the service unit approach in accordance with International Public Sector Accounting Standard (IPSAS) 21 "Impairment of non-cash generating assets". (8 marks)

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(b) Kivu Ltd. had the following statement of financial position and tax bases as at 30 June 2024, before providing for any deferred tax for the year ended 30 June 2024:

	Carrying values		Tax bases	
	Sh."000"	Sh."000"	Sh."000"	Sh."000"
Non-current assets:				
Factory building		100,500		22,500
Plant and equipment		156,000		39,000
Investment in Mina Ltd.: Cost		1,977		1,977
Long-term quoted investments		198,000		198,000
		456,477		
Current assets	45,000		45,000	
Current liabilities:				
Trade payables	(40,500)		(40,500)	
Provision for repairs	(900)		NIL	
	(41,400)	3,600		
		460,077		
Equity:				
Equity capital		30,000		30,000
Revaluation reserves		73,500		-
Retained profit		298,047		-
Shareholders funds		401,547		
Non-current liabilities:				
Long-term loans	30,000		33,000	
Deferred tax at beginning	27,030	57,030	27,030	
Deferred income - grant		1,500		
		460,077		

Additional information:

1. Kivu Ltd. acquired 100% of the equity shares of Mina Ltd. on 30 June 2024. The net assets at acquisition were as follows:

	Fair value Sh."000"	Carrying value Sh."000"	Tax value Sh."000"
Factory buildings	1,500	900	300
Plant and equipment	120	90	45
Inventory	372	342	342
Accounts receivable	330	330	330
Current liabilities	(495)	(495)	(315)
	1,827	1,167	702

- Mina Ltd. had no deferred tax.

2. During the year ended 30 June 2024, Kivu Ltd. directors decided to revalue buildings at Sh.150 million and the plant and equipment to Sh.180 million. Investments were not to be revalued. Kivu Ltd.'s buildings had cost Sh.135 million and plant and equipment Sh.210 million.
3. The corporate tax rate for the year was 30%.
4. During the year ended 30 June 2024, directors of Kivu Ltd. agreed to provide Sh.900,000 for future repairs to the buildings. The expense is allowed for when paid for tax purposes.
5. The grant received was from the International Monetary Fund (IMF) and was not taxable.
6. Goodwill on acquisition is not allowed for tax purposes.
7. During the year ended 30 June 2024, Kivu Ltd. acquired a long-term loan of Sh.33million and recorded it net of transaction costs. The transaction cost of Sh.3million is allowable for tax purposes.

Required:

Calculate the deferred tax expense that would appear in the financial statements of Kivu Ltd. for the year ended 30 June 2024. (12 marks)

(Total: 20 marks)

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QUESTION TWO

Pata Limited, a quoted company, which operates in the agricultural sector, has investments in a number of companies.

The following financial information relates to Pata Limited and its investment companies:

Statements of profit or loss and other comprehensive income for the year ended 30 June 2024:

	Pata Limited Sh."million"	Soma Limited Sh."million"	Jana Limited Sh."million"
Revenue	7,750	4,260	2,860
Cost of sales	(5,380)	(2,050)	(1,480)
Gross profit	2,370	2,210	1,380
Distribution costs	(495)	(290)	(200)
Administrative expenses	(760)	(650)	(400)
Profit from operations	1,115	1,270	780
Finance costs	(90)	(80)	(60)
Profit before tax	1,025	1,190	720
Income tax expense	(340)	(370)	(220)
Profit for the year	685	820	500
Other Comprehensive income:			
Items that will not be recycled:			
Gain on property revaluation	265	80	-
Total Comprehensive income	950	900	500

Extract of equity as at 30 June 2024:

Equity as at 30 June 2024:	Pata Limited Sh."million"	Soma Limited Sh."million"	Jana Limited Sh."million"
Ordinary share capital	1,000	500	300
Revaluation reserve	265	80	-
Retained profit brought forward	5,480	3,730	1,450
Profit for the year	685	820	500
	7,430	5,130	2,250

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Additional information:

1. On 1 July 2021, Pata Limited acquired 75% of the ordinary shares of Soma Limited for a cash consideration of Sh.4,500 million, when the retained earnings of Soma Limited stood at Sh.2,100 million.
   At the date of acquisition, the fair values of the identifiable net assets approximated their carrying values with the exception of an item of plant whose fair value exceeded its carrying amount by Sh.600 million. The plant had a remaining economic useful life of six years at acquisition date.
2. On 1 January 2022, Pata Limited entered into a joint arrangement with another entity to establish joint control over net assets and operations of Jana Limited.
   Pata Limited acquired 50% of the ordinary shares of Jana Limited for a cash consideration of Sh.700 million when the retained earnings of Jana Limited amounted to Sh.1,300 million.
   Pata Limited equity-accounted for its share of interest in Jana Limited in line with International Accounting Standard (IAS) 28, "Investment in Associates and Joint Ventures".
3. On 1 January 2024, Pata Limited acquired an additional 30% shareholding in Jana Limited for a cash consideration of Sh.500 million.
   The fair value of the original investment in Jana Limited as at 1 January 2024 was Sh.950 million.
   No fair value adjustments were necessary in respect of the identifiable net assets of Jana Limited.
4. The group policy is to measure the non-controlling interests in subsidiaries at their proportionate share of net assets at the date of acquisition.
5. During the year ended 30 June 2024, Pata Limited sold goods to Soma Limited for Sh.340 million at fair value. Pata Limited reported a loss of Sh.55 million on this transaction. Soma Limited still had one half (1/2) of these goods in its inventory at 30 June 2024.
6. Impairment review at 30 June 2024 revealed that goodwill on acquisition had not suffered any impairment.
7. All incomes and expenses of the group companies are deemed to have accrued evenly throughout the year.

Required:

(a) Calculate the value of goodwill arising on acquisition of:

(i) Soma Limited. (2 marks)

(ii) Jana Limited. (4 marks)

(b) Prepare the consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2024. (14 marks)

(Total: 20 marks)

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QUESTION THREE

Ziwa Limited has been experiencing trading difficulties for the past five years. A formal reconstruction of the company was agreed by the board of directors. On 30 June 2024, Ziwa Ltd. was taken over by Baraka Ltd.

The following is Ziwa Ltd.'s statement of financial position as at 30 June 2024:

Statement of financial position as at 30 June 2024:

Assets:	**Sh."million"**	**Sh."million"**
Non-Current assets:		
Land and buildings	820	
Motor vehicles	680	
Goodwill	350	
Furniture and equipment	435	
Patents	185	2,470
Current assets:		
Inventory	380	
Accounts receivable	280	660
Total assets		3,130
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 each)		2,000
10% Preference shares (Sh.10 each)		1,000
Share premium		400
Retained earnings		(850)
Total equity		2,550
Non-current liabilities:		
8% debentures		400
Current liabilities:		
Accounts payable	150	
Bank overdraft	30	180
Total equity and liabilities		3,130

Additional information:

1. Baraka Ltd. was formed with an authorised share capital of 300 million ordinary shares of Sh.10 each.
2. The 10% preference shareholders received four ordinary shares in Baraka Ltd. for every five preference shares held in Ziwa Ltd. Each ordinary shares from Baraka Ltd. was credited at Sh.8 per share. Shareholders were to pay the difference in cash to Baraka Ltd. to make their shares fully paid immediately upon receipt of the shares.
3. The ordinary shareholders of Ziwa Ltd. received three ordinary shares for every five shares held in Ziwa Ltd. The shares from Baraka Ltd. were credited at Sh.6 per share. The shareholders were to pay the difference in cash to make the shares fully paid immediately after receiving the shares.
4. The debenture holders of Ziwa Ltd. accepted 25 ordinary shares for every Sh.200 of the debenture, the shares being credited at Sh.8 each. The debenture holders would introduce cash to make the shares fully paid on receipt of the shares.
5. Dividends of the preference shares were four years in arrears as at 30 June 2024. Baraka Ltd. accepted to pay the amount by issuing two fully paid ordinary shares and Sh.100, 6% debenture for every Sh.800 of the dividend in arrears.
6. Baraka Ltd. paid Sh.30 million to Ziwa Ltd. for dissolution. This amount was treated as preliminary expenses and was to be written off against profit in the next three years.
7. Immediately after acquisition, Baraka Ltd. purchased inventory worth Sh.60 million in cash and settled Sh.50 million of the accounts payable.
8. Assets were transferred to Baraka Ltd. at the following values:

Assets	**Sh."million"**
Land and buildings	620
Motor vehicles	550
Furniture and equipment	430
Patents	140
Inventory	280
Accounts receivable	250

Goodwill was presumed to have no value and was to be written off.

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Required:
Prepare:

(a) The necessary accounts to close Ziwa Ltd. (10 marks)

(b) Journal entries in the books of Baraka Ltd. to record the acquisition of Ziwa Ltd. (6 marks)

(c) Opening statement of financial position for Baraka Ltd. (4 marks)

(Total: 20 marks)

QUESTION FOUR
The following financial statements were extracted from the books of Rahisi Group:

Consolidated statement of financial position as at 31 December:

Assets:	**2022 Sh. "million"**	**2023 Sh. "million"**
Non-current assets:		
Property, plant and equipment	3,400	4,570
Goodwill	650	1,010
Other intangible assets	1,630	1,440
Investment in associate	-	770
	5,680	7,790
Current assets:		
Inventories	1,830	1,490
Accounts receivable	1,750	1,220
Cash and cash equivalents	340	450
	3,920	3,160
Total assets	9,600	10,950

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Equity and liabilities:	2022 Sh. "million"	2023 Sh. "million"
Equity:		
Ordinary share capital (Sh.10 par value)	1,000	3,000
Revaluation surplus	210	270
Retained earnings	2,370	2,390
	3,580	5,660
Non-controlling interest	720	860
Total equity	4,300	6,520
Non-current liabilities:		
Long-term loans	1,530	1,990
Deferred tax	820	600
	2,350	2,590
Current liabilities:		
Accounts payable	2,170	1,420
Current tax	780	420
	2,950	1,840
Total equity and liabilities	9,600	10,950

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

	Sh. "million"
Revenue	4,530
Cost of sales	(3,380)
Gross profit	1,150
Distribution costs	(380)
Administrative expenses	(430)
Operating profit	340
Finance costs	(140)
Share of profit of associate	180
Profit before tax	380
Income tax expense	(150)
Profit for the year	230
Other comprehensive income:	
Gain on property revaluation	70
Total comprehensive income for the year	300
Profit for the year:	
Attributable to owners of the parent	140
Attributable to the non-controlling interests	90
	230
Total comprehensive income for the year:	
Attributable to owners of the parent	210
Attributable to the non-controlling interests	90
	300

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Additional information:

1. During the year ended 31 December 2023, Rahisi Group acquired 60% of the ordinary share capital of Kibo Ltd. for a cash consideration of Sh.720 million.

   The fair values of the identifiable net assets of Kibo Ltd. at the date of acquisition were as follows:

	Sh. "million"
Property, plant and equipment	280
Inventories	160
Trade receivables	110
Cash and cash equivalents	80
Trade payables	(120)
Current tax	(30)
Net assets at acquisition	480

Rahisi Group measures the non-controlling interests at their fair values at acquisition date. The fair value of the non-controlling interest in Kibo Ltd. at the date of acquisition amounted to Sh.220 million.

2. The group's property, plant and equipment comprised the following:

	Sh. "million"
Carrying amount at 1 January 2023	3,400
Additions at cost including assets acquired in Kibo Ltd.	1,640
Gain on property revaluation	70
Disposals	(330)
Depreciation	(210)
Carrying amount at 31 December 2023	4,570

The disposal proceeds of property, plant and equipment amounted to Sh.540 million and the gain on disposal has been netted off against the administrative expenses. It is also the group policy to make inter-reserve transfer of excess depreciation upon revaluation of property, plant and equipment.

3. During the year ended 31 December 2023, Rahisi Group acquired a 30% interest in an associate for a cash consideration.
The associate reported a profit of Sh.600 million and paid dividend of Sh.200 million out of the profit during the year.
4. An impairment review carried out on 31 December 2023 revealed that goodwill and other intangible assets were impaired.
5. Ignore deferred tax effects on the acquisition of new subsidiary and on the revaluation of property, plant and equipment.

Required:
A consolidated statement of cash flows for Rahisi Group for the year ended 31 December 2023 using the indirect method in accordance with the International Accounting Standards (IAS) 7 "Statement of Cash Flows". **(Total: 20 marks)**

QUESTION FIVE

(a) With reference to International Public Sector Accounting Standard (IPSAS) 18 "Segment Reporting", identify **FOUR** disclosure requirements for reportable segments of public sector entities. (4 marks)

(b) International Accounting Standard (IAS) 29 "Financial reporting in hyperinflationary economies", identifies characteristics of hyperinflation in an economic environment.

Required:
Describe **FIVE** characteristics of the economic environment of a country which indicate the existence of hyperinflation. (5 marks)

(c) International Accounting Standard (IAS) 34 "Interim Financial reporting" prescribes the events and transactions for which disclosures are required if they are significant.

Required:
Highlight **FIVE** such events and transactions. (5 marks)

(d) Integrated Reporting helps companies shift the focus of their reporting from historical financial performance to longer-term value creation.

Required:
In light of the above statement, discuss **SIX** contents of an integrated report. (6 marks)
(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 22 April 2024. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) The International Financial Reporting Standard (IFRS) for SMEs Accounting Standard offers relief from compliance with full IFRS Accounting Standards. It provides an alternative framework which can be applied by eligible entities in place of the full IFRS Accounting Standards.

Required:
Explain **FOUR** objectives of the IFRS for SMEs Accounting Standard. (4 marks)

(b) The conceptual framework refers to two main measurement bases; historical cost and current value. Management should refer to the fundamental qualitative characteristics of relevance and faithful representation when selecting a measurement basis.

Required:
Discuss **FOUR** factors to be considered when choosing a measurement basis. (4 marks)

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(c) Q Ltd. holds the following assets measured at fair value:

1. Listed equity shares measured at quoted price.
2. Land held for sale which is measured at fair value by reference to sales prices of comparable land in a similar location (price per square metre) adjusted for key attributes such as land size.
3. Investment properties whose fair value is measured using an income approach based on discounted estimated rental income to reflect current market rates per square metre.

Required:
Identify the inputs used in each measurement of the above assets and explain how the valuation corresponds to the fair value hierarchy of International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement". (6 marks)

(d) JK Ltd. has access to two markets when selling its inventory. The markets are: Country A and Country B. Information about these markets is provided below:

	Country A	**Country B**
Total units sold (in "millions")	16	13
Sales (Sh."million")	6	7
Sales price per unit (Sh.)	9	10
Transaction costs per unit (Sh.)	4	3
Transport cost per unit (Sh.)	1	1

Required:
With reference to International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement" determine the:

(i) Principal market. (2 marks)

(ii) Most advantageous market. (2 marks)

(iii) Fair value of one unit of inventory. (2 marks)

(Total: 20 marks)

QUESTION TWO

(a) In the context of International Financial Reporting Standard (IFRS) 5 "Non-Current Assets Held for Sale and Discontinued Operations", explain how non-current assets held for sale should be measured. (4 marks)

(b) P Limited, a public limited entity, is a holding company of a group of companies. During the year ended 31 March 2024, P Limited acquired a controlling interest in S Limited and disposed of part of its shareholding in A Limited.

The following draft financial statements relate to P Limited and its investment companies:

Statements of financial position as at 31 March 2024:

	P Limited Sh."million"	S Limited Sh."million"	A Limited Sh."milion"
Assets:			
Non-current assets:			
Property, plant and equipment	4,400	4,050	1,980
Investments: S Limited	1,300		
A Limited	900		
	6,600	4,050	1,980
Current assets	1,500	1,250	680
Total assets	8,100	5,300	2,660
Equity and liabilities:			
Equity:			
Ordinary share capital (Sh.10 each)	2,000	1,000	400
Share premium	800	200	100
Retained earnings	3,280	2,670	1,440
Total equity	6,080	3,870	1,940
Non-current liabilities	1,300	800	200
Current liabilities	720	630	520
Total equity and liabilities	8,100	5,300	2,660

Statements of profit or loss for the year ended 31 March 2024:

	P Limited Sh."million"	S Limited Sh."million"	A Limited Sh."million"
Revenue	4,660	3,080	1,680
Cost of sales	(2,520)	(1,260)	(620)
Gross profit	2,140	1,820	1,060
Distribution costs	(510)	(400)	(260)
Administrative expenses	(760)	(680)	(360)
Profit from operations	870	740	440
Finance costs	(130)	(80)	(20)
Profit before tax	740	660	420
Income tax expense	(150)	(120)	(100)
Profit for the year	590	540	320

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Additional information:

1. On 1 October 2023, P Limited acquired an 80% equity interest in S Limited for a cash consideration of Sh.1,300 million. Additionally, P Limited issued its ordinary shares to the owners of S Limited on the basis of three (3) shares of P Limited for every four (4) shares acquired in S Limited. The market value of the ordinary shares of P Limited as at 1 October 2023 was Sh.40 per share. This share issue has not yet been recorded in the financial statements of P Limited.
2. The fair values of the identifiable net assets of S Limited approximated their carrying values as at the acquisition date, with the exception of an item of plant whose fair value exceeded its carrying value by Sh.700 million. The plant had a remaining economic useful life of five (5) years as at 1 October 2023.
3. P Limited had acquired 75% of the ordinary shares of A Limited on 1 October 2019 when the retained earnings of A Limited stood at Sh.240 million. The purchase consideration comprised cash of Sh.30 per acquired share. No fair value adjustments were necessary with respect to the acquisition of A Limited.
4. On 1 October 2023, P Limited disposed of 45% of the ordinary shares of A Limited for cash proceeds of Sh.720 million. The remaining equity interest in A Limited held by P Limited was fair valued at Sh.680 million on 1 October 2023. The disposal of shares in A Limited is yet to be accounted for in the financial statements of P Limited.

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5. The group policy is to measure the non-controlling interest in subsidiaries at their fair values at the acquisition date. The fair value of the non-controlling interest was Sh.750 million for S Limited and Sh.200 million for A Limited as at the respective dates of acquisition.
6. During the post-acquisition period, P Limited sold goods worth Sh.1,000 million on cash terms to S Limited. P Limited reported a gross profit margin of 20% on this sale. One quarter (¼) of these goods remained in the inventory of S Limited as at 31 March 2024.
7. Neither goodwill on acquisition nor investment in associate had suffered any impairment.
8. Profits and losses of all the group companies are deemed to accrue evenly throughout the financial year.
9. Neither S Limited nor A Limited had issued any ordinary shares since P Limited acquired shares in the two companies.

Required:

(i) Calculate the gain or loss on the disposal of shares in A Limited to be presented in the consolidated statement of profit or loss. (6 marks)

(ii) Prepare the consolidated statement of financial position as at 31 March 2024. (10 marks)

(Total: 20 marks)

QUESTION THREE

(a) On 1 January 2023, Tunza Ltd. had in issue 43,200,000 ordinary shares of Sh.10 par value each and 12,000,000, 12% convertible redeemable preference shares of Sh.10 par value each. The preference shares are convertible into ordinary shares on the basis of 80 ordinary shares for each Sh.100 of the preference share capital. Tunza Ltd.'s profit after tax from continuing operations for the year ended 31 December 2023 amounted to Sh.201,600,000 and for the year ended 31 December 2022, it was Sh.97,200,000.

The average market value per ordinary share during the year ended 31 December 2023 was Sh.20.

Additional information:

1. On 1 April 2023, the company invited the current ordinary shareholders to subscribe for a rights issue on the basis of 2 new shares for every 3 held at a concessionary price of Sh.15 per share when the market value on cum-rights basis was Sh.20 per share.
2. On 1 July 2023, Tunza Ltd. issued 36,000,000 ordinary shares at their full market price.
3. On 1 September 2023, the company made a 1 for 3 bonus issue of ordinary shares using the share premium account.
4. On 1 October 2023, holders of Sh.80,000,000 12% convertible preference shares exercised their conversion rights.

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Required:

(i) Calculate the basic earnings per share for the year ended 31 December 2023. (6 marks)

(ii) Calculate the restated earnings per share for the year ended 31 December 2022. (2 marks)

(iii) Calculate the diluted earnings per share for the year ended 31 December 2023. (6 marks)

(b) Integrated reporting advances the proposition that sustainability reporting and financial reporting are inherently linked and thus would benefit from merging.

Required:

Explain the **THREE** main aspects of an integrated report. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) According to International Public Sector Accounting Standard (IPSAS) 36, "Investments in Associates and Joint Ventures", an entity with joint control or significant influence over an investee should apply the equity method unless exempted.

Required:

Discuss **THREE** exemptions to applying the equity method of accounting according to IPSAS 36. (6 marks)

(b) On 1 April 2021, each of the seven directors of Hill Ltd. received 16,000 share options as an award. Hill Ltd. prepares its accounts to 31 March each year. The condition attached to the award of the share options was that the directors must remain in employment for three years. The fair value of each share option as at the grant date was Sh.100. The fair value of each share option as at 31 March 2022, 2023 and 2024 was Sh.105, Sh.110 and Sh.115 respectively.

As at 31 March 2022, it was estimated that two directors would leave before the end of three years. Due to an economic upturn, the estimate of the number of directors who were going to leave as at 31 March 2023 was revised to one director. The expense for the year as regards the share options had not been included in the statement of profit or loss for the current year and no director had left by 31 March 2023. However, one director eventually left the company by 31 March 2024.

Required:
Demonstrate the accounting treatment of the above share option transactions in the financial statements of Hill Ltd. for the years ended 31 March 2022, 2023 and 2024. (8 marks)

(c) On 1 January 2023, Kauma Limited issued 10,000 bond instruments with a face value of Sh.100 each at a market price of Sh.95 per instrument. Bond brokers charged fees totaling Sh.18,000 in relation to the bond issue. The bonds carry a coupon rate of 5% and are redeemable in 3 years at face value.

Kauma Limited wishes to account for the bonds using IFRS 9 "Financial Instruments" specifically the amortised cost method. However, there was some confusion about how the bonds should be accounted for. The cash received from the bond issue of Sh.950,000 has been recognised as a non-current liability. The broker fees of Sh.18,000 were deducted from the non-current liability carrying amount and the coupon payment of Sh.50,000 has been expensed in arriving at profit before tax. The effective rate of interest is 7.62%.

Required:
The necessary accounting treatment, with justification, of the above transaction in conformity with the requirements of IFRS 9 "Financial Instruments" for the year ended 31 December 2023. (6 marks)

(Total: 20 marks)

QUESTION FIVE
The following draft financial statements relate to Bustani Group:

Consolidated statements of financial position as at 31 December:

	2023 Sh."million"	**2022** Sh."million"
Assets:		
Non-current assets:		
Property, plant and equipment	7,510	5,180
Goodwill	1,540	1,160
Interest in joint venture	400	290
Total non-current assets	9,450	6,630
Current assets:		
Inventory	1,360	1,290
Trade receivables	1,430	1,250
Cash and cash equivalents	1,060	880
Total current assets	3,850	3,420
Total assets	13,300	10,050
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	4,000	2,000
Share premium	400	200
Revaluation surplus	800	440
Exchange reserve (losses)	(570)	(330)
Retained earnings	1,240	1,170
Equity attributable to group owners	5,870	3,480
Non-controlling interests	2,160	1,800
Total equity	8,030	5,280
Non-current liabilities:		
Long term loan	2,070	1,590
Deferred tax	990	1,020
Total non-current liabilities	3,060	2,610
Current liabilities:		
Trade payables	1,600	1,690
Current tax	610	470
Total current liabilities	2,210	2,160
Total equity and liabilities	13,300	10,050

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Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023:

	Sh."million"
Revenue	5,640
Cost of sales	(4,160)
Gross profit	1,480
Distribution costs	(340)
Administrative expenses	(480)
Profit from operations	660
Finance costs	(160)
Share of profit of joint venture	240
Profit before tax	740
Income tax expense	(220)
Profit for the year	520
Other comprehensive income/losses:	
Items that will not be reclassified to profit or loss:	
Gain on revaluation of property	360
Items that may be reclassified to profit or loss:	
Loss on retranslation of foreign subsidiary	(300)
Total comprehensive income for the year	580
Profit for the year:	
Attributable to the owners of the parent	440
Attributable to the non-controlling interest	80
	520
Total comprehensive income for the year:	
Attributable to the owners of the parent	560
Attributable to the non-controlling interest	20
	580

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Additional information:

1. During the year ended 31 December 2023, Bustani Limited acquired 75% of the 100 million ordinary shares of Sh.10 par value each of Kesho Limited, a local subsidiary. The acquisition consideration comprised cash of Sh.880 million and a share exchange of two (2) ordinary shares in Bustani Limited for every three (3) shares acquired in Kesho Limited. The market value of Bustani Limited's ordinary shares as at the date of acquisition was Sh.12 per share.

   The fair values of the identifiable net assets of Kesho Limited as at the date of acquisition were determined as follows:

	Sh."million"
Property, plant and equipment	820
Inventory	350
Trade receivables	320
Cash and cash equivalents	70
Trade payables	(210)
Current tax	(40)
	1,310

   The fair value of the non-controlling interest in Kesho Limited as at the acquisition date was Sh.340 million.

2. Depreciation on property, plant and equipment for the year ended 31 December 2023 charged to profit or loss amounted to Sh.310 million.
3. During the year ended 31 December 2023, Bustani Limited revalued its property for a gain of Sh.360 million. Bustani Limited does not make an inter-reserve transfer for the excess depreciation upon revaluation.
4. The group policy is to measure the non-controlling interest in all subsidiaries, including the foreign subsidiary, at their fair values at acquisition dates.

5. The movement in the exchange reserve (losses) relates to the retranslation of net assets and goodwill of an 80% owned foreign subsidiary and comprises the following elements:

	Sh."million"
Property, plant and equipment	(210)
Goodwill	(45)
Inventory	(60)
Trade receivables	(80)
Trade payables	70
Current tax	25
	(300)

6. Ignore deferred tax consequences on the acquisition of the subsidiary and on the revaluation of property.

Required:
Consolidated statement of cash flows for Bustani Group for the year ended 31 December 2023 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 4 December 2023. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) International Public Sector Accounting Standard (IPSAS) 20 "Related Party Disclosures", requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances.

Required:
Highlight **SIX** disclosures about related party transactions that would need to be disclosed to meet the objectives of IPSAS 20. (6 marks)

(b) Titans Ltd. which is a wholly owned subsidiary of Venus Ltd. is a cash generating unit in its own right. The value of property, plant and equipment of Titans Ltd. as at 31 October 2023 was Sh.6 million and purchased goodwill was Sh.1 million before impairment loss. The company had no other assets or liabilities. An impairment loss of Sh.1.8 million had occurred as at 31 October 2023. The directors wish to know how the impairment loss will affect the deferred tax liability for the year. Impairment losses are not an allowable expense for taxation purposes. The tax base of the property, plant and equipment as at 31 October 2023 was Sh.4 million.

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Required:
Assuming a corporate tax rate of 30%, discuss with suitable computations how the above situation will impact on accounting for deferred tax under IAS 12 (Income Taxes) in the group financial statements of Venus Group. (8 marks)

(c) Saruji Ltd. operates a defined benefit scheme which had a net obligation of Sh.120 million as at 31 December 2021. The following details relate to the scheme for the financial year ended 31 December 2022:

	Sh."million"
Current service cost	55
Cash contribution to the scheme	100
Benefits paid during the year	80
Net loss on curtailment	11
Gain on remeasurement of liability as at 31 December 2022	9

The rate of interest applicable to corporate bonds was 5% as at 31 December 2021. The cash contributions to the scheme have been correctly accounted for in the financial statements for the year ended 31 December 2022. This is the only adjustment that has been made in respect of the scheme.

Required:
Recommend to the directors of Saruji Ltd. the correct accounting treatment of the above transactions in the financial statements for the year ended 31 December 2022, including financial statements extracts in accordance with IAS 19 (Employee Benefits). (6 marks)

(Total: 20 marks)

QUESTION TWO

H Limited, a public limited company whose functional currency is the Kenya Shilling (KSh.) operates in the digital economy sector. The company has recently diversified its operations by acquiring shares in a foreign entity, S Limited. The functional currency of S Limited is the Krona (Kr.).

The following statements of financial position were extracted from the financial records of the two companies as at 30 September 2023:

	H Limited Ksh."million"	S Limited Kr."million"
Assets:		
Non-current assets:		
Property, plant and equipment	8,500	3,000
Investment in S Limited	3,000	-
Other intangible assets	1,600	510
	13,100	3,510
Current assets:		
Inventory	2,500	1,960
Trade receivables	2,300	1,320
Cash and cash equivalents	1,650	640
	6,450	3,920
Total assets	19,550	7,430
Equity and liabilities:		
Equity:		
Ordinary share capital (Ksh.1/Kr.1 par value)	5,000	1,560
Share premium	2,000	200
Retained earnings	5,900	1,442
Total equity	12,900	3,202
Non-current liabilities:		
10% loan stock	1,300	1,360
Deferred tax	650	1,268
	1,950	2,628
Current liabilities:		
Trade payables	3,800	1,160
Current tax	900	440
	4,700	1,600
Total equity and liabilities	19,550	7,430

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Additional information:

1. On 1 October 2022, H Limited acquired an 80% controlling interest in S Limited for a cash consideration of Ksh.3,000 million when the retained earnings of S Limited stood at Kr.540 million. The fair values of the identifiable net assets of S Limited were Kr.2,700 million. The excess of the fair value over the carrying value was due to an increase in value of plant whose remaining economic useful life approximated five (5) years at acquisition.
2. H Limited uses the fair value method to measure the non-controlling interests in subsidiaries. The fair value of the non-controlling interest in S Limited on 1 October 2022 amounted to Kr.900 million.
3. On 1 October 2022, H Limited exported goods worth Ksh.180 million on account to S Limited. This transaction has been recorded by both entities. However, the account payable is still recorded at the rate of exchange that prevailed at the date of the transaction, in the financial statements of S Limited. All these goods had been sold to third parties by S Limited as at 30 September 2023.
4. Goodwill arising on acquisition of S Limited had not been impaired since acquisition.
5. The following foreign exchange rates are relevant:

	Kr. to Ksh.1
1 October 2022	0.90
30 September 2023	0.80
Average for the year to 30 September 2023	0.75

6. S Limited has not issued any ordinary shares since the date of acquisition.

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Required:

(a) The value of goodwill arising on acquisition of S Limited in Kenya Shillings (KSh.). (6 marks)

(b) Consolidated statement of financial position for H Group as at 30 September 2023. (14 marks)

(Total: 20 marks)

QUESTION THREE

(a) In the context of International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs), the SMEs Standard, briefly explain **TWO** accounting choices that are not allowed under the SMEs Standard. (4 marks)

(b) The purpose of the statement of profit or loss and other comprehensive incomes is to show an entity's financial performance in a way that is useful to a wide range of users. However, the accounting treatment and guidance with respect to other comprehensive incomes has been criticised recently.

Required:

Discuss **FOUR** criticisms that have been raised in respect to the accounting treatment of other comprehensive incomes. (4 marks)

(c) A division of Ziwa Ltd. has the following non-current assets which are stated at their carrying values as at 31 December 2022:

	Sh."million"	**Sh."million"**
Goodwill		70
Property, plant and equipment:		
Land and buildings	320	
Plant and machinery	110	430
		500

Since the assets are used to produce a specific product, it is possible to identify the cash flows arising from their use. The management of Ziwa Ltd. believes that the value of these assets may have become impaired, because a major competitor has developed a superior version of the same products.

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Forecast cash inflows arising from the use of the assets are as follows:

Year ended	**Sh."million"**
31 December 2023	185
31 December 2024	160
31 December 2025	130

The following additional information is useful:

1. The directors are of the opinion that the market would expect a pre-tax return of 12% on an investment in an entity that manufactures a product of this type.
2. The land and buildings are carried at revaluation. The surplus relating to the revaluation of the land and buildings that remain in the revaluation surplus reserve as at 31 December 2022 is Sh.65 million. All other non-current assets are carried at historical cost.
3. The goodwill does not have a market value. It is estimated that the land and buildings could be sold at Sh.270 million and the plant and machinery could be sold for Sh.50 million net of direct selling costs.

Required:

(i) Calculate impairment loss to be recognised in the accounts of Ziwa Ltd. (6 marks)

(ii) Explain how the loss will be treated in the financial statements for the year ended 31 December 2022. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The annual report has evolved from providing information on an entity's financial performance and position to including wider aspects of performance such as management commentaries, corporate social responsibility reports, corporate governance reports as well as sustainability reporting.

Required:

(i) Explain the term "sustainability reporting" as advanced by the Global Reporting Initiative (GRI). (2 marks)

(ii) Summarise **FOUR** limitations of financial reporting in the context of reporting the social and environmental impacts of corporate activity to users of financial statements. (6 marks)

(b) On 1 April 2019, M Ltd. granted 500 share appreciation rights (SARs) to each of its 300 employees. All of the rights vested on 31 March 2021 and could be exercised from 1 April 2021 up to 31 March 2023. At the grant date, the value of each SAR was Sh.10 and it was estimated that 5% of the employees would leave during the vesting period. The fair values of the SARs at various dates were as follows:

Date	**Fair value of SAR (Sh.)**
31 March 2020	9
31 March 2021	11
31 March 2022	12

All the employees who were expected to leave employment, did leave the company as expected before 31 March 2021. On 31 March 2022, 60 employees exercised their options when the intrinsic value of the right was Sh.10.50 and were paid in cash.

The Chief Accountant of M Ltd. is, however, confused as to whether to account for the SARs under IFRS 2 (Share-based Payment) or IFRS 13 (Fair Value Measurement) and would like to be advised as to how the SARs should have been accounted for from the grant date up to 31 March 2022.

Required:

Advise the Chief Accountant of M. Ltd. on how the above transactions should be accounted for in its financial statements with reference to the relevant International Financial Reporting Standards (IFRSs). (12 marks)

(Total: 20 marks)

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QUESTION FIVE

For a number of years now, A Ltd. has been reporting operating losses, principally due to competition from firms operating in the same sector. A Ltd. is now considering reorganising its operations and financial structure to allow it to obtain new funding required to develop and launch a new product. Technical experts have indicated that the new product will do well in the market once it is launched.

The statement of financial position of A Ltd. as at 31 October 2023 is as follows:

	Sh."million"	**Sh."million"**
Assets:		
Non-current assets:		
Tangible assets		5,000
Financial instruments		1,000
Current assets		4,125
Total assets		10,125
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.1 par value)		4,000
20% cumulative preference share capital (Sh.1 par value)		1,500
Retained earnings		(2,918)
		2,582
Non-current liabilities:		
20% bonds		750
Current liabilities:		
Trade payables	1,968	
Bank overdraft (secured on tangible assets)	3,900	
Loan from finance institution	925	6,793
Total equity and liabilities		10,125

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Additional information:

1. Preference dividends have been in arrears for three years.
2. The retained earnings balance is to be eliminated.
3. The following details relate to the assets:
   - Tangible assets: 15% of the book value is to be transferred to the bondholders for an agreed value of Sh.720 million in full settlement of the debt and the remaining book value of these assets marked up to 110%.
   - Inventories include obsolete items worth Sh.540 million below their book value of Sh.680 million.
   - A bond investment (having 10 months to maturity date) is to be revised to Sh.280 million from its carrying value of Sh.370 million.
   - Receivables with a carrying value of Sh.1,200 million are to be factored out for 70% advance under terms that will allow for refund of any difference between actual collections and the upfront payment from the factor.
   - One customer who owes Sh.828 million is in serious financial difficulty. Only 50% is expected to be received from this customer in one year's time.
4. The bank has demanded repayment of the bank overdraft, while the finance institution has accepted to receive 92% of their existing loan in new ordinary shares as full settlement. Upon successful completion of the reorganisation process, however, the finance institution is ready to immediately buy 15% Sh.900 million debentures in the reconstructed entity's debts provided that the directors will attach the right to convert the debt into shares at maturity. The finance institution will also require 10% discount on the convertible debt at issue and repayment period of three years. The effective rate of interest on this convertible debt, if the discount is granted, is estimated to be 18.7% and the effective rate of interest on an equivalent non-convertible instrument will be 22.5%.
5. Existing ordinary shareholders are prepared to inject Sh.4,200 million for 840 million new ordinary shares, while preference shareholders have pledged to finance new production equipment whose estimated fair value is Sh.1,350 million. Each of these shares currently has a value of Sh.5.
6. Half of the trade payables (suppliers) have agreed to be paid using ordinary shares in the reconstructed firm.
7. The directors have projected annual profit before interest and tax in the reconstructed entity to be Sh.650 million.
8. A firm order has been received from BB Ltd., a competitor, to buy all the business assets for Sh.7,200 million. 60% of these proceeds related to tangible assets. Closure costs are estimated at Sh.50 million.
9. Assume a discount rate of 15%, unless a different rate is more appropriate.
10. The present value of Sh.1 receivable at the end of the year for different discount rates is provided below:

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Year	Discount Rate			
	10%	15%	18.7%	22.5%
1	0.91	0.87	0.84	0.82
2	0.83	0.76	0.71	0.67
3	0.75	0.66	0.60	0.54

Required:

Suggest a scheme of capital reorganisation that would be acceptable to all stakeholders, including a revised statement of financial position. **(Total: 20 marks)**

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 21 August 2023. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

H Limited, a public limited entity, had exercised significant influence over S Limited, another public limited entity, for many years before obtaining control. H Limited acquired a 40% ordinary shareholding in S Limited on 1 April 2013 for a cash consideration of Sh.2,500 million, when the retained earnings of S Limited stood at Sh.360 million.

The draft statements of financial position for the two companies as at 31 March 2023 are presented below:

	H Limited	S Limited
Assets:	**Sh."million"**	**Sh."million"**
Non-current assets:		
Property, plant and equipment	5,550	4,200
Investment in S Limited	4,700	-
	10,250	4,200
Current assets:		
Inventory	2,700	1,800
Trade receivables	3,120	2,180
Cash and cash equivalents	1,130	770
	6,950	4,750
Total assets	17,200	8,950
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	10,000	5,000
Retained earnings	3,490	1,660
Total equity	13,490	6,660
Non-current liabilities:		
10% loan notes	1,800	1,200
Current liabilities:		
Trade payables	1,560	840
Current tax	350	250
	1,910	1,090
Total equity and liabilities	17,200	8,950

Additional information:

1. H Limited acquired a further 30% interest in S Limited on 1 April 2019 for a cash amount of Sh.2,200 million. At this date, the retained earnings of S Limited amounted to Sh.860 million and the fair value of the previously held 40% interest in S Limited was Sh.3,000 million.
2. At the time of achieving the controlling interest in S Limited, the fair values of its identifiable net assets approximated their carrying amounts, with the exception of the following items:
   - An item of plant whose fair value exceeded its carrying amount by Sh.150 million. On 1 April 2019, this item of plant had a remaining economic useful life of six (6) years.
   - On 1 April 2019, the directors of H Limited identified that S Limited had an internally generated database of customers who had the potential of purchasing their products for an indefinite period of time. Although there were no contractual or legal rights associated with this database, a professional expert estimated that competitors of S Limited would be prepared to pay Sh.90 million for this database. S Limited had not yet recognised the database as an asset in its individual financial statements.

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3. The group policy is to measure the non-controlling interests at their proportionate share of net assets in the subsidiary at the date of acquisition.
4. On 28 March 2023, H Limited sold goods worth Sh.100 million to S Limited. H Limited reported a gross profit margin of 20% on this sale. S Limited had neither received nor recorded these goods in its books of account as at 31 March 2023.
5. The current accounts between H Limited and S Limited did not agree due to the goods that remained in transit as per note 4 above. As at 31 March 2023, the trade receivables of H Limited included Sh.600 million due from S Limited.
6. An impairment review carried out on 31 March 2023, revealed that neither goodwill arising on acquisition, nor the intangible asset with infinite useful life had been impaired.
7. Ignore all deferred tax consequences on acquisition and fair value measurements of S Limited.
8. S Limited has not issued any ordinary shares since the date of acquisition.

Required:

(a) Determine the equity-accounted value of the investment in S Limited as at 31 March 2019. (2 marks)

(b) Calculate the value of goodwill arising on the acquisition of S Limited as at 1 April 2019. (4 marks)

(c) Consolidated statement of financial position for H Group as at 31 March 2023. (14 marks)

(Total: 20 marks)

QUESTION TWO

(a) In the context of International Accounting Standard (IAS) 24 "Related Party Disclosures", explain **THREE** reasons why it is important for an entity to disclose related party transactions. (6 marks)

(b) Citing **FOUR** relevant points, explain the extent to which integrated reporting (IR) addresses the limitations of traditional financial reporting. (4 marks)

(c) Explain **SIX** reasons why it was important for the International Accounting Standards Board (IASB) to develop a conceptual framework for financial reporting. (6 marks)

(d) In the context of International Public Sector Accounting Standard (IPSAS) 22 "Disclosure of Financial Information about the General Government Sector", summarise **FOUR** disclosures that must be made with respect to the general government sector. (4 marks)

(Total: 20 marks)

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QUESTION THREE

(a) B Limited purchased a loan note for Sh.2,000,000 on 1 April 2021 and intends to hold it until maturity. The effective interest rate is 10% per annum which was the same as the nominal rate.

The loan note will mature on 31 March 2024 and annual payments are in arrears. On 31 March 2022, B Limited received interest of Sh.200,000. B Limited estimated that no further interest would be received and only half of the initial capital would be repaid on 31 March 2024. The probability of default on the loan note within the next 12 months was 0.5% and the credit risk as at 31 March 2022 was low.

The 10% present value factors are as follows:

Year	**1**	**2**	**3**
Present value factor	0.91	0.83	0.75

Required:

Illustrate the accounting treatment of the investment in the loan note as at 31 March 2022 in accordance with International Financial Reporting Standard (IFRS) 9: "Financial Instruments". (8 marks)

(b) The following figures appeared in the consolidated statement of profit or loss and other comprehensive income of Jameni Group for the year ended 31 July 2023, together with comparatives for the year 2022:

	2023 Sh."million"	2022 Sh."million"
Profit before tax	800	600
Tax on profit	(150)	(120)
Profit after tax for the period	650	480
Other comprehensive income (revaluation gains)	60	20
Total comprehensive income for the period	710	500
Profit for the period attributable to:		
Owners of the parent	560	420
Non-controlling interest	90	60
Profit for the period	650	480
Total comprehensive income for the period attributable to:		
Owners of the parent	620	440
Non-controlling interest	90	60
Total comprehensive income for the period	710	500

The following figures were extracted from Jameni Group's statement of financial position as at 31 July 2023, together with comparatives for the year 2022:

	2023 Sh."million"	2022 Sh."million"
Equity share capital (Sh.0.5 par value)	920	400
4% preference shares (non-redeemable, non-cumulative)	200	200
Share premium	430	120
Retained earnings	1,376	1,140
Other equity reserves	180	120
Non-controlling interest	170	80
Total equity	3,276	2,060

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During the year ended 31 July 2023, the following changes took place to the issued share capital of Jameni Group:

1. 200 million equity shares were issued in conjunction with the acquisition of another business. These equity shares were issued at full market price at the date of issue which was 1 November 2022.
2. 300 million ordinary shares were issued for cash to existing shareholders on 1 February 2023. The issue price was Sh.1.50 per share, which represented a discount of 25% on the traded price immediately before the issue (Sh.2.00).
3. On 31 July 2023, a bonus issue of 540 million shares was completed, capitalising Sh.270 million of retained earnings. Also on this date, the preference dividend due for the year, and an equity dividend of Sh.46 million, were paid.

Required:
Applying the requirements of International Accounting Standard (IAS) 33 (Earnings per Share) to the information provided above, calculate:

(i) The basic EPS for the year ended 31 July 2023. (10 marks)

(ii) The comparative figure for the year 2022 to be reported in the year 2023 financial statements, given that the EPS figure originally reported in the year 2022 was Sh.0.525. (2 marks)

(Total: 20 marks)

QUESTION FOUR

(a) (i) With reference to International Financial Reporting Standard (IFRS) 2 "Share based Payments" and citing examples, explain the impact of a non-market based performance condition on accounting for an equity-settled share based payment transaction. (4 marks)

(ii) On 1 January 2020, Tabora Limited granted each of its 180 employees 1,000 share options. These options would vest if the employees remained in the employment of the company until 31 December 2022.

On the grant date, the fair value of the share options was Sh.15 each.

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Twenty five (25) employees left the company during the year ended 31 December 2020 and a further thirty (30) employees were expected to leave in each of the two years ended 31 December 2021 and 31 December 2022.

During the years ended 31 December 2021 and 31 December 2022, twenty (20) employees and eighteen (18) employees terminated their employment contracts respectively.

Required:
Show the extracts of financial statements for Tabora Limited for each of the three years ended 31 December 2020, 31 December 2021 and 31 December 2022 to record the above transactions. (6 marks)

(b) Waigwa Limited is a public limited company quoted on the securities exchange. The company's capital structure comprises both equity and debt financing. On 1 August 2019, the company raised additional finance by issuing Sh.24,000,000 four-year deep discount bonds.

The interest is payable annually in arrears at the coupon interest rate of 6% per annum. The bonds were issued at a discount of 10% and were redeemable on 1 August 2023 at a premium of Sh.1,217,000.

The effective rate of interest was 12% per annum. The issue costs amounted to Sh.1,200,000. The reporting date for Waigwa Limited is 31 July.

Required:
Illustrate how the above financial instrument should be accounted for in the financial statements of Waigwa Limited for the years ended 31 July 2020, 2021, 2022 and 2023 (Round your answers to the nearest thousand).
(10 marks)
(Total: 20 marks)

QUESTION FIVE
The following financial statements relate to Ukulima Group:

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Consolidated statement of financial position as at 30 September:	**2022**	**2021**
Assets:	**Sh."million"**	**Sh."million"**
Non-current assets:		
Property, plant and equipment	221	263
Goodwill	75	142
Investment in associates	204	103
Investment properties	82	60
	582	568
Current assets:		
Inventories	256	201
Trade and other receivables	219	263
Cash and cash equivalents	103	42
	578	506
Total assets	1,160	1,074
Equity and liabilities:		
Equity:		
Share capital	122	102
Retained earnings	64	24
Other components of equity	59	30
	245	156
Non-controlling interest	104	87
Total equity	349	243
Non-current liabilities:		
Loans	163	152
Deferred tax	44	33
	207	185
Current liabilities:		
Trade and other payables	524	486
Income tax payable	23	12
Overdraft	57	148
	604	646
Total equity and liabilities	1,160	1,074

Consolidated statement of profit or loss and other comprehensive income for the year ended 30 September 2022:

	Sh."million"
Revenue	1,423
Cost of sales	(1,197)
Gross profit	226
Operating expenses	(150)
Profit from operations	76
Share of profit in associate	21
Profit on disposal of shares in subsidiary	3
Finance costs	(12)
Profit before tax	88
Income tax expense	(19)
Profit for the period	69
Other comprehensive incomes - Items that will not be reclassified to profit or loss:	
Gain on revaluation of plant and equipment	50
Income tax on items that will not be reclassified	(10)
Total comprehensive income	109
Profit attributable to:	
Equity holders of the parent	43
Non-controlling interest	26
Profit for the period	69
Total comprehensive income attributable to:	
Equity holders of the parent	73
Non-controlling interest	36
Total comprehensive income for the period	109

The following information is relevant to the Ukulima Group:

1. Machinery with a carrying amount of Sh.12 million was disposed of for cash proceeds of Sh.10 million. Depreciation of Sh.52 million had been charged to operating expenses in the statement of profit or loss. As a result of a revaluation of Ukulima Group's factories during the year, a transfer was made within equity for excess depreciation of Sh.1 million. Included in trade and other payables at the reporting date is Sh.2 million (2021: Sh. NIL) that related to property, plant and equipment purchased during the period.
2. Ukulima Group received a government grant of Sh.3 million in cash during the reporting period to help fund the acquisition of machinery needed for its production process. Ukulima Group accounts for grants as a reduction to the cost of assets.
3. Ukulima Group accounted for investment properties at fair value. Some new investment properties were acquired at a cash price of Sh.14 million during the year.
4. Ukulima Group disposed of some of its shares held in Shamba Ltd. Ukulima held 90% of the shares in Shamba Ltd. before disposal and 40% of the shares after disposal leaving it with significant influence. The Ukulima Group received cash proceeds from the sale. The profit on disposal of Sh.3 million was correctly calculated and credited to the statement of profit or loss. The fair value of the interest retained in Shamba Ltd. was Sh.32 million. Goodwill and non-controlling interest at the disposal date were Sh.40 million and Sh.4 million respectively.
   A breakdown of Shamba Ltd.'s net assets as at the date of the share disposal is provided below:

	Sh."million"
Property, plant and equipment	81
Trade and other receivables	32
Cash and cash equivalents	6
Loans	(30)
Trade and other payables	(55)
Net assets at disposal date	34

5. During the period, Sh.65 million in cash was spent on investments in associates.
6. Finance costs included a Sh.2 million loss on the retranslation of a loan that was denominated in a foreign currency. All other finance costs were paid in cash.

Required:
A consolidated statement of cash flows using the indirect method for the Ukulima Group for the year ended 30 September 2022 in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". **(Total: 20 marks)**

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 24 April 2023. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

Zura Limited, a private limited company which operates in the textile industry, has been in financial distress and has been reporting trading losses in recent years.

The company's latest statement of financial position as at 31 July 2022 was as shown below:

	Sh."000"	Sh."000"
Assets:		
Non-current assets:		
Freehold property		48,550
Plant and equipment		14,175
Motor vehicles		7,075
Fixtures and fittings		4,725
Goodwill		4,375
		78,900
Current assets:		
Inventories	11,825	
Accounts receivable	3,175	15,000
Total assets		93,900
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)		50,000
Share premium		10,500
Retained earnings (losses)		(29,550)
Total equity		30,950
Non-current liability:		
15% loan notes		40,000
Current liabilities:		
Accounts payable	17,500	
Bank overdraft	3,950	
Accrued loan notes interest	1,500	22,950
Total equity and liabilities		93,900

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The board of directors of Zura Limited, which also comprises the main shareholders, have proposed a scheme of internal financial reconstruction with effect from 1 August 2022, under the following terms:

1. The existing ordinary shares are to be reduced to Sh.2.5 per share.
   The current shareholders are to fully subscribe for a new issue of ordinary shares of Sh.2.5 each at par value, on the basis of four (4) new shares for every five (5) shares held.
2. The loan notes holders agreed to lower their interest rate to 12% per annum on condition that the accrued interest would be paid immediately.
3. The outstanding accounts payable accepted 6.4 million ordinary shares of Sh.2.5 each in full settlement of the amounts due.
4. The bank overdraft is to be repaid immediately.
5. The share premium account is to be utilised for the purpose of capital reduction.
6. The balances in the retained earnings (losses) and goodwill accounts are to be written off.

7. The following assets are to be adjusted to their fair values as follows:

	Sh."000"
Freehold property	49,050
Plant and equipment	9,505
Motor vehicles	5,360
Fixtures and fittings	3,780
Inventories	10,050
Accounts receivable	2,925

8. Reconstruction costs of Sh.4 million are expected to be incurred and paid.

Required:

(a) Journal entries to effect the scheme of internal reconstruction. (8 marks)

(b) Capital reduction account as at 31 July 2022. (6 marks)

(c) Statement of financial position as at 1 August 2022 (immediately after the scheme of internal reconstruction). (6 marks)

(Total: 20 marks)

QUESTION TWO

The following are the summarised financial statements of P Limited and S Limited for the year ended 31 December 2022:

Statement of financial position as at 31 December 2022:

	P Limited Sh."000"	S Limited Sh."000"
Assets:		
Non-current assets:		
Property, plant and equipment	46,380	9,120
Investment in S Limited (cost)	7,464	-
	53,844	9,120
Current assets	15,240	2,640
Total assets	69,084	11,760
Equity and liabilities:		
Share capital (Sh.1 par value)	12,240	960
Revenue reserves	47,904	9,480
	60,144	10,440
Current liabilities	8,940	1,320
Total equity and liabilities	69,084	11,760

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Statement of profit or loss and other comprehensive income for the year ended 31 December 2022:

	Sh."000"	Sh."000"
Revenue	12,240	4,800
Cost of sales and expenses	(10,800)	(4,320)
Profit before tax	1,440	480
Income tax expense	(432)	(96)
Profit for the year	1,008	384
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gain on property revaluation net of tax	288	96
Total comprehensive income	1,296	480

Additional information:

1. P Limited acquired 25% of S Limited on 1 January 2021 for Sh.2,424,000 and exercised significant influence over the financial and operating policy decisions of S Limited.
2. The fair value of S Limited's identifiable assets and liabilities as at 1 January 2021 was equivalent to their book value. S Limited's reserves stood at Sh.6,960,000.
3. A further 35% stake was acquired by P Limited in S Limited on 30 September 2022 for Sh.5,040,000. The fair value of S Limited's identifiable assets and liabilities as at that date was Sh.11,040,000 and S Limited's revenue reserves stood at Sh.9,360,000. As at 30 September 2022, S Limited's share price was Sh.14.50.

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4. The difference between the fair value of the identifiable assets and liabilities of S Limited and their book value was due to brands. The brands were estimated to have an average remaining useful life of 5 years from 30 September 2022.
5. Incomes and expenses are assumed to accrue evenly over the year. Neither company paid dividends during the year and neither issued any shares.
6. P Limited elected to measure non-controlling interests as at the date of acquisition at fair value.
7. There is no impairment loss on goodwill as at 31 December 2022 while amortisation of brands is classified in cost of sales.

Required:

(a) Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022. (10 marks)

(b) Consolidated statement of financial position as at 31 December 2022. (10 marks)

(Total: 20 marks)

QUESTION THREE

(a) International Accounting Standard (IAS) 12 "Income Taxes", allows entities to recognise a deferred tax asset where they have unused tax losses, only to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

Required:

In view of the above statement, explain **FOUR** key considerations for recognition of deferred tax assets on unused tax losses. (8 marks)

(b) The following statement of financial position relates to ABC Ltd., a public limited company, as at 31 March 2022:

	Sh."000"
Assets:	
Non-current assets:	
Property, plant and equipment	10,000
Goodwill	6,000
Other intangible assets	5,000
Financial assets (cost)	9,000
	30,000
Current assets:	
Trade receivables	7,000
Other receivables	4,600
Cash and cash equivalents	6,700
	18,300
Total assets	48,300
Equity and liabilities:	
Equity:	
Share capital	9,000
Other reserves	4,500
Retained earnings	9,130
	22,630
Non-current liabilities:	
Long term borrowings	10,000
Deferred tax liability	3,600
Employee benefit liability	4,000
	17,600
Current tax liabilities:	
Current tax	3,070
Trade and other payables	5,000
	8,070
Total liabilities	25,670
Total equity and liabilities	48,300

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The following information is relevant to the above statement of financial position:

1. The financial assets are classified as fair value through other comprehensive income as shown in the above statement of financial position at their cost on 1 April 2021, including transaction costs of Sh.0.5 million. The market value of the assets is Sh.10.5 million on 31 March 2022. Taxation is payable on the sale of the assets.
2. The stated interest rate for the long term borrowing is 8%. The loan of Sh.10 million represents a convertible bond which has a liability component of Sh.9.6 million and an equity component of Sh.0.4 million. The bond was issued on 31 March 2022.
3. The defined benefit plan had a rule change on 1 April 2021. ABC Ltd. estimates that of the past service cost of Sh.1 million, 40% relates to vested benefits and 60% relates to benefits that will vest over the next five years from that date. The past service costs have not been accounted for.
4. The tax bases of the assets and liabilities are the same as their carrying amounts in the statement of financial position as at 31 March 2022 except for the following:

	Sh."000"
• Property, plant and equipment	2,400
Trade receivables	7,500
Other receivables	5,000
Employee benefits	5,200

   - Other intangible assets are development costs which were allowed for tax purposes when the costs were incurred in 2021.
   - Trade and other payables include an accrual for compensation to be paid to employees. This amounts to Sh.1 million and is allowed for tax purposes when paid.
5. Goodwill is not allowable for tax purposes in the jurisdiction of ABC Limited.
6. Assume taxation is payable at the rate of 30%.

Required:
By applying the requirements of IAS 12 (Income Taxes):

(i) Calculate the temporary differences after the necessary adjustments. (10 marks)

(ii) Determine the deferred tax charge for the year ended 31 March 2022. (2 marks)

(Total: 20 marks)

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QUESTION FOUR

(a) The objective of International Accounting Standard (IAS) 29 "Financial Reporting in Hyperinflationary Economies" is to establish specific standards for entities reporting in the currency of a hyperinflationary economy so that the financial information provided is meaningful.

Required:
Discuss **THREE** limitations of historical cost accounting when used for assessing entity performance during periods of inflation. (6 marks)

(b) The objective of International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement" is to provide a single source of guidance for fair value measurement where it is required by a reporting standard, rather than it being spread throughout several reporting standards.

Required:
In light of the above statement and citing examples, briefly describe **THREE** hierarchical level inputs required by IFRS 13 "Fair Value Measurement". (6 marks)

(c) The sole mandate and responsibility for issuing International Financial Reporting Standards (IFRSs) lies with the International Accounting Standards Board IASB (The Board) which in conjunction with other regulatory bodies such as IFRS Foundation, the IFRS Advisory Council and IFRIC ensure the development of global accounting standards of high quality.

Required:
In view of the above statement, briefly describe the procedure for the development of an IFRS standard. (4 marks)

(d) With reference to International Public Sector Accounting Standard (IPSAS) 7 "Investment in Associates", briefly explain the accounting treatment of investment in associates in the financial statements of a public sector entity, and indicate how the requirements of IPSAS 7 compare with those of International Accounting Standard (IAS) 28 "Investment in Associates" for commercial sector entities. (4 marks)

(Total: 20 marks)

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QUESTION FIVE

The following draft consolidated financial statements were extracted from the financial records of G Group for the year ended 30 September 2022:

G Group

Consolidated statement of profit or loss for the year ended 30 September 2022:

	Sh."million"
Revenue	18,590
Cost of sales	(11,250)
Gross profit	7,340
Distribution costs	(1,330)
Administration expenses	(2,460)
Profit from operations	3,550
Fair value gain on short term investments	170
Finance costs	(280)
Profit before tax	3,440
Income tax expense	(880)
Profit for the year	2,560
Attributable to the group owners	2,040
Attributable to the non-controlling interests	520
	2,560

G Group

Consolidated statements of financial position as at 30 September:

	2022 Sh."million"	2021 Sh."million"
Assets:		
Non-current assets:		
Property, plant and equipment	23,500	14,750
Goodwill	4,200	4,140
	27,700	18,890
Current assets:		
Inventory	8,900	7,660
Trade receivables	7,420	7,010
Investments at fair value through profit or loss	2,570	2,400
Cash at bank	310	240
	19,200	17,310
Total assets	46,900	36,200
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	20,000	15,000
Share premium	4,500	3,000
Retained earnings	6,010	4,340
Equity attributable to group owners	30,510	22,340
Non-controlling interests	1,840	1,080
Total equity	32,350	23,420
Non-current liabilities:		
Deferred consideration	795	-
Bank loans	2,600	3,000
Deferred tax	620	450
	4,015	3,450
Current liabilities:		
Trade payables	9,790	8,750
Current tax	745	580
	10,535	9,330
Total equity and liabilities	46,900	36,200

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Additional information:

1. The property, plant and equipment comprised the following:

	30 September 2022 Sh."million"	30 September 2021 Sh."million"
Cost	43,000	30,000
Provision for depreciation	(19,500)	(15,250)
Carrying amount	23,500	14,750

During the year ended 30 September 2022, G Limited disposed of an item of equipment for cash proceeds of Sh.260 million. The equipment had cost Sh.750 million and had an accumulated depreciation of Sh.370 million. Any gain/loss on disposal and depreciation on property, plant and equipment is included in cost of sales.

2. On 1 January 2022, G Limited acquired 75% of the 100 million ordinary shares of Sh.10 each in S Limited. The acquisition consideration comprised a share exchange on the basis of two (2) shares in G Limited for every three (3) acquired shares in S Limited. G Limited was also to pay Sh.810 million to the owners of S Limited on 1 January 2023. G Limited's cost of capital is 8% per annum.

   The market values of ordinary shares at 1 January 2022 were Sh.30 and Sh.20 for G Limited and S Limited respectively. The fair values of assets and liabilities of S Limited at the date of acquisition were as follows:

		Sh."million"
Property, plant and equipment:	- Cost	5,000
	- Provision for depreciation	(2,900)
Inventory		820
Trade receivables		650
Current tax (refundable)		20
Deferred tax asset		110
Trade payables		(1,200)
		2,500

3. The group policy is to measure the non-controlling interest in subsidiaries at fair value at acquisition dates. The market values of the subsidiaries' ordinary shares are considered to be representative of the fair values of shares held by the non-controlling interests.
4. Investments at fair value through profit or loss consist of highly marketable and risk-free securities held by G Limited.
5. Any impairment loss on goodwill is included in administration expenses.

Required:

Consolidated statement of cash flows for G Group for the year ended 30 September 2022 using the indirect method in line with International Accounting Standard (IAS) 7 "Statements of Cash Flows".

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 5 December 2022. Afternoon Paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

(a) In the context of IAS 16 (Property, Plant and Equipment):

(i) Explain how the initial cost of property, plant and equipment should be measured and the treatment of subsequent expenditure. (4 marks)

(ii) Describe the requirements regarding the revaluation of non-current assets, the treatment of surpluses and deficits on revaluation and the gains or losses on disposal. (6 marks)

(b) Voxy Limited leased a factory to Teana Limited with effect from 1 July 2022. The lease is for four (4) years at an annual lease rental of Sh.4,000,000 payable annually in arrears. The lease contract provides that the lessee shall be responsible for the insurance and maintenance of the factory during the lease term. The implicit rate of interest in the lease is 15% per annum.

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Required:

Demonstrate, with suitable calculations, the accounting treatment of the above lease transactions in the financial statements of Voxy Limited (lessor) for the years ended 30 June 2023, 2024, 2025 and 2026. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain **TWO** challenges that a business entity might face while preparing segmental reports. (2 marks)

(b) IFRS 2 "Share Based Payments", identifies three types of share based transactions.

Required:

Explain the **THREE** types of share based transactions in each case indicating their accounting treatment in line with IFRS 2 "Shared Based Payments". (6 marks)

(c) The objective of International Public Sector Accounting Standard (IPSAS) 21 "Impairment of Non-cash generating Assets", is to prescribe the procedures which a public sector entity applies to determine whether a non-cash generating asset is impaired.

Required:

With regard to International Public Sector Accounting Standard (IPSAS) 21, "Impairment of Non-cash generating Assets", briefly explain the accounting treatment of impairment of non-cash generating assets and how the requirements of IPSAS 21 compare with those of the International Accounting Standard (IAS) 36 "Impairment of Assets", applicable to commercial sector entities. (6 marks)

(d) Discuss the nature and contents of Management Commentary in the context of enhancing the usefulness of financial information to the users of financial statements. (6 marks)

(Total: 20 marks)

QUESTION THREE

H Limited, a public limited entity, operates in the information technology sector. It has made several investments in other companies within the industry, which has earned it market leadership in the sector.

The following draft financial statements for the year ended 31 October 2022 relate to H Limited and its investment companies:

Statement of profit or loss and other comprehensive income for the year ended 31 October 2022:

	H Limited Sh.“million”	S Limited Sh.“ million”	L Limited Sh.“ million”
Revenue	8,460	3,880	3,200
Cost of sales	(4,040)	(2,910)	(1,020)
Gross profit	4,420	970	2,180
Distribution costs	(725)	(200)	(220)
Administrative expenses	(1,150)	(350)	(340)
Profit from operations	2,545	420	1,620
Investment income	600	-	-
Finance costs	(450)	(175)	(320)
Profit before tax	2,695	245	1,300
Income tax expense	(680)	(80)	(440)
Profit for the year	2,015	165	860
Other comprehensive income:			
Gain on property revaluation	70	-	-
Total comprehensive income	2,085	165	860

Statement of financial position as at 31 October 2022:

	H Limited Sh.“ million”	S Limited Sh.“ million”	L Limited Sh.“ million”
Assets:			
Non-current assets:			
Property, plant and equipment	4,600	4,940	3,820
Investments:			
• S Limited	1,830	-	-
• L Limited	2,500	-	-
Equity investments	4,000	-	-
	12,930	4,940	3,820
Current assets:			
Inventory	2,250	2,450	1,875
Trade receivables	1,980	1,710	2,700
Cash and cash equivalents	870	600	705
	5,100	4,760	5,280
Total assets	18,030	9,700	9,100
Equity and liabilities:			
Equity:			
Ordinary share capital (Sh.10 par value)	3,000	1,500	2,000
Share premium	2,000	500	-
Revaluation surplus	480	-	-
Retained earnings	3,420	2,070	2,090
Total equity	8,900	4,070	4,090
Non-current liabilities:			
Long-term borrowings	4,400	2,500	-
Deferred tax	1,240	920	1,750
	5,640	3,420	1,750
Current liabilities:			
Trade payables	2,240	1,570	2,300
Current tax	1,250	640	960
	3,490	2,210	3,260
Total equity and liabilities	18,030	9,700	9,100

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Additional information:

1. H Limited acquired an 80% ordinary shareholding in S Limited on 1 November 2019 when the retained earnings of S Limited stood at Sh.340 million. The acquisition consideration comprised cash of Sh.1,830 million. The fair values of the identifiable net assets of S Limited at acquisition date were Sh.2,440 million. The excess of the fair values over the carrying values was due to an unrecognised brand whose remaining economic useful life at the date of acquisition was five (5) years.
2. M Limited is the main competitor of H Limited and on 1 May 2022, M Limited and H Limited each acquired 50% of the 200 million ordinary shares of Sh.10 each in L Limited.
   The consideration paid by H Limited consisted of cash of Sh.15 per share and also a 1 for 2 share exchange when the market price of H Limited's share was Sh.20 each. M Limited also paid Sh.15 per share for their interest but did not issue any shares to the owners of L Limited. The ordinary shares of L Limited have one voting right each.

   Upon the acquisition, H Limited had a contractual right to appoint 60% of the board of L Limited, with the remaining 40% appointed by M Limited. M Limited and H Limited each appointed one member to L Limited's senior management team. It is the senior manager appointed by H Limited who makes the key decisions regarding the development of L Limited's new technologies, its principal revenue stream, the market it will operate in and how it is financed. The fair values of L Limited's net assets approximated their carrying values at the date of acquisition.
3. H Limited has a policy of measuring the non-controlling interests at fair value. The non-controlling interest in S Limited had a fair value of Sh.970 million at 1 November 2019.
4. During the year ended 31 October 2022, S Limited sold goods worth Sh.400 million to H Limited. S Limited reports a gross profit margin of 25% on all its sales. 20% of these goods remained in the closing inventory of H Limited as at 31 October 2022.
5. As at 31 October 2022, no impairment had arisen in respect of the goodwill arising on the acquisition of S Limited and L Limited.
6. None of the group companies paid dividends during the year ended 31 October 2022.
7. S Limited had not issued any ordinary shares since its shares were acquired by H Limited.

Required:

(a) Consolidated statement of profit or loss and other comprehensive income for H Group for the year ended 31 October 2022. (8 marks)

(b) Consolidated statement of financial position for H Group as at 31 October 2022. (12 marks)

(Total: 20 marks)

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QUESTION FOUR

(a) In the context of IAS 33 (Earnings Per Share), explain the meaning of the following terms:

(i) Contingently issuable ordinary shares. (2 marks)

(ii) Potential ordinary shares. (2 marks)

(b) D Limited's equity balances as at 1 October 2020 comprised the following:

	Sh."000"
Ordinary share capital (Sh.10 par value)	20,000
10% irredeemable preference share capital (Sh.10 par value)	8,000
Share premium	2,500
Revaluation surplus	1,500
Retained earnings	25,700
Shareholders' funds	57,700

The trading results of the company were as follows:

	Year ended 30 September 2022 Sh."000"	**Year ended 30 September 2021 Sh."000"**
Profit for the year after tax	3,612	3,146

Additional information:

1. On 1 January 2021, the company issued 400,000 ordinary shares at full market value.
2. On 1 April 2021, the company made a 1 for 5 bonus issue of ordinary shares to the existing shareholders, utilising its retained earnings.
3. On 1 December 2021, D Limited invited its ordinary shareholders for a rights issue in the proportion of 1 for 4 at Sh.12 per share. The shares were quoted immediately before the rights issue at Sh.15 per share. All the rights were fully subscribed.
4. The company has had in issue a convertible loan stock of Sh.6 million which carries an effective interest rate of 8% per annum. Each Sh.1,000 nominal value of the loan stock will be convertible at the holder's option into 600 ordinary shares.
   On 1 June 2022, holders of Sh.1.5 million loan stock exercised their conversion option.
5. The income tax rate applicable to D Limited is 30%.
6. The company declared and paid dividends on both classes of the equity shares.

Required:

(i) Basic earnings per share (EPS) for the years ended 30 September 2021 and 30 September 2022. (8 marks)

(ii) Diluted earnings per share (EPS) for the year ended 30 September 2022. (8 marks)

(Total: 20 marks)

QUESTION FIVE

Tahidi Limited, a private limited company, has been in financial difficulties and has reported trading losses for a number of years. The directors of the company invited the shareholders and creditors for a special general meeting where it was resolved that the operations of Tahidi Limited be transferred to a newly formed company, Sitawi Limited, with effect from 1 August 2022.

The latest statement of financial position of Tahidi Limited as at 31 July 2022 was as follows:

	Sh. "000"	Sh. "000"
Assets:		
Non-current assets:		
Property, plant and equipment		31,750
Intangible assets (brand)		4,800
		36,550
Current assets:		
Inventories	4,310	
Accounts receivable	3,840	8,150
Total assets		44,700
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)		20,000
10% irredeemable preference share capital (Sh.10 par value)		10,000
Share premium		2,000
Retained earnings (losses)		(5,890)
Total Equity		26,110
Non-Current liabilities:		
12% bonds		12,500
Current liabilities:		
Accounts payable	3,090	
Accrued interest on bonds	750	
Bank overdraft	2,250	6,090
Total equity and liabilities		44,700

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Additional information:

1. The newly formed company's authorised share capital comprised five (5) million ordinary shares of Sh.10 par value each.
2. Sitawi Limited issued four (4) new ordinary shares of Sh.10 each credited at Sh.5 each for every two (2) preference shares held in Tahidi Limited. The preference shareholders agreed to immediately pay the balance on the shares allotted.
3. Preference dividends in Tahidi Limited were two years in arrears. Half of the preference dividend arrears were settled by issue of fully paid ordinary shares Sh.10 each in Sitawi Limited.

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4. The new company also issued three (3) new ordinary shares of Sh.10 each credited at Sh. 5 each for every five (5) ordinary shares held in Tahidi Limited. The ordinary shareholders agreed to immediately pay the balance on the shares allotted.
5. The bond holders in Tahidi Limited agreed to be transferred to the new company on condition that the bonds would be convertible into ordinary shares after three years. The coupon interest rate for the convertible bonds was to be 8% per annum. Similar bonds with no conversion rights attracted interest at the rate of 10% per annum.
   Accrued interest on the bonds was to be paid immediately upon taking over.
6. The current liabilities of Tahidi Limited were transferred to Sitawi Limited at their book values.
7. The brand was considered valueless and therefore written off.
8. The tangible assets were taken over by Sitawi Limited at their fair values as follows:

	Sh."000"
Property, plant and equipment	29,200
Inventories	3,870
Accounts receivable	3,640
	36,710

9. Liquidation expenses of Tahidi Limited amounted to Sh.6 million and were settled by Sitawi Limited.
10. Immediately upon take over, Sitawi Limited invited its ordinary shareholders for a 1 for 5 rights issue of ordinary shares at an exercise price of Sh.15.
    The average market price of the ordinary shares on cum-rights basis immediately before the rights issue was Sh.20.
    The issue was fully subscribed.

Required:

(a) The following ledger accounts to close off the books of Tahidi Limited:

(i) Realisation account. (4 marks)

(ii) Preference shareholders sundry members account. (2 marks)

(iii) Ordinary shareholders sundry members account. (2 marks)

(b) Journal entries in the books of Sitawi Limited to record the initial recognition of the 8% convertible bonds and the rights issue on 1 August 2022. (6 marks)

(c) Opening statement of financial position of Sitawi Limited as at 1 August 2022. (6 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 1 August 2022. Afternoon paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

P Limited, a public limited company, has held a controlling interest in S Limited, another public limited company, for one decade.

P Limited also has a significant influence over A Limited, a public limited company. All the companies operate in the manufacturing sector. The draft statements of financial position of P Limited and S Limited as at 30 June 2022 were as shown below:

	P Limited Sh."million"	S Limited Sh."million"
Assets:		
Non-current assets:		
Property, plant and equipment	16,875	10,230
Investments - S Limited	13,000	
- A Limited	3,650	
Financial assets at fair value	6,190	
	39,715	10,230
Current assets:		
Inventory	9,980	6,930
Trade receivables	9,480	6,580
Cash and cash equivalents	5,490	3,815
	24,950	17,325
Total assets	64,665	27,555
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	20,000	10,000
Share premium	4,000	2,400
Retained earnings	16,670	5,950
Total equity	40,670	18,350
Non-current liabilities:		
10% loan notes	10,500	3,500
Deferred tax	6,150	1,870
	16,650	5,370
Current liabilities:		
Trade payables	5,700	3,100
Current tax	1,645	735
	7,345	3,835
Total equity and liabilities	64,665	27,555

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Additional information:

1. On 1 July 2012, P Limited acquired 60% of the ordinary shares of S Limited for a cash consideration of Sh.10,000 million. At acquisition, the fair value of the non-controlling interest in S Limited was Sh.6,500 million. P Limited wishes to use the fair value method of accounting for goodwill. On 1 July 2012, the fair value of the identifiable net assets in S Limited was Sh.14,000 million and the retained earnings of S Limited were Sh.1,200 million. The excess in fair value was due to non-depreciable land.

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2. On 1 January 2022, P Limited acquired a further 20% interest in S Limited for a cash consideration of Sh.3,000 million. S Limited reported a profit for the year ended 30 June 2022 of Sh.500 million which accrued evenly throughout the year.
3. During the year ended 30 June 2022, P Limited sold goods worth Sh.2,000 million to S Limited. P Limited reports a gross profit margin of 25% on all its sales. Half of these goods were still in the inventory of S Limited as at 30 June 2022.
4. Goodwill was tested for impairment immediately after the additional acquisition of interest in S Limited and was considered impaired by 10%. No impairment had been reported in the previous years.
5. On 1 July 2015, P Limited acquired 30% of 1,000 million ordinary shares of Sh.10 each in A Limited when the retained earnings of A Limited stood at Sh.1,000 million. A Limited had no other reserves as at 1 July 2015. As at 30 June 2022, the retained earnings of A Limited were Sh.3,500 million. No impairment was deemed necessary in respect of the investment in A Limited.
6. None of the group companies declared or paid dividend during the year.
7. None of the group companies issued additional shares.

Required:

(a) Determine the non-controlling interest in S Limited as at 30 June 2022. (6 marks)

(b) Consolidated statement of financial position as at 30 June 2022. (14 marks)

(Total: 20 marks)

QUESTION TWO

(a) B Limited operates a factory as its sole cash generating unit (CGU). During the year ended 30 April 2022, there was an explosion in the factory which necessitated an impairment review.

The carrying amounts of the factory assets were as follows:

	Sh."000"
Goodwill	2,000
Patents	3,600
Machinery	4,000
Computer equipment	8,000
Premises	30,000
	47,600

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Additional information:

1. An impairment review revealed a net selling price of Sh.19,200,000 and a value in use of Sh.31,200,000 for the factory.
2. Half of the machinery have been destroyed and have no resale value.
3. The patents have been superseded and are now considered worthless.
4. The company follows the cost model as permitted by International Accounting Standards (IAS) 16 "Property, Plant and Equipment".

Required:

Discuss, with suitable calculations, how any impairment loss in the cash generating unit (CGU) would be accounted for in accordance with the International Accounting Standard (IAS) 36 "Impairment of Assets".

(10 marks)

(b) T Limited, a public limited entity, is a holding company in a group of companies. The following transactions relating to deferred tax were extracted for the purpose of finalising the group financial statements for the year ended 30 April 2022:

1. T Limited owns property, plant and equipment that cost Sh.625 million when purchased. Depreciation of Sh.250 million has been charged up to the reporting date of 30 April 2022. The entity has claimed a total capital allowance on property, plant and equipment of Sh.300 million. On 30 April 2022, the property, plant and equipment was revalued to Sh.575 million.
2. On 31 October 2021, the company completed a development project and incurred a cost of Sh.200 million which it capitalised in accordance with International Accounting Standard (IAS) 38 "Intangible Assets". The estimated economic useful life of the intangible asset was five (5) years at 31 October 2021. The company obtains full tax relief for research and development expenditure on cash paid basis.
3. During the year to 30 April 2022, T Limited transferred goods worth Sh.1,500 million to one of its subsidiaries. T Limited made a gross profit margin of 20% on its sales. One third (⅓) of the goods remained unsold by the subsidiary at the reporting date of 30 April 2022.

4. The trade receivables were carried in the consolidated statement of financial position at Sh.480 million. This was after an allowance for doubtful debts of Sh.60 million and an unrealised foreign exchange gain of Sh.80 million. The allowance for doubtful debts and foreign exchange gains/losses are only allowed for tax purposes when realised.
5. The balance on the deferred tax liability account of T Group as at 1 May 2021 was Sh.25 million.
6. The income tax rate applicable to T Limited for the year ended 30 April 2022 was 30%.

Required:

(i) Compute the relevant temporary differences as at 30 April 2022. (6 marks)

(ii) Deferred tax account as at 30 April 2022. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) IFRS for small and medium-sized entities (the SMEs Standard) has been issued for use by entities that have no public accountability. One of the notable differences between the SMEs Standard and the full IFRS and IAS Standard is that there are a number of accounting policy choices allowed under full IFRS and IAS Standard, that are not available to companies that apply the SMEs Standard.

Required:

In view of the above statement, briefly describe the accounting policy choices that are disallowed under the SMEs Standard. (6 marks)

(b) International Public Sector Accounting Standard (IPSAS) 35 "Consolidated Financial Statements", is drawn primarily from International Financial Reporting Standard (IFRS) 10 "Consolidated Financial Statements".

IPSAS 35 states that an entity that controls one or more entities (the controlling entity) shall present consolidated financial statements.

Required:

With reference to International Public Sector Accounting Standard (IPSAS) 35 "Consolidated Financial Statements", briefly describe the factors that determine "control". (4 marks)

(c) The International Accounting Standards Board (IASB), has launched a project to improve communication in financial statements, with a particular emphasis on financial performance. Its proposals were outlined in the Exposure Draft "General Presentation and Disclosure".

Required:

With reference to the Exposure Draft "General Presentation and Disclosure", evaluate the Board's proposals regarding disaggregating financial information in more useful ways. (6 marks)

(d) The Conceptual Framework for Financial Reporting is a set of theoretical principles and concepts that underlie the preparation and presentation of financial statements.

If no conceptual framework existed, then accounting standards would be produced in a haphazard basis as particular issues and circumstances arose.

Required:

In view of the above statement, discuss the purpose of the Conceptual Framework for Financial Reporting in underpinning the development of accounting standards. (4 marks)

(Total: 20 marks)

QUESTION FOUR

Tanga Limited is a private limited liability company operating in the telecommunications industry. The company has suffered successive trading losses for a number of years, largely due to stiff competition and a sharp decline in revenues.

The directors of the company, who are also the main shareholders, agreed to reconstruct the company by transferring it to a new company to be named Elewa Limited.

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The statement of financial position of Tanga Limited as at 30 June 2022 was as set out below:

Assets:	**Sh."000"**
Non-current assets:	
Property, plant and equipment	59,500
Goodwill	9,000
	68,500
Current assets:	
Inventory	18,500
Trade receivables	14,500
	33,000
Total assets	101,500
Equity and liabilities:	
Equity:	
Ordinary share capital (Sh.10 par value)	60,000
9% cumulative preference share capital (Sh.10 par value)	30,000
Share premium	3,000
Accumulated losses	(27,400)
Total equity	65,600
Non-current liabilities:	
Bank loan	22,500
Current liabilities:	
Trade payables	5,900
Tax payable	3,000
Bank overdraft	4,500
	13,400
Total equity and liabilities	101,500

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Additional information:

1. The authorised share capital of Elewa Limited was Sh.100 million comprising 10 million ordinary shares of Sh.10 each.
2. Three new ordinary shares of Sh.10 each in Elewa Limited credited at Sh.6 each were issued for the benefit of the ordinary shareholders in Tanga Limited for every four (4) ordinary shares held. However, the ordinary shareholders in Tanga Limited were required to pay the balance to make their shares in Elewa Limited fully paid.
3. Four new ordinary shares of Sh.10 each in Elewa Limited credited at Sh.8 each were issued for the benefit of the preference shareholders in Tanga Limited for every five (5) preference shares held. However, the preference shareholders in Tanga Limited were required to pay the balance to make their ordinary shares in Elewa Limited fully paid.
4. The preference dividends in Tanga Limited were three years in arrears and the preference shareholders forfeited half of the preference dividend arrears. The balance was fully settled by the new company issuing ordinary shares of Sh.10 each.
5. Liquidation expenses of Tanga Limited amounted to Sh.8 million and were settled by Elewa Limited.
6. The tangible assets were transferred to the new company at the following fair values:

	Sh."000"
Property, plant and equipment	55,000
Inventory	20,200
Trade receivables	14,500

   Goodwill was considered valueless and therefore written off.
7. The liabilities were taken over by the new company at their book values.
8. Elewa Limited issued for cash and at par value all the remaining ordinary shares not issued as part of the purchase consideration. The proceeds from the issue were used to settle the bank loan.
9. Assume that all the above transactions were completed by the close of business on 30 June 2022.

Required:

(a) The following ledger accounts to close off the books of Tanga Limited:

- (i) Realisation account. (4 marks)
- (ii) Ordinary shareholders sundry members account. (4 marks)
- (iii) Preference shareholders sundry members account. (2 marks)

(b) Journal entries in the books of Elewa Limited to record the acquisition of Tanga Limited. (6 marks)

(c) Opening statement of financial position of Elewa Limited as at 1 July 2022. (4 marks)

(Total: 20 marks)

QUESTION FIVE

(a) In the context of IFRS 9 (Financial Instruments), describe the two criteria that must be fulfilled in order for a financial instrument to be classified in the category of "amortised cost". (4 marks)

(b) W Group has owned a number of subsidiaries for several years. The following information relates to the financial statements of the group:

Statement of financial position as at 31 March:

Assets:	**2022**	**2021**
Non-current assets:	**Sh."million"**	**Sh."million"**
Property, plant and equipment	2,816	3,088
Goodwill	32	152
Other intangible assets	296	216
Investment in associate	816	-
	3,960	3,456
Current assets:		
Inventories	944	1,320
Trade receivables	920	832
Cash and cash equivalents	160	344
	2,024	2,496
Total assets	5,984	5,952
Equity and liabilities:		
Equity:		
Ordinary share capital	800	800
Revaluation reserve	192	164
Retained profit	3,016	2,160
	4,008	3,124
Non-controlling interest	512	680
Total equity	4,520	3,804
Non-current liabilities:		
Long-term loans	688	960
Deferred tax	112	120
	800	1,080
Current liabilities:		
Trade payables	288	328
Current tax payable	376	740
	664	1,068
Total equity and liabilities	5,984	5,952

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Statement of profit or loss and other comprehensive income for the year ended 31 March 2022:

Continuing operations:	**Sh."million"**
Revenue	8,903
Cost of sales	(6,544)
Gross profit	2,359
Other income	25
Distribution costs	(360)
Administrative expenses	(504)
Operating profit	1,520
Finance costs	(184)
Share of profit of associate	128
Profit before tax	1,464
Income tax expense	(320)
Profit for the year: Continuing operations	1,144
Discontinued operations:	
Loss for the year from discontinued operations	(200)
Profit for the year	944
Other comprehensive income:	
Gain on property revaluation (net of deferred tax)	28
Total comprehensive income for the year	972

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Profit for the year attributable to:	**Sh."million"**
Owners of the parent	856
Non-controlling interest	88
	944
Total comprehensive income attributable to:	
Owners of the parent	884
Non-controlling interest	88
	972

Additional information:

1. During the year ended 31 March 2022, W Group disposed of its entire 80% shareholding in C Limited for cash. The shares had been acquired on 1 October 2017 for a cash consideration of Sh.1,056 million when the fair value of the net assets of C Limited was Sh.980 million. The fair value of the non-controlling interest at acquisition was Sh.224 million.
2. Goodwill calculated under the full fair value method, was tested annually for impairment. At 31 March 2021, goodwill relating to C Limited had been impaired by 75%. A goodwill impairment charge has been included within administrative expenses for the current year, but does not relate to C Limited.
3. The carrying values in the individual accounts of C Limited as at the date of disposal are listed below:

	Sh."million"
Property, plant and equipment	840
Inventory	304
Trade receivables	220
Trade payables	(80)
Deferred tax liability	(48)
Bank overdraft	(16)
	1,220

4. The loss for the period from discontinued operations in the consolidated statement of profit or loss and other comprehensive income relates to C Limited and is analysed as follows:

	Sh."million"
Profit before tax	48
Income tax expense	(16)
Loss on disposal	(232)
	(200)

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5. W Limited purchased a 40% interest in an associate for cash on 1 April 2021. The associate paid a dividend of Sh.80 million in the year ended 31 March 2022.
6. On 1 April 2021, W Limited commenced development expenditure on Product "Que". The product is expected to be launched in the year 2023. Sh.56 million amortisation on other intangible assets is included within cost of sales.
7. There were no disposals of property, plant and equipment during the year except on the sale of C Limited. Depreciation for the year was Sh.160 million and is included within the cost of sales.
   W Limited revalued its property during the year. The applicable corporation tax rate is 30%.
8. Part of the additions to property, plant and equipment during the year were imports made by W Limited from a Tanzanian supplier on 31 December 2021 for Tsh.5,400 million. This amount was paid in full on 28 February 2022.

   Exchange gains and losses are included in other operating incomes or expenses.

   Relevant exchange rates were as follows:

	Tsh. to Ksh.1
31 December 2021	Tsh.24 = Ksh.1
28 February 2022	Tsh.27 = Ksh.1

Required:

Consolidated statement of cash flows using the indirect method for the W Group for the year ended 31 March 2022 in accordance with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows". (16 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

MONDAY: 4 April 2022. Afternoon paper. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings. Do NOT write anything on this paper.

QUESTION ONE

P Limited is a public limited company listed in the securities exchange. It has diversified its activities by acquiring S Limited, a company domiciled in a foreign country.

Both companies prepare their financial statements in accordance with International Financial Reporting Standards. The presentation currency of the group is the Kenya Shilling (Ksh.) while S Limited's functional currency is the Franc (Fr.)

The draft financial statements for the year ended 31 December 2021 are as set out below:

Statements of profit or loss for the year ended 31 December 2021:

	P Limited Ksh."million"	S Limited Fr."million"
Revenue	2,145	10,500
Cost of sales	(915)	(6,300)
Gross profit	1,230	4,200
Distribution costs	(150)	(750)
Administrative expenses	(345)	(1,350)
Operating profit	735	2,100
Investment income	15	-
Finance costs	(30)	(150)
Profit before tax	720	1,950
Income tax expense	(165)	(450)
Profit for the period	555	1,500

Statements of financial position as at 31 December 2021:

Assets:	P Limited Ksh."million"	S Limited Fr."million"
Non-current assets:		
Property, plant and equipment	4,850	7,000
Investment in S Limited	710	-
	5,560	7,000
Current assets:		
Inventory	1,030	2,400
Trade receivables	970	1,960
Cash and cash equivalents	410	540
	2,410	4,900
Total assets	7,970	11,900
Equity and liabilities:		
Equity:		
Ordinary share capital	1,500	1,000
Share premium	500	-
Retained earnings	2,560	3,100
Total equity	4,560	4,100

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Non-current liabilities:	**Ksh."million"**	**Fr."million"**
10% bond	820	2,640
Deferred tax	740	2,160
	1,560	4,800
Current liabilities:		
Trade payables	1,330	2,240
Current tax	520	760
	1,850	3,000
Total equity and liabilities	7,970	11,900

Additional information:

1. On 1 January 2021, P Limited acquired 80% of S Limited's 1,000 million Fr 1 ordinary shares for a cash consideration of Fr. 3,550 million.
2. As at the acquisition date, the carrying value of S Limited's net assets was Fr. 2,600 million, but the fair value was Fr.3,200 million. The excess in fair value over the carrying value was due to an unrecognised brand with a remaining useful economic life of five years as at the acquisition date.
3. The non-controlling interest in S Limited as at the acquisition date was valued at Fr. 1,450 million using the fair value method.
4. As at 31 December 2021, it was determined that goodwill arising on the acquisition of S Limited was impaired by 10%.
5. The following foreign exchange rates are relevant:

	Fr. to Ksh.1
1 January 2021	5
31 December 2021	4
Average for the year ended 31 December 2021	6

Required:

(a) Determine the exchange differences (gains/losses) arising on the retranslation of net assets and goodwill on acquisition of the foreign subsidiary. (6 marks)

(b) Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021. (6 marks)

(c) Consolidated statement of financial position as at 31 December 2021. (8 marks)

(Total: 20 marks)

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QUESTION TWO

The following draft group financial statements relate to H Limited, a public limited company, and its investment companies:

Group statement of financial position as at 31 October:

Assets:	**2021**	**2020**
Non-current assets:	**Sh."million"**	**Sh."million"**
Property, plant and equipment (PPE)	4,275	4,185
Goodwill	945	1,080
Other intangible assets	1,350	1,800
Investment in associate	720	810
Financial assets	1,935	1,620
	9,225	9,495
Current assets:		
Inventories	1,395	1,710
Trade receivables	1,125	1,620
Cash and cash equivalents	4,185	2,745
Total assets	15,930	15,570
Equity and liabilities:		
Equity:		
Ordinary share capital	8,000	6,000
Revaluation surpluses (PPE and financial assets)	300	200
Retained earnings	3,715	3,135
Equity attributable to group owners	12,015	9,335
Equity attributable to non-controlling interest	810	585
Total equity	12,825	9,920

	Sh."million"	Sh."million"
Non-current liabilities:		
Long-term borrowings	235	610
Deferred tax	315	880
Current liabilities:		
Trade payables	2,115	2,920
Current tax	440	1,240
Total equity and liabilities	15,930	15,570

Group statement of profit or loss and other comprehensive income for the year ended 31 October 2021:

	Sh."million"
Revenue	11,140
Cost of sales	(8,870)
Gross profit	2,270
Distribution costs	(405)
Administrative expenses	(450)
Operating profit	1,415
Share of profit of associate	90
Operating profit and income from associate	1,505
Investment income (including dividend income)	270
Finance costs	(100)
Profit before tax	1,675
Income tax expense	(415)
Profit for the year	1,260
Other comprehensive income:	
Fair value gain on financial assets	35
Gain on revaluation of property	65
Total comprehensive income for the year	1,360

Additional information:

1. During the year ended 31 October 2021, H Limited disposed of its entire 80% equity holding in S Limited for Sh.310 million in cash.

   The carrying amounts of the identifiable net assets of S Limited at the disposal date comprised:

	Sh. "million"
Property, plant and equipment	210
Inventories	90
Trade receivables	50
Cash and cash equivalents	30
Trade payables	(60)
Deferred tax liability	(20)
	300

   The gain/loss on disposal of the subsidiary is included in administrative expenses. The disposal of S Limited is not classified as a separate major line of business or geographical operation.

   The investment in S Limited had been acquired several years ago at a consideration of Sh.230 million when the fair values of the identifiable net assets stood at Sh.250 million.
2. The group policy is to measure the non-controlling interest in all subsidiaries at their proportionate share of net assets at the acquisition date.
3. An impairment test carried out at 31 October 2021 showed that goodwill other than that arising on the acquisition of S Limited was impaired. Other intangible assets were also impaired.
4. H Limited disposed of plant with a carrying amount of Sh.440 million for cash proceeds of Sh.560 million. The gain on disposal is included in administrative expenses.
   Depreciation charged to profit or loss during the year ended 31 October 2021 was Sh.260 million.

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5. The following schedule relates to the financial assets at fair value through other comprehensive income held by H Limited:

	Sh."million"
Balance as at 1 November 2020	1,620
Less carrying amount of financial assets disposed of	(235)
Add purchases of financial assets	515
Add fair value gain on financial assets	35
Balance as at 31 October 2021	1,935

The sale proceeds of financial assets were Sh.360 million. Profit on the sale of the financial assets is included in investment income in the financial statements.

6. The profit for the year attributable to the non-controlling interests amounted to Sh.390 million.

Required:
A consolidated statement of cash flows for H Group for the year ended 31 October 2021 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". **(Total: 20 marks)**

QUESTION THREE

(a) With regard to International Financial Reporting Standard (IFRS) 15: "Revenue from Contracts with Customers", explain the key factors that must be considered when determining the transaction price within a contract. (4 marks)

(b) The following accounting information was extracted from the financial records of Kibo Limited regarding the defined retirement benefit scheme for its employees:

	Sh."million"
Net defined benefit obligation as at 1 January 2021	1,850
Net defined benefit obligation as at 31 December 2021	2,000
Current service cost	200
Contributions to scheme	225
Benefits paid by trustees	150

The market yield on high quality corporate bonds is at the rate of 5%. Assume there are no tax implications regarding the retirement benefit obligation.

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Required:
With suitable calculations, explain the accounting treatment of the various elements of the defined benefit scheme on the financial statements of Kibo Limited for the year ended 31 December 2021, in accordance with International Accounting Standard (IAS) 19 "Employee Benefits". (6 marks)

(c) R Limited, a publicly traded company, had 9 million ordinary shares of Sh.1 par value and 1 million, 7% redeemable preference shares of Sh.10 par value each on 1 October 2020.

As at that date, R Limited also had in issue 2.5 million stock options. These options are exercisable at Sh.1.5 per share. The average fair value per ordinary share during the year ended 30 September 2021 was Sh.2.

R Limited's profit for the year to 30 September 2021 from continuing operations was Sh.14,575,000 (30 September 2020: Sh.15,100,000).

The following transactions took place during the year ended 30 September 2021:

1. On 1 January 2021, the company issued 1.8 million ordinary shares in a 1 for 5 rights issue at a price of Sh.2 when the market price per share on cum-rights basis was Sh.5.
2. On 1 April 2021, R Limited issued 1 million ordinary shares at their full market value.
3. On 1 July 2021, the company issued a Sh.5 million convertible bond with an effective interest rate of 12%. The bond is convertible into ordinary shares at the holders' option on the basis of 60 shares per Sh.100 bond. None of the bond was converted during the year ended 30 September 2021.
4. The income tax rate applicable to R Limited is 30%.

Required:

(i) Basic earnings per share for the year ended 30 September 2021. (4 marks)

(ii) Restated earnings per share for the year ended 30 September 2020. (2 marks)

(iii) Diluted earnings per share for the year ended 30 September 2021. (4 marks)

(Total: 20 marks)

QUESTION FOUR

The following information was extracted from the financial records of Belta Bank Limited as at 31 March 2022:

	Sh."million"
Cash and balances with the Central Bank	4,046
Money on demand and short term deposits	2,150
Deposits with other commercial banks	4,600
Deposits from other commercial banks	3,324
Investments in government securities	4,485
Investments in equity instruments	765
Property, plant and equipment	7,416
Intangible assets	4,986
Loans and advances to customers	8,144
Customer deposits	7,065
Long-term borrowings	5,660
Other receivables	2,493
Other payables	2,717
Instalment tax paid	360
Deferred tax as at 1 April 2021	370
Interest on loans and advances to customers	2,575
Interest on government securities	2,264
Interest on deposits with other banks	646
Interest on deposits from other banks	662
Interest on customer deposits	1,833
Interest on long term borrowings	1,385
Administrative expenses	2,160
Other operating expenses	1,163
Fees, commission and foreign exchange income	6,090
Ordinary share capital	4,400
Share premium	2,500
Deposit protection reserve as at 1 April 2021	5,000
Retained earnings as at 1 April 2021	3,623
Suspense account (Cr.)	414

Additional information:

1. On 1 April 2021, Belta Bank Limited issued a Sh.450 million, five-year 8% coupon bond at par. The bond will be redeemable at a substantial premium which gives it an effective interest rate of 12% per annum. There were no issue costs. The only accounting entries made were to record the cash proceeds from the issue and the annual interest payment on 31 March 2022.
2. At 31 March 2022, the directors of Belta Bank Limited accepted a valuation report by a professional valuer which revealed the fair value of the property, plant and equipment to be Sh.2,500 million. The carrying amount of the property, plant and equipment amounted to Sh.1,850 million.
   The directors do not wish to make interreserve transfer upon revaluation. However, they do account for deferred tax on revaluation of property, plant and equipment. Revaluation is yet to be accounted for in the books of the bank.
3. During the year ended 31 March 2022, the current tax on profits was estimated at Sh.890 million. At 31 March 2022, the carrying amounts of the net assets exceeded their tax bases by Sh.1,800 million. These carrying amounts do not include the effect of the revaluation in note 2 above. The income tax rate applicable to Belta Bank Limited is 30%.

Required:

(a) Statement of profit or loss and other comprehensive income for the year ended 31 March 2022. (10 marks)

(b) Statement of financial position as at 31 March 2022. (10 marks)

(Total: 20 marks)

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QUESTION FIVE

(a) The objective of International Public Sector Accounting Standard (IPSAS) 20 "Related Party Disclosures" is to prescribe the disclosure requirements for related party relationships in public sector entities.

Required:
With reference to IPSAS 20 "Related Party Disclosures", briefly describe the related party disclosures required and indicate how they differ from the requirements of International Accounting Standard (IAS) 24 "Related Party Disclosures" for commercial sector entities. (4 marks)

(b) In the context of International Financial Reporting Standard (IFRS) 16 "Leases", outline the criteria for identifying a lease contract for the purpose of accounting in the financial statements of lessees. (4 marks)

(c) The International Accounting Standards Board (IASB) has issued a practice statement called "Making Materiality Judgements". This provides non-mandatory guidance that may help preparers of financial statements when applying IFRS standards.

Required:
In the light of the above statement, explain four contents of the practice statement "Making Materiality Judgements". (8 marks)

(d) Integrated Reporting (IR) is founded on integrated thinking that results in a periodic integrated report by an organisation about value creation over time and related communications regarding aspects of value creation.

Required:
In view of the above statement, evaluate the fundamental elements of Integrated Reporting (IR). (4 marks)

(Total: 20 marks)

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CPA ADVANCED LEVEL

ADVANCED FINANCIAL REPORTING AND ANALYSIS

WEDNESDAY: 15 December 2021. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

Pareto Limited is the holding company of a listed group of companies with its year ended 30 June 2021.

Pareto Limited has made a number of acquisitions and a disposal of an investment.

The following summarised draft statements of financial position relate to the group companies for the year ended 30 June 2021:

	Pareto Limited Sh. "million"	Pamba Limited Sh. "million"	Dafu Limited Sh. "million"
Assets:			
Non-current assets:			
Property, plant and equipment	14,900	9,250	7,000
Investment - Pamba Limited	8,500	-	-
Dafu Limited	5,750	-	-
Financial sssets	3,100	2,800	2,400
	32,250	12,050	9,400
Current assets	3,850	4,425	3,800
Total assets	36,100	16,475	13,200
Equity and liabilities:			
Equity:			
Ordinary share capital	10,000	2,500	2,000
Share premium	5,000	1,000	500
Retained earnings	7,825	5,250	5,750
Total equity	22,825	8,750	8,250
Non-current liabilities:	8,500	6,000	3,500
Current liabilities	4,775	1,725	1,450
Total equity and liabilities	36,100	16,475	13,200

Additional information:

1. On 1 October 2020, Pareto Limited acquired an 80% equity interest in Pamba Limited when its retained earnings stood at Sh.3,500 million. The purchase consideration comprised 1,250 million of Pareto Limited's shares with a nominal value of Sh.1 each and a market price of Sh.6.80 each.
   At acquisition of Pamba Limited, the only adjustment required to the identifiable net assets of Pamba Limited was for land which had a carrying amount of Sh.625 million less than its fair value.
2. The group policy is to measure the non-controlling interest at fair value. At the date of acquisition of Pamba Limited, the non-controlling interest had a fair value of Sh.2,125 million.
3. Pareto Limited had acquired a 100% equity interest in Dafu Limited a number of years ago when its retained earnings amounted to Sh.1,750 million. At acquisition, the fair values of the identifiable net assets of Dafu Limited approximated their carrying values. The purchase consideration comprised cash amounting to Sh.5,750 million.
4. Pareto Limited disposed of 60% of its investment in Dafu Limited on 1 April 2021 for Sh. 4,700 million when the fair values of the identifiable net assets of Dafu Limited were Sh. 6,250 million. The fair value of the remaining 40% equity interest was Sh.4,300 million at disposal. Pareto Limited has not accounted for the disposal.
5. None of the companies had issued any shares since Pareto Limited acquired its shareholding in them.
6. Neither the goodwill on acquisition of subsidiaries nor the investment in the associate had been impaired.

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Required:

(a) Goodwill arising on acquisition of the investments in subsidiaries. (4 marks)

(b) Gain or loss arising on disposal of the investment in Dafu Limited as reported in:

(i) The individual financial statements of Pareto Limited. (2 marks)

(ii) The consolidated statement of profit or loss. (2 marks)

(c) Consolidated statement of financial position as at 30 June 2021. (12 marks)

(Total: 20 marks)

QUESTION TWO

The following extracts are from the consolidated financial statements of Euro Group for the years ended 30 September 2020 and 2021:

Group statement of profit or loss and other comprehensive income for the year ended 30 September 2021:

	Sh. "million"
Revenue	7,650
Cost of sales	(4,335)
Gross profit	3,315
Operating expenses	(1,540)
Share of profit of associate	835
Finance costs	(260)
Profit before tax	2,350
Income tax expense	(320)
Profit for the year	2,030
Other comprehensive income:	
Impairment loss	(250)
Re-measurement component	40
Total comprehensive income	1,820
Profit for the year attributable to non-controlling interests (NCIs)	400

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Group statements of financial position as at 30 September:

	2021	**2020**
Non-Current Assets:	**Sh. "million"**	**Sh. "million"**
Property, plant and equipment	13,400	8,800
Goodwill	2,175	1,800
Investment in associate	3,925	3,250
	19,500	13,850
Current Assets:		
Inventories	1,575	2,060
Trade receivables	1,950	1,860
Cash and cash equivalents	2,710	1,085
	6,235	5,005
Total Assets	25,735	18,855
Equity and Liabilities:		
Ordinary share capital (Sh.10 par value)	6,000	4,000
Share premium	2,250	1,250
Retained earnings	4,510	2,880
Revaluation surplus	375	625
Equity attributable to group owners	13,135	8,755
Equity attributable to non-controlling interest	2,000	1,350
Total equity	15,135	10,105
Non-Current Liabilities:		
10% bonds	5,500	4,000
Deferred tax	415	390
Defined benefit obligation	910	800
	6,825	5,190

	2021	2020
Current Liabilities:	**Sh. "million"**	**Sh. "million"**
Trade payables	2,685	2,460
Current tax payable	1,090	1,100
	3,775	3,560
Total Equity and Liabilities	25,735	18,855

Additional information:

1. During the year ended 30 September 2021, Euro Group acquired an 80% equity interest in Sporty Limited, a local subsidiary quoted in the securities exchange. The purchase consideration on acquisition comprised a share exchange of Sh.2,000 million and cash consideration of Sh.500 million. The market value of the parent entity's share was Sh.16 at the time of acquisition. Sporty Limited's net assets at acquisition had the following fair values:

	Sh. "million"
Property, plant and equipment	1,800
Inventories	640
Trade receivables	580
Trade payables	(350)
Cash and cash equivalents	(120)
Current tax	(50)
	2,500

It is the group policy to measure the non-controlling interests in subsidiaries at their proportionate share of the net assets at acquisition.

2. Depreciation charged during the year ended 30 September 2021 amounted to Sh.1,240 million and an impairment loss of Sh.535 million was recognised on property. Prior to the impairment review, the group had a balance on the revaluation surplus of Sh.625 million of which Sh.250 million related to property impaired in the current year.
3. Goodwill was reviewed for impairment at the reporting date and the impairment loss reported in profit or loss.
4. Euro Group operates a defined benefit scheme. A service cost component of Sh.300 million has been included within the operating expenses while a net interest cost of Sh.40 million has not been accounted for. The re-measurement component for the year ended 30 September 2021 was a gain of Sh.40 million. Benefits paid out of the scheme were Sh.380 million.

Required:

A consolidated statement of cash flows for Euro Group for the year ended 30 September 2021 using the indirect method in accordance with International Accounting Standard (IAS) 7: "Statement of Cash Flows". **(Total: 20 marks)**

QUESTION THREE

(a) Heri Limited sold a building at its fair value of Sh.112 million to a finance company on 31 October 2020 when its carrying amount was Sh. 78.4 million. The building was leased back from the finance company for a five year period. The remaining economic useful life of the building was deemed to be 25 years so it could be concluded that control of the building had transferred to the finance company. Lease rentals are Sh.9,856,000 payable annually in arrears. The interest rate implicit in the lease is 7%. The present value of the annual lease payments was Sh.40,320,000.

Heri Limited recorded the cash proceeds, derecognised the building and recorded a profit on disposal of Sh.33.6 million in the statement of profit or loss. No other accounting entries had been posted.

Required:

With reference to International Financial Reporting Standard (IFRS) 16 "Leases", and with suitable calculations, explain the accounting treatment of the above transactions in the financial statements of Heri Limited for the year ended 31 October 2021. (8 marks)

(b) On 1 July 2021, Blanket Limited purchased a debt instrument (5% bond) with a nominal value of Sh.2.5 million. The purchase consideration was Sh.2,375,000 and the company incurred Sh.50,000 transaction costs. The bond will be redeemed at a premium of Sh.149,000 above the nominal value on 1 July 2024. The effective interest rate on the bond is 8%. Blanket Limited's business model is to hold financial assets to collect the contractual cash flows but also sell financial assets if investments with higher returns become available.
There has not been a significant increase in credit risk since inception. Expected credit losses are immaterial.

The fair value of the bond was as follows:

	Sh.
30 June 2022	2,750,000
30 June 2023	2,600,000

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The directors of Blanket Limited are unsure of how to account for this financial instrument.

Required:
Prepare extracts of the financial statements for Blanket Limited for the years ended 30 June 2022, 2023 and 2024 to show the accounting treatment of the above transactions. (8 marks)

(c) The International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs standard) was issued for use by entities that have no public accountability. This standard reduces the burden of producing information that is not likely to be of interest to the stakeholders of a small or medium entity.

Required:
Discuss any four simplifications introduced by the IFRS for SMEs standard as compared to the full IFRS standard requirements. (4 marks)

(Total: 20 marks)

QUESTION FOUR

Ongeza Ltd., a local company operating in the mineral water bottling industry, is in financial difficulty due to the unfavourable economic conditions. The company's statement of financial position as at 31 October 2021 was as given below:

Ongeza Ltd.
Statement of financial position as at 31 October 2021

			Sh."000"	Sh."000"
Non-current assets:				
Land				8,000
Building	-	at NBV		6,000
Machinery	-	at NBV		2,800
Intangible assets	-	Investments		4,500
	-	Goodwill		6,000
	-	Patents and trademarks		500
				27,800
Current assets:				
Inventories			7,200	
Trade receivables			4,000	
Cash			100	11,300
Total assets				39,100
Equity and liabilities:				
Equity shares of Sh.10 par value				20,000
10% preference shares of Sh.10 par value				8,000
12% debentures				6,000
Interest payable on debentures				720
Loan from directors				2,000
Accumulated loss				(5,800)
				30,920
Current liabilities:				
Bank overdraft			3,000	
Sundry payables			5,180	8,180
Total capital liabilities				39,100

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Additional information:
The authorised share capital of Ongeza Ltd. is 5 million ordinary shares of Sh.10 each and one million 10% preference shares of Sh.10 each. It was decided during a meeting of the shareholders and directors of the company to carry out a scheme of internal reconstruction, with effect from 1 November 2021, as follows:

1. Assets are to be adjusted to their fair values as follows:

	Sh."000"
Trade receivables	3,600
Inventories	6,400
Machinery	2,000
Buildings	5,000
Accumulated depreciation charged:	
Buildings	1,500
Machinery	1,600

2. Each ordinary share is to be re-designated as a share of Sh.2.50. The ordinary shareholders are to accept a reduction in the nominal value of their shares from Sh.10 to Sh.2.50. In addition, the shareholders are to subscribe for a new issue on the basis of one share for every two held at a price of Sh.4 per share.
3. The existing preference shares are to be exchanged for a new issue of 6 million 15% preference shares of Sh.10 each and 800,000 ordinary shares of Sh.2.50 each.
4. The debenture holders are to accept 200,000 ordinary shares of Sh.2.50 each in lieu of interest payable. The 12% debentures are to be converted to 14% debentures. A further Sh.2 million of 14% debentures of Sh.100 each are to be issued and taken up by the existing debenture holders at Sh.90 each.
5. Sh.800,000 of the loan from directors is to be cancelled. The balance of the loan is to be settled by the issue of 200,000 ordinary shares of Sh.2.50 each.
6. The investments are to be sold at their current market price of Sh.6 million.
7. The bank overdraft is to be paid in full.
8. A sum of Sh.3.18 million is to be paid to offset the sundry payables immediately and the balance in four equal instalments at the end of each quarter.
9. All intangible assets are to be eliminated.
10. It is estimated that under the new arrangement, the net profit before interest and tax will be Sh.5 million per year. There will be no tax liability relating to the company for the next five years.

Required:

(a) Journal entries to effect the scheme of internal reconstruction. (10 marks)

(b) Statement of financial position as at 1 November 2021 (immediately after reconstruction). (8 marks)

(c) A statement showing how the anticipated profits under the new arrangement will be distributed to the various providers of capital. (2 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Management commentary provides users of financial statements with more context through which to interpret the financial position, financial performance and cash flows of an entity.

Required:

In view of the above statement, describe four elements of management commentary in a set of financial statements of an entity. (4 marks)

(b) International Accounting Standard (IAS) 36 "Impairment of Assets", states that impairment of an asset or a Cash Generating Unit (CGU) occurs where the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use.

Required:

In the context of International Accounting Standard (IAS) 36 "Impairment of Assets", briefly explain how the "value in use" of an asset or a Cash Generating Unit (CGU) would be determined for the purpose of an impairment review. (6 marks)

(c) The objective of International Public Sector Accounting Standard (IPSAS) 9: "Revenue from Exchange Transactions" is to prescribe the accounting treatment of revenue arising from exchange transactions and events.

Required:

With reference to International Public Sector Accounting Standard (IPSAS) 9: "Revenue from Exchange Transactions", briefly explain how revenue from exchange transactions should be recognised and how the recognition criterion under IPSAS 9 differs from that of commercial sector entities under International Financial Reporting Standard (IFRS) 15: "Revenue from Contracts with Customers". (6 marks)

(d) International Accounting Standard (IAS) 40: "Investment Property", prescribes the accounting treatment for investment property and related disclosure requirements.

Required:

With reference to International Accounting Standard (IAS) 40: "Investment Property", discuss the accounting treatment of investment property both upon initial recognition and subsequent measurement. (4 marks)

(Total: 20 marks)

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PILOT PAPER

ADVANCED FINANCIAL REPORTING AND ANALYSIS

December 2021. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

Help Limited acquired Save Limited on 1 July 2019. Save Ltd. is in a foreign country whose currency is the Zora (Zr).

The following financial statements relate to the two companies for the year ended 30 June 2021.

Statement of Profit or Loss for the year ended 30 June 2021

	Hope Ltd	**Save Ltd**
	Sh."million"	**Sh."million"**
Revenue	1,125.00	5,200.00
Cost of Sales	(410.00)	(2,300.00)
Gross profit	715.00	2,900.00
Dividend from Save Limited	40.00	0.00
	755.00	2,900.00
Distribution Costs	(60.00)	(360.00)
Administration Expenses	(100.00)	(520.00)
Interest Expense	(20.00)	(30.00)
Profit before tax	575.00	1,990.00
Income tax expense	(180.00)	(640.00)
Profir for the year	395.00	1,350.00
Dividends Paid	(195.00)	(405.00)
Retained Profits for the year	200.00	945.00
Retained Profit b/f	915.00	3,355.00
Retained Profits c/f	1,115.00	4,300.00

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Statement of Financial Position as at 30 June 2021

Assets	**Hope Ltd**	**Save Ltd**
Noncurrent	**Sh."million"**	**Sh."million"**
Property, plant and equipment	1,285.00	4,400.00
Investment in Save Limited	520.00	0.00
Investment in Foreign Equity	40.00	0.00
	1,845.00	4,400.00

	Sh."million"	Sh."million"
Current Assets		
Inventory	130.00	600.00
Trade Receivables	190.00	1,000.00
Bank and Cash	90.00	400.00
	410.00	2,000.00
Total Assets	2,255.00	6,400.00
Share Capital	500.00	1,000.00
Retained Profits	1,115.00	4,300.00
Total Capital	1,615.00	5,300.00
Noncurrent Liabilities		
10% Loanstock	200.00	300.00
Current Liabilities		
Trade Payables	340.00	600.00
Current Tax	100.00	200.00
	440.00	800.00
Total Liabilities	640.00	1,100.00
Total Capital and Liabilities	2,255.00	6,400.00

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Additional information:

1. Help Limited acquired 80% of Save Limited for Sh.520 million on 1 July 2019 when the retained reserves of Save Limited were Zr 2,500 million. The property, plant and equipment had a fair value of Zr 300 million in excess of the book value, attributable mainly to land. The noncontrolling interest had a fair value of Zr 1,000 million on 1st July 2019.
2. In the year ended 30 June 2020, Save Limited reported Zr 1,200 million as profit after tax and paid dividends of Zr 345 million.
3. During the year ended 30 June 2021, Help Limited sold goods worth Sh.100 million to Save Limited, reporting a gross profit margin of 30%. 50% of the goods remain unsold by the end of the year.
4. Included in the trade receivables of Help Limited is Sh.20 million due from Save Limited.
5. The investment in foreign equity represents 15% investment in Roma Limited, a listed company in the same country as Save Limited. The investment was acquired on 1 July 2020, at a cost of Zr 352 million. The investment is being accounted for at fair value through other comprehensive incomes, though Help Limited is yet to account for the changes in fair value, which is valued at Zr 405 million on 30 June 2021. Roma Limited did not pay any dividend during the year.
6. An impairment test conducted at 30 June 2021 revealed impairment losses of 25% relating to Save Limited's goodwill. No impairment losses had previously been recognized. It is the group's policy to translate impairment losses at the closing rate.
7. The following exchange rates are relevant:

	Sh.1 to Zr
1 July 2019	9.4
30 June 2020	8.8
Average 19/20	9.1
30 June 2021	8.1
Average 20/21	8.4

8. The company applies where relevant deferred tax on exchange differences arising from translating the subsidiary, the foreign equity, but not on translating goodwill in the subsidiary. The effective tax rate is 30%.

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Required:

(a) The consolidated statement of profit or loss and comprehensive income for the year ended 30 June 2021, showing the profit attributable to parent and non-controlling interest at the two levels. (8 marks)

(b) The consolidated statement of financial position as at 30 June 2021. (8 marks)

(c) Four disclosures that Help Limited will make for both Save Limited and Roma Limited as per the requirements of IFRS 12' Disclosures of interest in other entities'. (4 marks)

(NB): For the translated figures of Save Limited, round off to the nearest whole number.

(Total: 20 marks)

QUESTION TWO

(a) You are given the following list of balances for Star Bank Limited as at 31 December 2020

	Sh."million"
Cash and Balances with Central Bank	23,531
Financial Assets at Fair Value Through Profit or Loss	29,108
Financial Assets at Fair Value Through Other Comprehensive Incomes	62,720
Installment Tax Paid	2,214
Due from other banks	6,572
Loans and Advances to Customers	202,300
Expected Credit Loss Allowance as at 1 January 2020	17,360
Property and Equipment	5,762
Intangible Assets	1,078
Interest Income	29,061
Interest Expense	7,069
Fee and Commission Income	6,711
Fee and Commission Expense	1,086
Income from forex trading	4,045
Other Incomes	32
Impairment Loss on Loans	3,871
Staff Costs	11,184
Other Operating costs	4,794
Due to other banks	5,308
Deposits from Customers	259,346
Other borrowings	5,096
Other Liabilities	10,313
Net Pension Liability	1,050
Deferred Tax	2,400
Share Capital	2,716
Fair Value Reserve	429
Retained Earnings as at 1 January 2020	17,422

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Additional Information:

1. Accrue interest income and expense at Sh.240 million and Sh.100 million respectively.
2. For the purpose of estimating the expected credit loss on loans and advances at the end of the year, the following aggregated data is available:

Loans	Exposure at Default (EAD) Sh."million"	Probability of Default (PD)	Loss Given Default (LGD)
Category 1	22,300	5%	100%
Category 2	54,800	10%	50%
Category 3	65,700	50%	30%
Category 4	59,500	100%	10%
	202,300		

3. Depreciation and amortization expense for the period amounted to 1,200 million (200 million amortization).
4. The following are the estimated fair values for the financial assets as at 31 December 2020.

	Sh."million"
FA at Fair Value Through Profit or Loss	29,708.00
FA at Fair Value Through Other Comprehensive Incomes	63,230.00

5. The bank operates a defined benefit pension plan. Except for the contribution made, which is included in the staff cost, the following details have not been accounted for in the year:

	Sh."million"
Plan Obligation as at 1 January 2020	4,250
Fair Value of Plan Assets as at 1 January 2020	3,200
Current Service Cost	460
Benefits Paid	40
Interest rate cost estimated at 8%	?
Expected return on Plan Assets at 6%	?
Contributions made	25
Plan Obligation as at 31 December 2020	5,192
Fair Value of Plan Assets at 31 December 2020	3,419

6. The net taxable temporary differences as at the end of the period are estimated at Sh.9,300 million. This excludes any temporary differences from note 4 and 5. The tax rate is 30%. Meanwhile the current tax for the year is estimated at Sh.2,800 million.

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Required:

(a) Prepare the following financial statements:

(i) The statement of Profit or Loss for the year ended 31 December 2020. (10 marks)

(ii) The statement of Financial Position as at 31 December 2020. (7 marks)

(b) A client of the Star bank Limited in (a) above, an airline, has entered into a swap contract with the bank to hedge adverse changes in fuel prices.

Required:

Explain whether the swap contract should be accounted for as an embedded derivative of the fuel contract or as a separate contract under IFRS 9. (3 marks)

(Total. 20 marks)

QUESTION THREE

(a) Mtangazaji Limited operates in Kenya and in other East African countries. The company has two operating segments; Print and TV/Radio.

The following details apply for the year ended 30 June 2021:

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		Sh."million"
Revenue	Print	109,558
	TV/Radio	26,698
Cost of sales	Print	16,908
	TV/Radio	6,052
Depreciation	Print	9,292
	TV/Radio	2,702
Amortization	Print	942
	TV/Radio	182
Impairment of receivables	Print	1,496
	TV/Radio	990
Other Operating cost	Print	72,598
	TV/Radio	16,160
	Unallocated	10,802
Finance Cost	Print	774
	TV/Radio	66
Finance Income	Unallocated	4,064
Share of result of Associate		1,042
Current Assets	Print	34,620
	TV/Radio	32,580
	Unallocated	71,940
Noncurrent Assets	Print	43,760
	TV/Radio	7,162
	Unallocated	15,240
Investment in Associate		29,708
Current Liabilities	Print	14,004
	TV/Radio	47,502
	Unallocated	6,696
Noncurrent Liabilities	Print	4,404
	TV/Radio	3,002
	Unallocated	2,144
Capital Expenditures	Print	3,532
	TV/Radio	1,138

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Required:

(i) As far as the information permits, prepare the segmental report showing the results of each segment and for the combined entity. (10 marks)

(ii) Highlight areas that Mtangazaji Limited needs to improve in segmental reporting to comply with IFRS 8 'segment report'. (5 marks)

(c) Mtangazaji Limited in (a) above is also evaluating the following data for the purpose of making relevant disclosures in accordance with IAS 24 'Related Parties':

Party	Status	Transaction in the year	Balance due to/from
Wema Limited	Subsidiary -90%	Sale of goods Sh.20 million	Sh. 5 million receivables

Povu Limited	Subsidiary -60%	Purchase of goods Sh.10 million	Sh.3 million Payables
Zoal Limited	Associate - 30%	Sale of goods Sh.10 million	Sh. 2 million Receivables
Mr James Baraka	Nonexecutive Director - 5% Shareholder	Directors Emoluments Sh.2 million	No Balance
Jopo Limited	Fellow Joint Venturer in Bitha (50%)	No Transaction	No Balance
Bitha Limited	Joint venture (50%)	No Transaction	No Balance
Baza Bank Limited	Major Lender	Loan at sh.25 million	Sh. 20 million

Required:
Highlight the related parties to be disclosed, the nature of the relationship to be disclosed and the intercompany transactions and balances. (5 marks)

(Total: 20 marks)

QUESTION FOUR

(a) In relation to IPSAS 21 and IPSAS 26, distinguish between a cash generating asset and a non cash generating asset. (4 marks)

(b) Using suitable examples, explain four external factors that indicate an asset is impaired under both IPSAS 21 and IPSAS 26. (8 marks)

(c) In 2019, the Nairobi County's Department of Education constructed a new school, which enrolled students beginning July 2019. The furniture and other equipment cost sh.15,000,000. It was estimated that the furniture and equipment would be used for 10 years. Due to Covid-19 pandemic, enrolment declined from 2,000 to 400 students, and parents moved their children to other spacious schools to observe social distancing protocols. The Department decided to close the two top floors of the three-storey school building and there is no expectation that enrolments will increase in the future such that the upper storeys would be reopened. The current replacement cost of the one-storey furniture and equipment is estimated at Sh.9,000,000.

Required:
Calculate the impairment loss and explain the accounting treatment by the department by 30 June 2021. (6 marks)

(d) The ministry is now considering leasing the school in (c) above to a private individual to operate the school with effect from July 2022.

Explain whether this redesignation will lead to a reversal of the impairment loss by the year ended 30 June 2022. (2 marks)

(Total. 20 marks)

QUESTION FIVE

(a) The revised conceptual framework came into effect in 2018 and changes the definition of financial statements elements of assets and liabilities, their recognition and derecognition.

Required:
Highlight the new definitions of assets and liabilities, their recognition and derecognition. (6 marks)

(b) The Global Reporting Initiative (GRI) is a non-profit making organization that provides guidelines on how companies can report the impact of their activities on people and the environment (Sustainability Reporting). The latest 2020 Sustainability reporting guidelines aim to improve three pillars of sustainability reporting; economic, social and environmental.

Required:
Provide three disclosures required under each of the three pillars. (6 marks)

(c) The International Accounting Standards Board has issued the Practice Statement Exposure Draft ED/2021/6, which aims to improve the current management commentary.

Required:
(i) Briefly explain what a management commentary is. (2 marks)

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(ii) Summarise the six content areas that the exposure draft proposes for preparation of a management commentary. (6 marks)

(Total. 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 3 September 2021. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

On 1 October 2019, H Limited acquired 80% of the ordinary shares in S Limited when the retained earnings of S Limited were Sh.5,335 million. On the same date, H Limited acquired 40% of the ordinary shares in A Limited paying Sh.16 per share.

The acquisition of the ordinary shares in S Limited was through a share exchange of one ordinary share in H Limited for every two shares in S Limited. The market prices of H Limited's and S Limited's shares as at the date of acquisition were Sh.30 and Sh.18 per share respectively.

In addition, H Limited agreed to pay a further amount of Sh.25 per acquired share in S Limited on 1 October 2021. H Limited's cost of capital is 10% per annum and one shilling receivable in two years' time has a present value of 83 cents. H Limited has not yet recorded the consideration on acquisition of the ordinary shares in S Limited.

The draft financial statements of the group companies are as follows:

Statement of profit or loss for the year ended 31 March 2020:

	H Limited Sh. "million"	S Limited Sh. "million"	A Limited Sh. "million"
Revenue	25,200	18,000	6,000
Cost of sales	(15,120)	(12,000)	(4,800)
Gross profit	10,080	6,000	1,200
Distribution costs	(1,344)	(840)	(600)
Administrative expenses	(2,196)	(1,080)	(1,320)
Investment income (interest and dividend)	330	-	-
Finance costs	(220)	(150)	-
Profit/loss before tax	6,650	3,930	(720)
Income tax expense/relief	(1,800)	(1,200)	120
Profit/loss for the year	4,850	2,730	(600)

Statement of financial position as at 31 March 2020:

Assets:	H Limited Sh."million"	S Limited Sh."million"	A Limited Sh."million"
Non-current assets:			
Property, plant and equipment	25,000	16,300	6,000
Investment in A Ltd.	1,920	-	-
Financial asset	250	-	-
	27,170	16,300	6,000
Current assets:			
Inventory	6,700	6,000	3,300
Trade receivables	4,150	1,000	2,000
Cash and cash equivalents	1,980	400	100
	12,830	7,400	5,400
Total assets	40,000	23,700	11,400

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Equity and liabilities:	Sh."million"	Sh."million"	Sh."million"
Equity:			
Ordinary shares of Sh.10 each	8,000	5,000	3,000
Share premium	4,000	2,500	-
Retained earnings	12,100	6,700	3,600
	24,100	14,200	6,600
Non-current liabilities:			
8% loan notes	7,600	2,000	-
Current liabilities:			
Trade payables	5,500	5,200	3,100
Current tax payable	2,800	2,300	1,700
	8,300	7,500	4,800
Total equity and liabilities	40,000	23,700	11,400

Additional information:

1. At the date of acquisition, the fair values of S Limited's identifiable net assets approximated their book values with the exception of an item of plant which had a fair value of Sh.200 million above its carrying value. The plant had a remaining useful life of 10 years (straight-line depreciation) at the date of acquisition. Depreciation on plant is classified as part of cost of sales. The fair value of the plant has not been reflected in S Limited's financial statements. No fair value adjustments were required on the acquisition of A Limited. In addition, at the date of acquisition, S Limited had an internally generated brand which the directors of H Limited believed to have a fair value of Sh.300 million. The brand had an estimated useful life of 6 years. Amortisation charge is classified as an administrative expense.
2. Immediately after acquisition of S Limited, H Limited invested Sh.250 million in an 8% loan note of S Limited. All interest accruing to 31 March 2020 had been accounted for by both entities. S Limited also had other loans in issue as at 31 March 2020.
3. After the acquisition, S Limited sold goods to H Limited for Sh.500 million. S Limited had marked up these goods at 25% above their cost. H Limited had 30% of these goods in its inventory as at 31 March 2020.
4. H Limited's policy is to value the non-controlling interest of S Limited at its fair value at the date of acquisition. For this purpose, the market price of S Limited's shares at the date of acquisition is considered to be representative of the fair value.
5. Impairment tests were carried out on 31 March 2020 which concluded that due to poor trading performance, the investment in A Limited had been impaired to the extent of Sh.80 million.
6. S Limited paid dividends amounting to Sh.400 million before the year-end.
7. All incomes and expenses of the three companies are deemed to accrue evenly over the year unless as otherwise specified.
8. Other than the share exchange in the acquisition of the ordinary shares in S Limited, there was no other issue of ordinary shares by the group companies.

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Required:

(a) Consolidated statement of profit or loss for the year ended 31 March 2020. (10 marks)

(b) Consolidated statement of financial position as at 31 March 2020. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) The following capital structure relates to Shela Ltd. as at 31 December 2020:

	Sh."000"
Ordinary shares of Sh.10 each	60,000
10% cumulative preference shares of Sh.20 each	40,000
12% convertible loan notes of Sh.10 each	50,000
Profit after tax for the year	171,200

Additional information:

1. On 1 February 2020, the company issued 1.5 million ordinary shares at full market price.
2. On 30 June 2020, the company made a rights issue of 1 ordinary share for every 4 ordinary shares held on that date. The exercise price was Sh.36 per share and the market price on the last quotation was Sh.48 per share.
3. The convertible loan notes were issued in the year 2018. Ten convertible loan notes are convertible into one new ordinary share.

4. On 1 October 2020, the employees of the company were granted share options to purchase 1 million ordinary shares at Sh.30 each. The average market price was Sh.48 per share. As at 31 December 2020, none of the employees had exercised their options.
5. The corporation tax rate is 30%.

Required:

(i) Basic earnings per share (EPS) for the year ended 31 December 2020 in conformity with IAS 33 (Earnings per share). (6 marks)

(ii) Diluted earnings per share (EPS) for the year ended 31 December 2020 in conformity with IAS 33 (Earnings per share). (4 marks)

(b) Tandaza Ltd. is a conglomerate whose equity shares are quoted on the National Securities Exchange. The group manufactures, distributes and retails food products. The group also operates a hotel chain for purposes of diversifying its revenues. The group's Financial Controller wishes to know if IFRS 8 (Operating Segments) applies to the entity and if so, what segments should be reported on. He informs you that the operating results of each of the divisions presented below are internally reported separately to the chief operating decision maker.

The following information is available:

Business	**Revenue (External) Sh."million"**	**Revenue (Internal) Sh."million"**	**Profit (loss) Sh."million"**	**Assets Sh."million"**
Manufacturing	460	250	32	1,450
Distribution	5	42	3	250
Retailing	750	15	75	375
Hotel chain	150	3	(14)	100

Required:

By applying the requirements of IFRS 8 to the above information, explain which of the above businesses of Tandaza Ltd. are reportable segments. (10 marks)

(Total: 20 marks)

QUESTION THREE

(a) (i) With reference to deferred tax, differentiate between "permanent differences" and "temporary differences". (4 marks)

(ii) Huruma Limited, a public limited company, has a portfolio of investments including various subsidiaries and also undertakes various projects varying from debt factoring to investing in property and commodities.

The following information was extracted from the group financial statements relating to the deferred tax provision for the year ended 31 March 2021:

1. Huruma Limited acquired a controlling interest in a subsidiary, Sukari Limited, on 1 July 2020. The fair values of the assets and liabilities acquired were considered to be equal to their carrying amounts, with the exception of freehold property which had a fair value of Sh.256 million and a tax base of Sh.248 million.
   The directors of Huruma Limited have no intention of selling the property.
2. During the year ended 31 March 2021, Huruma Limited sold goods at a price of Sh.48 million to another subsidiary, Wingu Limited, and made a profit of Sh.16 million on the transaction. 40% of these goods were held in inventories of Wingu Limited as at 31 March 2021.
3. Huruma Limited has a portfolio of financial assets comprising readily marketable government securities which are held as current assets for financial trading purposes. These investments are stated at fair value in the statement of financial position, with any gain or loss taken to profit or loss. These gains or losses are taxed when investments are sold. Currently, the investments have a market value of Sh.412 million and accumulated unrealised gains are Sh.64 million.
4. Huruma Limited's loan assets had carrying amounts of Sh.168 million after an allowance for credit losses of Sh.32 million based on a twelve-month expected credit loss. Tax relief is only available when the specific loan is written off.
5. Huruma Limited has unrelieved trading losses of Sh.20 million as at 31 March 2021. These unused tax losses arose from a one-off restructuring exercise carried out during the financial year and it is highly expected that taxable profits will be available in the future.
6. On 1 April 2020, Huruma Limited's deferred tax account had a nil balance. Assume a corporation tax rate of 30%.

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Required:
Determine the deferred tax asset or liability for Huruma Group as at 31 March 2021 in conformity with IAS 12 (Income Taxes). (8 marks)

(b) Peponi Ltd. decided to grant its 500 employees 200 share options each from 1 July 2021 on condition that the employees still be in employment as at 30 June 2025.

The company has provided the following details regarding the share option scheme:

Year ended	Number of employees expected to leave employment	Fair value of each option
30 June 2022	40	40
30 June 2023	30	35
30 June 2024	25	30
30 June 2025	25	30

The fair value of the option was Sh.40 as at 1 July 2021. The exercise price of the option was Sh.15 and the par value of the company's share was Sh.10. The average market price of the share over the four-year period is expected to be Sh.50.

Required:
Extracts from the financial statements of Peponi Ltd. for each of the years ended 30 June 2022, 2023, 2024 and 2025 to reflect the above transactions. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) (i) International Financial Reporting Standard (IFRS) 9: "Financial Instruments: Recognition and Measurement", provides guidance relating to hedging and allows hedge accounting where there is a designated hedging relationship between a hedging instrument and a hedged item.

Required:
Citing relevant examples, explain the two main types of hedge and describe their accounting treatment in the financial statements of an entity. (6 marks)

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(ii) Bahati Limited entered into a hedge in order to protect its future cash inflows relating to a recognised financial asset held at amortised cost. The cash flow hedge was formally documented on 1 July 2020 and was considered to be highly effective. At the inception of the hedge, the value of the hedging instrument was nil, but by the year end of 30 June 2021, a gain of Sh.22,750,000 had been made when measured at fair value.

The corresponding loss in respect of the future cash flows (hedged item) amounted to Sh.22,000,000 in fair value terms.

Required:
Show the relevant journal entry to account for the above transaction for the year ended 30 June 2021 and explain whether the cash flow hedge is effective or not. (6 marks)

(b) In the context of International Public Sector Accounting Standard (IPSAS) 22: "Disclosure of Financial Information about the General Government sector":

(i) Explain the term "general government sector (GGS)". (2 marks)

(ii) Identify the disclosures that should be made in respect of the general government sector (GGS). (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Explain four limitations of the IASB's Conceptual Framework for Financial Reporting. (4 marks)

(b) International Financial Reporting Standard (IFRS) 13 "Fair Value Measurement" provides extensive guidance on how the fair values of assets and liabilities should be established.

Required:
With regard to International Financial Reporting Standard (IFRS) 13, briefly describe the fair value hierarchy of inputs for arriving at fair value. (6 marks)

(c) Paka Ltd. acquired 100% of Angaza Ltd. on 1 October 2017. Angaza Ltd. exports electrical materials across the world. As at the date of acquisition, goodwill of Sh.12 million was calculated. The entire amount of this goodwill has been outstanding since then because Angaza Ltd.'s recoverable value has remained higher than its carrying amount. For the year ended 30 September 2020 however, there were indications that Angaza Ltd. may be impaired. No adjustment to the group financial statements relating to this matter has been made yet.

Angaza Ltd.'s business is divided into two Cash Generating Units (CGUs); the Industrial Division and the Domestic Division.

When Angaza Ltd. was originally acquired, Sh.8 million of the goodwill was attributable to the Industrial Division and Sh.4 million to the Domestic Division.

The carrying values of Angaza Ltd.'s CGUs as at 30 September 2020 were as follows:

	Industrial Division	**Domestic Division**
	Sh."000"	**Sh."000"**
Property, plant and equipment	3,800	2,900
Inventory	5,320	1,125
Receivables	5,500	3,500
Cash	450	450
Payables	(1,200)	(1,000)
	13,870	6,975

In relation to the recoverable value of the divisions, it has not been possible to establish the net selling price for either division but an estimate was received of the future cash flows for each of the CGUs for the next five financial years. These were as follows:

Industrial Division:

	2021	**2022**	**2023**	**2024**	**2025**
	Sh."000"	**Sh."000"**	**Sh."000"**	**Sh."000"**	**Sh."000"**
Operating cash	1,500	1,500	1,000	1,000	1,000
Interest	(200)	(200)	(200)	(250)	(250)
Taxation	(100)	(100)	(110)	(160)	(160)
	1,200	1,200	690	590	590

Domestic Division:

	2021	**2022**	**2023**	**2024**	**2025**
	Sh."000"	**Sh."000"**	**Sh."000"**	**Sh."000"**	**Sh."000"**
Operating cash	2,000	2,000	1,800	1,850	1,850
Interest	(200)	(200)	(200)	(250)	(250)
Taxation	(80)	(80)	(80)	(70)	(70)
	1,720	1,720	1,520	1,530	1,530

Additional information:

1. The industrial division could be sold at the end of year 2025 for an estimated Sh.6,000,000.
2. The domestic division would be held indefinitely generating cash flows of Sh.1,500,000 per annum in perpetuity.
3. The pre-tax cost of capital of Angaza Ltd.'s divisions is 8% per annum and the rate of tax is 30% per annum.
4. The following discount factors are relevant:

Year	**1**	**2**	**3**	**4**	**5**
Discount factor	0.926	0.857	0.794	0.735	0.681

Required:
Calculate the impairment (in conformity with IAS 36 – impairment of Assets) that should be recognised in the group financial statements for the year ended 30 September 2020 in relation to Angaza Ltd. (10 marks)
(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 21 May 2021. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

The following draft statements of financial position relate to P Limited, S Limited and R Limited, all public limited companies, as at 30 June 2020:

	P Limited Sh. "million"	S Limited Sh. "million"	R Limited Sh. "million"
Assets:			
Non-current assets:			
Property, plant and equipment (PPE)	3,920	2,100	910
Investment in S Limited	1,925	-	-
Investment in R Limited	665	-	-
Financial assets	315	210	490
	6,825	2,310	1,400
Current assets:			
Inventories	315	127	218
Trade receivables	170	69	118
Cash and cash equivalents	120	49	84
	605	245	420
Total assets	7,430	2,555	1,820
Equity and liabilities:			
Equity:			
Ordinary shares of Sh.10 each	1,000	700	350
Share premium	400	100	-
Revaluation surplus	95	40	-
Retained earnings	2,435	805	665
	3,930	1,645	1,015
Non-current liabilities:			
8% loan note	1,700	500	475
Deferred tax	655	200	260
	2,355	700	735
Current liabilities:			
Trade payables	570	135	45
Current tax	575	75	25
	1,145	210	70
Total equity and liabilities	7,430	2,555	1,820

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The following information is relevant in the preparation of the group financial statements of P Limited:

1. On 1 July 2018, P Limited acquired 80% of the ordinary shares in S Limited. On this date, the fair value of the identifiable net assets of S Limited was Sh.2,100 million. At acquisition, the retained earnings and the revaluation surplus of S Limited were Sh.560 million and Sh.20 million respectively. No new shares have been issued.
   The excess of the fair value of the net assets is due to an increase in the value of non-depreciable land.
2. On 1 July 2017, P Limited had acquired 5% of the ordinary shares of R Limited and treated this investment at fair value through profit or loss in the financial statements to 30 June 2019. On 1 January 2020, P Limited acquired a further 55% of the ordinary shares of R Limited and gained control of the company.

The consideration for the acquisition of the shares in R Limited was as follows:

	Shareholding (%)	Consideration Sh."million"
1 July 2017	5	70
1 January 2020	55	560
	60	630

As at 1 January 2020, the fair value of the 5% equity interest in R Limited was Sh.175 million. The fair value of the identifiable net assets of R Limited as at 1 January 2020 was Sh.910 million and the retained earnings stood at Sh.520 million. The excess of the fair value of the net assets is due to an increase in value of plant with a remaining economic useful life of four years (straight-line depreciation).

3. It is P group's policy to measure the non-controlling interests at fair value. The fair value of non-controlling interests in S Limited was Sh.525 million and the fair value of non-controlling interests in R Limited was Sh.315 million at the respective dates of acquisition.
4. P Limited purchased an item of property, plant and equipment on 1 July 2018 for Sh.300 million. It had an expected useful life of 20 years and is depreciated on the straight-line basis. On 30 June 2019, the item was revalued to Sh.380 million.
   As at 30 June 2020, impairment indicators triggered an impairment review of the PPE whose recoverable amount was Sh.270 million. The only accounting entry posted for the year ended 30 June 2020 was to account for the depreciation based on the revalued amount as at 30 June 2019. P Limited does not make an inter-reserve transfer of excess depreciation arising from the revaluation of the PPE.
5. All goodwill arising from acquisitions has been tested for impairment with no impairment being necessary.
6. Neither S Limited nor R Limited had issued any new shares since P Limited acquired its shares in these two companies.

Required:

(a) Goodwill arising on the acquisition of S Limited and R Limited. (6 marks)

(b) Consolidated statement of financial position for P Group as at 30 June 2020 in accordance with International Financial Reporting Standards (IFRSs). (14 marks)

(Total: 20 marks)

QUESTION TWO

Swara Limited has been suffering great financial stress. The directors of Swara Limited decided that the company should be reconstructed.

The following was the statement of financial position of Swara Limited as at 31 March 2021:

Assets:	**Sh."000"**	**Sh."000"**
Non-current assets:		
Land and buildings	2,134,200	
Plant and machinery	1,591,200	
Furniture and fixtures	594,600	
Investments	345,000	
Goodwill	390,000	
Patents	240,000	
Preliminary expenses	100,800	5,395,800
Current assets:		
Inventories	975,000	
Trade receivables	858,000	
Cash at bank	271,200	2,104,200
Total assets		7,500,000
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.10 each	3,000,000	
8% preference shares of Sh.50 each	3,600,000	
Profit and loss account	(2,520,000)	4,080,000
Non current liabilities:		
4% debentures		2,400,000
Current liabilities:		
Trade payables	876,000	
Accrued debenture interest	144,000	1,020,000
Total equity and liabilities		7,500,000

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Additional information:

1. On 1 April 2021, a new company (Twiga Ltd.), was formed to take over the business of Swara Ltd. Twiga Ltd. was formed with an authorised share capital comprising 600 million ordinary shares of Sh.10 each and 40 million 6% preference shares of Sh.100 each.
2. Preference dividends in Swara Ltd. were two years in arrears.
3. Three ordinary shares of Sh.10 each credited at Sh.5 each in Twiga Ltd. would be issued for each preference share in Swara Ltd. In addition, one fully paid preference share in Twiga Ltd. would be issued for every four preference shares in Swara Ltd. The preference shareholders would, however, pay the balance to make their ordinary shares fully paid.
4. The preference shareholders in Swara Ltd. would forego half of the preference dividends in arrears and would receive fully paid preference shares in Twiga Ltd. for the balance of the arrears of the preference dividends.
5. One ordinary share of Sh.10 each credited at Sh.5 each in Twiga Ltd. would be issued for every two ordinary shares in Swara Ltd. The ordinary shareholders would, however, pay the balance to make their shares fully paid.
6. The debenture holders would receive half of their dues (excluding accrued interest) in 6% debentures of Twiga Ltd. and the balance in fully paid ordinary shares of Twiga Ltd. Interest accrued on debentures would be paid in cash by Twiga Ltd. after taking over Swara Ltd.
7. Trade payables would be taken over by the new company and immediately settled by issue of fully paid ordinary shares of equal value.
8. The assets were transferred to the new company at the following values:

	Sh."000"	
Land and buildings	2,880,000	
Plant and machinery	1,770,000	
Furniture and fixtures	510,000	
Investments	197,400	
Inventories		at book value less 10%
Trade receivables		at book value less 5%
Cash at bank		at book value

9. Twiga Ltd. paid Sh.30 million to Swara Ltd. to pay for dissolution expenses.
10. Twiga Ltd. issued for cash and at par all the remaining ordinary shares and preference shares not issued as part of the settlement of the purchase consideration on acquisition of Swara Ltd.
11. Assume that all the above transactions were completed on 1 April 2021.

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Required:

(a) The following accounts in the books of Swara Ltd.:

(i) Realisation account. (4 marks)

(ii) Twiga Ltd. account. (4 marks)

(iii) Ordinary shareholders sundry members account. (3 marks)

(iv) Preference shareholders sundry members account. (3 marks)

(b) Statement of financial position of Twiga Ltd. as at 1 April 2021 after completion of the reconstruction. (6 marks)

(Total: 20 marks)

QUESTION THREE

The following draft group financial statements relate to L Limited, a public limited company:

L Group
Consolidated statement of financial position as at 31 October:

Assets:	**2020** **Sh."million"**	**2019** **Sh.".million"**
Non current assets:		
Property, plant and equipment	10,450	10,230
Goodwill	2,310	2,640
Other intangible assets	3,300	5,280
Investment in associate company	1,760	-
	17,820	18,150

	Sh."million"	Sh."million"
Current assets:		
Inventories	3,410	4,180
Trade receivables	2,750	3,960
Cash and cash equivalents	10,230	7,810
	16,390	15,950
Total assets	34,210	34,100
Equity and liabilities:		
Equity:		
Ordinary shares of Sh.10 each	18,150	13,750
Revaluation surplus	600	440
Retained earnings	7,832	5,698
	26,582	19,888
Non-controlling interest	1,980	1,430
Total equity	28,562	21,318
Non-current liabilities:		
Long-term borrowings	291	1,056
Deferred tax	770	682
	1,061	1,738
Current liabilities:		
Trade payables	3,410	7,942
Current tax	1,078	3,036
Accrued interest	99	66
	4,587	11,044
Total equity and liabilities	34,210	34,100

L Group
Consolidated statement of comprehensive income
for the year ended 31 October 2020

	Sh."million"
Sales revenue	27,236
Cost of sales	(21,692)
Gross profit	5,544
Other income	652
Distribution costs	(1,100)
Administrative expenses	(990)
Operating profit	4,106
Finance costs	(242)
Share of profit of associate company	352
Profit before tax	4,216
Income tax expense	(1,012)
Profit for the year	3,204
Other comprehensive income:	
Revaluation of property, plant and equipment	176
Total comprehensive income for the year	3,380
Profit for the year:	
Attributable to the owners of the parent	2,522
Attributable to the non-controlling interests	682
	3,204
Total comprehensive income for the year:	
Attributable to the owners of the parent	2,698
Attributable to the non-controlling interests	682
	3,380

Additional information:

1. On 1 January 2020, L Limited acquired 75% of the ordinary share capital of G Limited for Sh.660 million. The fair values of the identifiable assets and liabilities of G Limited at the date of acquisition were as set out below:

	Sh."million"
Property, plant and equipment	308
Inventories	132
Trade receivables	66
Cash and cash equivalents	44

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	Sh."million"
Trade payables	(88)
Current tax	(22)
Net assets at acquisition	440

L group measures the non-controlling interests at their proportionate share of net assets at the date of acquisition.

2. The property, plant and equipment (PPE) comprises the following:

	Sh."million"
Carrying amount as at 1 November 2019	10,230
Additions at cost including assets acquired in G Limited	1,760
Gains on property revaluation	176
Disposals	(1,078)
Depreciation	(638)
Carrying amount as at 31 October 2020	10,450

The disposal proceeds of PPE were Sh.1,730 million.
The gain on disposal is shown as other income.
It is the group's policy to make inter-reserve transfer of excess depreciation upon revaluation of PPE to reflect realisation of revaluation surplus.

3. L Limited purchased a 40% interest in an associate company for cash on 1 November 2019. The net assets of the associate company at the date of acquisition were Sh.6,160 million. The associate company made a profit after tax of Sh.880 million and paid a dividend of Sh.220 million out of these profits in the year ended 31 October 2020.
4. An impairment test carried out on 31 October 2020 revealed that goodwill and other intangible assets were impaired.
5. All group companies declared and paid dividends to the shareholders during the year ended 31 October 2020.
6. Ignore deferred tax consequences on the acquisition of the investment in the subsidiary and on the revaluation of PPE.

Required:
Consolidated statement of cash flows for L Group for the year ended 31 October 2020 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". **(Total: 20 marks)**

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QUESTION FOUR

(a) Haraka Limited manufactures plastic water tanks. On 31 December 2020, its closing inventory consisted of 950 kilogrammes of plastic resin raw material and 250 completed plastic water tanks.

Additional information:

1. The purchase price of plastic resin was Sh.300 per kilogramme throughout the year to 31 December 2020. Delivery costs were an additional Sh.50 per kilogramme. Haraka Limited has a policy of always keeping plenty of plastic resin in inventory as its supply can be unreliable. However, close to the year-end, the price of plastic resin collapsed due to market oversupply. The purchase price of Haraka Limited's raw material is currently Sh.210 per kilogramme plus the Sh.50 per kilogramme delivery charge. The existing inventory of plastic resin can be sold in the market for Sh.180 per kilogramme net of all costs.
2. Each tank requires 10 kilogrammes of plastic resin to manufacture. Each plastic tank incurs Sh.2,500 in conversion costs (labour and overheads). Haraka Limited sells each tank at Sh.10,000. It is expected that this price will drop to Sh.9,000 per tank as a result of the fall in the market price of plastic resin. Each completed tank sold by Haraka Limited incurs a Sh.600 selling and distribution cost.

Required:

(i) Discuss the principles for determining the "Net Realisable Value" of inventory under IAS 2 (Inventories). (6 marks)

(ii) Calculate the value of closing inventory in the books of Haraka Limited as at 31 December 2020 by applying the principles of IAS 2. (8 marks)

(b) Naivasha Limited issued 500 convertible loan notes on 1 January 2018 at par. Each loan note is redeemable in three years' time at its par value of Sh.2,000 per note. Alternatively, each note can be converted at the maturity date (1 January 2021) into 125, Sh.10 ordinary shares.

The loan notes pay interest annually in arrears at a coupon interest rate (based on nominal value) of 6%. The prevailing market interest rate for three-year loan notes without conversion rights is 9%.

Required:
Prepare extracts of financial statements for Naivasha Limited for each of the years ended 31 December 2018, 2019 and 2020. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) The IASB's Conceptual Framework for Financial Reporting sets out the concepts that underlie the preparation and presentation of financial statements for external users.

Required:
Discuss the aims of the Conceptual Framework clearly stating how a conflict between it and a particular accounting standard could be resolved. (6 marks)

(b) Explain how the following might address the limitations of financial reporting and improve the usefulness of the annual report:

(i) Sustainability reporting. (4 marks)

(ii) Integrated reporting. (4 marks)

(c) The objective of International Public Sector Accounting Standard (IPSAS) 39 "Employee Benefits" is to prescribe the accounting treatment and disclosure for employee benefits in public sector entities.

Required:
With regard to IPSAS 39 "Employee Benefits", describe the elements of the remeasurement component of the net defined benefit liability (asset) and indicate how the treatment of the remeasurement component under IPSAS 39 compares with that of commercial sector entities under International Accounting Standard (IAS) 19 "Employee Benefits". (6 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

MONDAY: 30 November 2020. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) International Financial Reporting Standard (IFRS) 6 "Exploration for and Evaluation of Mineral Resources" requires entities to assess exploration and evaluation assets for impairment. The recognition criteria for impairment are different from those in International Accounting Standard (IAS) 36 "Impairment of Assets".

Required:
With reference to International Financial Reporting Standard (IFRS) 6, evaluate the circumstances under which impairment tests on exploration and evaluation assets are required. (6 marks)

(b) Professional accountants are expected to follow the guidance contained in the fundamental principles in the ethical code in all their courses of action. The ethical code sets out five fundamental principles of ethics comprising: Integrity, objectivity, professional competence and due care, confidentiality and professional behaviour; the spirit of which must be complied with.

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Required:
With reference to the ethical code, discuss three circumstances that may potentially threaten the professional accountant's compliance with the fundamental principles of ethics. (6 marks)

(c) ABC Ltd. owns a machine which originally cost Sh.10,000,000. The accumulated depreciation associated with the machine was Sh.2,500,000 as at 31 December 2019. A mechanical engineer assessed the machine in early January 2020. The engineer's report stated that similar damaged machines had sold for Sh.1,000,000 in the recent past. In addition, due to the machine's unique nature, significant advertising costs of Sh.100,000 would be incurred to find a buyer. The machine was not covered by insurance.

A power surge during the year ended 31 December 2019 reduced the machine's production capacity and shortened its expected life. ABC Ltd.'s management accountants estimated that the damaged machine would generate cash flows of Sh.3,000,000 per annum over an expected remaining useful life of 3 years. ABC Ltd.'s cost of capital is 9%. No impairment of the machine had been recorded in the accounts.

Required:
In the context of IAS 36 (Impairment of Assets), outline the necessary accounting treatment of the machine given the above information.

Note: The present value interest factor of an annuity of Sh.1 per year at 9% for 3 years is 2.5313. (4 marks)

(d) Discuss two benefits that an organisation might derive from providing social and environmental reports. (4 marks)

(Total: 20 marks)

QUESTION TWO

(a) The objective of International Public Sector Accounting Standard (IPSAS) 18 "Segment Reporting" is to establish principles for reporting financial information by segments. The disclosure of this information will help users of the financial statements to better understand the entity's past performance, identify the resources allocated to support the major activities of the entity, enhance the transparency of financial reporting and enable the entity to better discharge its accountability duties.

Required:
In the context of International Public Sector Accounting Standard (IPSAS) 18 "Segment Reporting", explain how public sector entities identify segments that should be reported separately and indicate how this differs from reportable segments for commercial sector entities under International Financial Reporting Standard (IFRS) 8 "Operating Segments". (4 marks)

(b) H Limited is the parent entity of a group of companies with two subsidiaries, S Limited and R Limited. Both subsidiaries have been owned for a number of years.

The following statements of profit or loss and other comprehensive incomes relate to the group of companies:

Statement of profit or loss and other comprehensive incomes for the year ended 30 April 2020:

	H Limited Sh."million"	S Limited Sh."million"	R Limited Sh."million"
Revenue	4,275	2,515	1,730
Cost of sales	(2,735)	(1,445)	(1,010)
Gross profit	1,540	1,070	720
Distribution costs	(305)	(195)	(90)
Administrative expenses	(370)	(235)	(120)
Profit from operations	865	640	510
Finance costs	(45)	(40)	(30)
Profit before tax	820	600	480
Income tax expense	(160)	(120)	(100)
Profit after tax for the year	660	480	380
Other comprehensive income:			
Gain on property revaluation	150	80	-
Total comprehensive income	810	560	380

Additional information:

1. On 1 May 2017, H Limited acquired 75% of the ordinary shares of S Limited, a public limited entity. The purchase consideration was cash of Sh.560 million and the fair value of the identifiable net assets of S Limited was Sh.400 million as at that date. The fair value of non-controlling interest in S Limited as at the date of acquisition was Sh.240 million. H Limited wishes to use the "full goodwill" method for all acquisitions. The ordinary share capital and retained profit of S Limited as at the acquisition date were Sh.100 million and Sh.200 million respectively and there were no other reserves. The excess of the fair value of the identifiable net assets at acquisition is due to an increase in fair value of plant, which is depreciated on a straight-line basis and had a five-year remaining life as at the date of acquisition.
2. H Limited had acquired 80% of the ordinary shares of R Limited, on 1 May 2016. The purchase consideration was cash of Sh.600 million. R Limited's identifiable net assets had a fair value of Sh.550 million which was equal to their carrying amounts. The non-controlling interest in R Limited had a fair value of Sh.150 million at the date of acquisition.
3. On 1 November 2019, H Limited disposed of 30% of the ordinary shares of R Limited for a consideration of Sh.375 million. R Limited's identifiable net assets were Sh.675 million and the non-controlling interest of R Limited had a carrying value of Sh.175 million at the date of disposal. The remaining equity interest in R Limited held by H Limited had a fair value of Sh.575 million on 1 November 2019.

   After disposal, H Limited would exercise joint control over R Limited. The profits and losses of R Limited are deemed to accrue evenly over the year.
4. H Limited sold inventory to both S Limited and R Limited at a price of Sh.150 million and Sh.45 million respectively, in the month of October 2019. H Limited sells goods at a gross profit margin of 20% to group companies and third parties. At the year end, half of the inventory sold to S Limited remained unsold but the entire inventory sold to R Limited had been transferred to third parties.
5. Goodwill arising on acquisitions has been tested for impairment annually and as at 30 April 2019, goodwill on acquisition of S Limited had reduced in value by 15% and as at 30 April 2020, had lost a further 5% of its original value.

   No impairment had occurred in respect of goodwill on acquisition of R Limited and the interest in R Limited.

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Required:

(i) Gain or loss arising on disposal of R Limited to be presented on the consolidated statement of profit or loss and other comprehensive incomes. (4 marks)

(ii) Consolidated statement of profit or loss and other comprehensive incomes for H Group for the year ended 30 April 2020. (12 marks)

(Total: 20 marks)

QUESTION THREE

(a) Madini Ltd. issued share options to its directors on 1 January 2019. The options have a vesting period of 10 years and had a fair value of Sh.20,000,000 as at the date of issue. In order to be eligible to exercise the share options, the directors are required to remain in the employment of Madini Ltd. over the entire vesting period.

Actuaries have estimated that 20% of the directors who have received the share options will leave the employment of Madini Ltd. over the vesting period. The financial year end of Madini Ltd. is 31 December.

Required:

Advise the management of Madini Ltd. on how to account for the share options in the financial statements for the year ended 31 December 2019. (6 marks)

(b) Uzamatt Ltd. is a long-established retail entity which has been operating through a network of retail outlets and an online store. In recent years, the business has seen its revenue from the online store grow strongly, and that from retail outlets decline significantly. On 25 June 2019, the board of Uzamatt Ltd. decided to close the retail network at the financial year end of 31 December 2019 and put the buildings up for sale on that date.

The directors of Uzamatt Ltd. are seeking advice regarding the treatment of the buildings in the statement of financial position, as well as the treatment of the trading results of the retail division for the year ended 31 December 2019. The following figures have been provided as at 31 December 2019:

	Sh."million"
Carrying value of buildings	2,000
Fair value less costs to sell of the buildings	1,720
Other expected costs of closure	390

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Trading results:

1. Year ended 31 December 2019:

	Online store Sh."million"	**Retail outlet Sh."million"**
Revenue	3,900	900
Cost of sales	(1,300)	(700)
Gross profit	2,600	200
Operating costs	(1,000)	(500)
Profit before tax	1,600	(300)

2. Year ended 31 December 2018:

	Online store Sh."million"	**Retail outlet Sh."million"**
Revenue	3,200	1,200
Cost of sales	(1,100)	(900)
Gross profit	2,100	300
Operating costs	(800)	(500)
Profit before tax	1,300	(200)

Required:

In the context of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations);

(i) Discuss the conditions which must be present in order to classify a non-current asset as being "held for sale". (6 marks)

(ii) Draft the statement of profit or loss for Uzamatt Ltd. for the year ended 31 December 2019, together with the comparatives for 2018, taking the above information into account. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Distinguish between the two types of joint arrangement described by IFRS 11 (Joint Arrangements). (4 marks)

(b) Dynamic Ltd. has been reporting losses for the past few years. The creditors and shareholders have come up with a capital re-organisation plan aimed at putting the company back on the path of profitability.

The following is the summarised statement of financial position of the company as at 30 June 2019:

	Sh."million"	Sh."million"
Assets:		
Non-current assets:		
Tangible assets		3,040
Intangible assets		1,872
		4,912
Current assets:		
Inventory	2,720	
Accounts receivable	3,104	
Investment (market value Sh.896 million)	352	6,176
Total assets		11,088
Capital and liabilities:		
Share capital:		
240 million ordinary shares of Sh.20 each		4,800
6%, 128 million cumulative preference shares of Sh.20 each		2,560
		7,360
Revenue reserve:		
Accumulated losses		(2,624)
Non-current liabilities:		
6% debentures		2,400
		7,136
Current liabilities:		
Accounts payable	1,600	
Bank overdraft	1,248	
Debenture interest payable	144	
Accruals	320	
Directors' loans	640	
		3,952
Total capital and liabilities		11,088

The court approved the scheme of reorganisation and it was to take effect on 1 July 2019. Details of the approved scheme were as follows:

1. Tangible assets comprised freehold property and plant valued at Sh.2,720 million and Sh.320 million respectively while the intangible assets comprised patents and goodwill valued at Sh.976 million and Sh.896 million respectively.

   Patents and goodwill are to be written off. An amount of Sh.480 million is to be written off inventory and Sh.374.4 million is to be provided for bad debts. The remaining freehold property is to be revalued at Sh.2,480 million. The investment was sold at the prevailing market value.
2. The 6% preference dividends are four years in arrears of which three-quarters are to be waived and ordinary shares are to be allocated at par for the balance.
3. The 6% preference shares are to be written down to Sh.15 each and the existing ordinary shares to Sh.4 each.

   All the ordinary shares are to be consolidated into shares of Sh.20 each. The rate of dividend on preference shares is to be increased to 10%.
4. There are capital commitments amounting to Sh.2,400 million which are to be cancelled, on payment of 3⅓% of the contract price as a penalty.
5. The 6% debenture holders were to have their interest paid in cash and to take over part of the freehold property (book value Sh.640 million) at a valuation of Sh.768 million in part payment of their holding. The 6% debenture holders are also to provide additional cash of Sh.832 million secured by a floating charge on the company's assets at an interest rate of 12% per annum.
6. The directors were to accept settlement of their loans as to 90% thereof by allotment of ordinary shares at par and as to 5% in cash. The balance of 5% was to be waived.

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7. The trade payables were to be paid Sh.0.40 in every shilling to maintain and obtain an extension of the credit period.
8. The bank has sanctioned an overdraft limit of Sh.40 million to provide working capital.

Required:

(i) The capital reduction account to record the scheme of capital re-organisation. (8 marks)

(ii) The statement of financial position of Dynamic Ltd. as at 1 July 2019 immediately after effecting the scheme of reorganisation. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) On 1 January 2019, Dodoma Ltd. issued 1,000,000 bond instruments with a face value of Sh.100, at a market price of Sh.95. Bond brokers charged fees totalling Sh.1,800,000 in relation to the bond issue. The bonds carry a coupon rate of 5% and are redeemable in 3 years at face value. Dodoma Ltd. wishes to account for the bonds using the amortised cost method as per IFRS 9 (Financial Instruments).

However, there is some confusion about how the bonds should be accounted for. The cash received from the bond issue of Sh.95,000,000 has been recognised as a non-current liability. The broker fees of Sh.1,800,000 were deducted from the carrying amount of the non-current liability. The coupon payment of Sh.5,000,000 has been expensed in arriving at the profit before tax.

The effective rate of interest is 7.62%. The coupon interest payments are made at the end of the year.

Required:

Demonstrate how the bond issue should be accounted for in the books of Dodoma Ltd. for the year ended 31 December 2019. (10 marks)

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(b) On 1 January 2019, Kamili Ltd. commenced a defined benefit pension plan for its employees. Under the pension plan, Kamili Ltd. has an obligation to provide staff with agreed post-employment benefits. Kamili Ltd. carries the actuarial and investment risk associated with the pension scheme.

The following information has been compiled for the financial year ended 31 December 2019:

	Sh."000"
Interest income on plan assets	16,500
Employer contributions to plan	550,000
Current service cost	600,000
Interest on plan liability	18,000
Fair value of plan assets (31 December 2019)	580,000
Present value of plan obligations (31 December 2019)	620,000

Kamili Ltd's accountant was not sure which accounting standard to apply when accounting for the pension scheme. The only adjustment made to account for the scheme was to expense the company's contribution of Sh.55,000,000 for the financial year ended 31 December 2019 in the statement of profit or loss and other comprehensive incomes and to credit the cash account.

Required:

Evaluate the treatment Kamili Ltd.'s accountant has given the above issues and offer any correction, if and where necessary. Use journal entries. (10 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

THURSDAY: 28 November 2019. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) International Financial Reporting Standards (IFRSs) are developed by the International Accounting Standards Board (IASB) through a formal system of due process and broad international consultation involving accountants, financial analysts, financial statements users and regulatory bodies from around the world.

The overall agenda of the IASB will initially be set by discussion with the IFRS Advisory Council.

Required:
Explain the steps that are followed in the process of setting International Financial Reporting Standards. (4 marks)

(b) Many countries have adopted international financial reporting standards (IFRSs) issued by the International Accounting Standards Board (IASB). However, due to local requirements and other challenges, some countries still prefer to use their own local standards.

Required:
(i) Summarise five reasons why reporting entities would prefer to adopt IFRSs. (5 marks)

(ii) Identify five challenges that reporting entities are likely to encounter while implementing IFRSs. (5 marks)

(c) Integrated reporting (IR) is a concept that urges reporting entities to focus on the value creators within their business with a focus on the longer-term success of a business rather than the short-term focus on results.

Required:
Explain three objectives of integrated reporting (IR). (6 marks)
(Total: 20 marks)

QUESTION TWO

(a) International Accounting Standard (IAS) 21: "The Effects of Changes in Foreign Exchange Rates" requires the transactions carried out by an entity in foreign currencies and the financial statements of a foreign operation (foreign subsidiary) to be translated into the presentation currency of the reporting entity.

Required:
In the context of the International Accounting Standard (IAS) 21, explain the treatment of exchange differences (gains/losses) arising on translation, clearly distinguishing the treatment in the individual entity's financial statements and in the consolidated financial statements. (6 marks)

(b) H Limited, a public limited company whose functional currency is the Kenya Shilling (Ksh.), operates in the mining sector and has recently acquired a foreign subsidiary, B Limited. The functional currency of B Limited is the Krone (Kr.).

The following draft statements of financial position relate to the two entities as at 30 September 2019:

	H Limited Ksh."million"	**B Limited Kr."million"**
Assets:		
Non-current assets:		
Property, plant and equipment	7,007	7,826
Investment in B Limited	838	-
	7,845	7,826

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	H Limited Ksh."million"	B Limited Kr."million"
Current assets:		
Inventories	1,566	2,605
Trade receivables	1,401	2,000
Cash and cash equivalents	1,238	1,399
	4,205	6,004
Total assets	12,050	13,830
Equity and liabilities:		
Equity:		
Ordinary share capital	2,875	3,640
Share premium	1,437	1,820
Retained earnings	3,350	3,640
Total equity	7,662	9,100
Non-current liabilities:		
10% loan note	450	1,310
Deferred tax	569	1,600
	1,019	2,910
Current liabilities:		
Trade payables	2,498	1,238
Current tax	871	582
	3,369	1,820
Total equity and liabilities	12,050	13,830

Additional information:

1. On 1 October 2018, H Limited acquired 80% of the ordinary shares of B Limited when B Limited's retained earnings were 3,100 million Krones.

   The fair value of the identifiable net assets of B Limited on 1 October 2018 was 9,008 million Krones. The excess of the fair value over the carrying amount of net assets is due to an increase in the value of land.

2. H Limited wishes to use the "full goodwill" method and the fair value of the non-controlling interest in B Limited as at 1 October 2018 was 4,550 million Krones. There has been no impairment of goodwill since acquisition.
3. On 1 October 2018, H Limited issued a 10% loan note amounting to Ksh. 40 million to B Limited repayable in ten years' time. Interest on the loan note has been correctly accounted for by both entities. However, the loan note is still recorded in the financial statements of B Limited at the amount obtained by applying the rate of exchange at the date of the issue.
4. H Limited expanded its overseas operations and on 1 April 2019, acquired an overseas building with a fair value of 715 million Krones. In exchange for the building, H Limited paid the seller with land which it had held for long term capital appreciation. The carrying amount of the land was Ksh.100 million but it had an open market value of Ksh.140 million. H Limited has only recorded the transfer of Ksh.100 million from investment properties to property, plant and equipment. The transaction has commercial substance. H Limited has a policy of depreciating buildings over a period of 35 years and follows the revaluation model. As a result of a surge in the market, it is estimated that the fair value of the overseas building was 800 million Krones as at 30 September 2019.
5. The following foreign exchange rates are relevant to the preparation of consolidated financial statements:

	Krones to Ksh.1
1 October 2018	6.0
1 April 2019	5.5
30 September 2019	5.0
Average for the year to 30 September 2019	5.8

Required:

Consolidated statement of financial position for the H group as at 30 September 2019 in accordance with International Financial Reporting Standards. Round your figures to the nearest Ksh."million". (14 marks)

(Total: 20 marks)

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QUESTION THREE

(a) Explain two factors which encourage reporting entities to disclose social and environmental information. (4 marks)

(b) (i) On 1 January 2009, the government built a market at a cost of Sh.150 million. The market was expected to provide service for 40 years. On 31 December 2018 after ten years of use, a fire caused severe structural damage to the market. Due to safety concerns, the market was closed for repairs that cost Sh.106.5 million. These repairs were made to restore the market to occupiable condition. The current cost of a new market is Sh.300 million.

Required:
Impairment loss to be recognised for the market using the cost restoration approach. (4 marks)

(ii) On 1 January 2014, the government acquired a modern software to enhance service delivery at a cost of Sh.350 million. The software had an estimated useful life of 8 years and its benefits would accrue evenly on a straight line basis over the software's useful life. As at 31 December 2018, usage of the software had dropped to 15% of its originally anticipated demand. A software to replace the remaining service potential of the existing software would cost Sh.150 million.

Required:
Determine the impairment loss to be recognised for the software using the depreciated replacement cost approach. (4 marks)

(c) On 1 January 2014, Wale Ltd. granted its 500 employees options to buy 1,000 shares each from the company on condition that they continued working for the company until 31 December 2016.

During the year 2014, 35 employees left and it was estimated that a further 60 would leave in years 2015 and 2016.

During the year 2015, 40 employees left and it was estimated that a further 25 employees would leave in year 2016.

During the year 2016, 22 employees left.

As at 31 December 2016, 150 employees exercised their options. Another 140 employees exercised their options on 31 December 2017 and the remaining 113 exercised their options as at 31 December 2018.

The terms of the options were that the company would pay for the shares on behalf of the employees. The fair values of the shares were as follows:

31 December	Fair value per share (Sh)
2014	72
2015	77.5
2016	91
2017	107
2018	125

Required:
The amounts to be recognised in the income statement as an expense for each of the 5 years and the liability to be recognised in the statement of financial position as at 31 December for each year. (8 marks)

(Total: 20 marks)

QUESTION FOUR

The following financial statements relate to Makongeni Group for the year ended 31 October 2019:

Makongeni Group:
Consolidated statement of financial position as at 31 October:

	2019 Sh."million"	2018 Sh."million"
Assets:		
Non-current assets:		
Property, plant and equipment	10,180	6,500
Goodwill	7,720	7,400
Investment in associate	2,480	2,160
	20,380	16,060

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	2019 Sh."million"	2018 Sh."million"
Current assets:		
Inventories	1,880	1,740
Trade receivables	1,560	1,320
Short-term investments	300	200
Cash and bank balances	540	360
	4,280	3,620
Total assets	24,660	19,680
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	6,000	6,000
Revaluation surplus	3,000	2,100
Retained earnings	7,020	4,340
	16,020	12,440
Non-controlling interest	1,240	1,280
Total equity	17,260	13,720
Non-current liabilities:		
Bank loans	2,000	1,200
Deferred tax	600	420
	2,600	1,620
Current liabilities:		
Trade payables	3,200	2,900
Current tax	1,600	1,440
	4,800	4,340
Total equity and liabilities	24,660	19,680

Makongeni Group:
Consolidated statement of comprehensive income for the year ended 31 October 2019

	Sh."million"
Revenue	8,360
Operating expenses	(4,620)
Profit from operations	3,740
Gain on disposal of subsidiary	400
Finance costs	(140)
Share of profit of associate	460
Profit before tax	4,460
Income tax expense	(900)
Profit after tax for the year	3,560
Other comprehensive income:	
Revaluation gain on property	800
Other comprehensive income of associate	200
Total comprehensive income	4,560
Profit for the year attributable to:	
Owners of the parent	3,180
Non-controlling interests	380
	3,560
Total comprehensive income for the year attributable to:	
Owners of the parent	4,080
Non-controlling interests	480
	4,560

Additional information:

1. During the year, Makongeni Limited acquired 80% of the ordinary share capital of Razak Limited, paying a cash consideration of Sh.6,000 million.

   The non-controlling interest holding was measured at its fair value of Sh.1,360 million at the date of acquisition.

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The fair values of the net assets of Razak Limited as at the date of acquisition comprised the following:

	Sh."million"
Property, plant and equipment	5,120
Inventories	600
Trade receivables	960
Cash and cash equivalents	320
Trade payables	(880)
Tax payables	(160)
	5,960

2. During the year, Makongeni Limited also disposed of its entire 60% ordinary shareholding in Salama Limited. The subsidiary had been acquired several years ago for a cash consideration of Sh.2,400 million.

   The non-controlling interest holding was measured at its fair value of Sh.1,280 million as at the date of acquisition and the fair value of Salama Limited's net assets was Sh.2,920 million.

   Goodwill on acquisition of Salama Limited had not suffered any impairment.

   At the date of disposal, the net assets of Salama Limited had carrying values in the consolidated statement of financial position as set out below:

	Sh."million"
Property, plant and equipment	2,900
Inventories	660
Trade receivables	480
Cash and cash equivalents	200
Trade payables	(320)
	3,920

3. The short term investments are readily convertible into known amounts of cash and there is an insignificant risk of their fair value changing.
4. Depreciation of Sh.1,540 million was charged during the year. Plant with a carrying amount of Sh.1,000 million was sold for Sh.1,100 million. The gain on disposal was recognised in operating profit.

   Some properties were revalued during the year resulting in revaluation gain of Sh.800 million being reported.

   Ignore deferred tax on revaluation of property, plant and equipment.

Required:
Consolidated statement of cash flows for the Makongeni Group for the year ended 31 October 2019 using the indirect method in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows". **(20 marks)**

QUESTION FIVE

(a) Dakika Ltd. has prepared its consolidated financial statements for the year to 30 September 2019, extracts of which are shown below. Also provided below are extracts of the consolidated financial statements for the year to 30 September 2018.

Year ended 30 September:	**2019** Sh."000"	**2018** Sh."000"
Profit before interest and tax	8,830	7,012
Finance cost	1,045	987
Tax charge	1,718	1,264
Ordinary dividends paid	120	100
Preference dividends paid	60	60
Profit attributable to non-controlling interest (NCI)	180	160

You have also obtained the following information in respect of the company's share capital:

1. Ordinary share capital as at 1 October 2017 was Sh.15,000,000 made up of shares of Sh.5 par value.
2. Dakika Ltd. issued some 500,000 ordinary shares at full market value on 1 January 2018.
3. Dakika Ltd. also made a rights issue of 2 new ordinary shares for every 10 ordinary shares held as at 1 April 2019. The rights price per share was Sh.42.5 (market value per share as at the same date was Sh.48).
4. Dakika Ltd. also had 1,000,000 6%, Sh.10 par value non-redeemable preference shares as at 1 October 2018.

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Required:

(i) The basic earnings per share (EPS) for the year ended 30 September 2018. (4 marks)

(ii) The basic earnings per share (EPS) for the year ended 30 September 2019. (6 marks)

(b) Mafuta Limited had a deferred tax liability as at 1 October 2018 of Sh.400 million.

For the purposes of preparing the financial statements for the year ended 30 September 2019, the following additional information is available:

1. The company has available for sale financial assets with a carrying amount of Sh.80 million and financial assets at fair value through profit and loss of Sh.40 million. Both financial assets had reported losses in fair value of Sh.8 million each as at 30 September 2019.
2. Inventory is shown at the lower of cost and net realisable value. The cost is Sh.3,200 million while the net realisable value is Sh.3,120 million.
3. Receivables had a carrying amount of Sh.2,000 million after making an allowance for doubtful debts of Sh.80 million and an exchange gain of Sh.160 million (unrealised). Both the allowance and the exchange gain are not allowed for tax purposes.
4. Trade and other payables are stated at Sh.3,600 million after making provision for discount of Sh.40 million.
5. Property, plant and equipment has a carrying amount of Sh.4,800 million and a tax base of Sh 4,000 million. Some land and buildings were revalued upwards by Sh.200 million during the year ended 30 September 2019.
6. Intangible assets consisting of trade licences being amortised over five years had a carrying amount of Sh.240 million. This was allowed for tax purposes in full two years ago.
7. Assume a tax rate of 30%.

Required:

(i) The relevant temporary differences. (8 marks)

(ii) Journal entry to record changes in the deferred tax liability. (2 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 24 May 2019. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) A significant number of entities and countries have adopted International Financial Reporting Standards (IFRSs) as their basis for financial reporting. While the advantages of a common set of global reporting standards are recognised, there are a number of implementation challenges at the international and national levels if the objective of an improved and harmonised reporting system is to be achieved.

Required:
Discuss three implementation challenges that are faced by the International Accounting Standards Board (IASB) in its push towards a successful move to IFRSs. (6 marks)

(b) International Financial Reporting Standards (IFRSs) are primarily designed for public limited companies. It has been argued that the same IFRSs should be used by all entities or alternatively, a different body of standards should apply to small and medium-sized entities (SMEs).

Required:
Discuss any two reasons why there is need to develop a set of IFRSs specifically for SMEs. (4 marks)

(c) Sustainability reporting is one of the current reporting requirements for voluntary disclosure which has become the norm for quoted companies.

Required:
Briefly describe three main objectives of sustainability reporting. (6 marks)

(d) With reference to International Public Sector Accounting Standard (IPSAS) 20 "Related Party Disclosures", briefly explain the related party relationships and how related party disclosures under IPSAS 20 differ from those of commercial sector entities under International Accounting Standard (IAS) 24 "Related Party Disclosures". (4 marks)

(Total: 20 marks)

QUESTION TWO

G Limited, a quoted company, operates in the manufacturing sector. It has investments in a number of companies.

The following draft statements of financial position relate to G Limited and its investee companies as at 30 September 2018:

	G Ltd. Sh."million"	S Ltd. Sh."million"	A Ltd. Sh."million"
Assets:			
Non-current assets:			
Property, plant and equipment	4,140	1,350	1,395
Intangible assets	891	540	158
Investments: S Ltd.	3,285		
A Ltd.	900		
	9,216	1,890	1,553
Current assets:			
Inventories	1,102	819	414
Trade receivables	2,016	891	486
Cash and cash equivalents	909	450	190
	4,027	2,160	1,090
Total assets	13,243	4,050	2,643

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	Sh."million"	Sh."million"	Sh."million"
Equity and liabilities:			
Ordinary share capital	4,140	1,000	900
Share premium	329	160	90
Retained profits	4,028	1,900	625
	8,497	3,060	1,615
Non-current liabilities:			
8% debentures	1,640	288	333
Deferred tax	1,187	265	243
Current liabilities:			
Trade payables	1,674	319	299
Current tax	245	118	153
Total liabilities	4,746	990	1,028
Total equity and liabilities	13,243	4,050	2,643

Additional information:

1. On 1 October 2015, G Ltd. acquired 80% of the ordinary shares of S Ltd. for a cash consideration of Sh.3,285 million. At the date of acquisition, the retained earnings of S Ltd. stood at Sh.1,650 million and the fair values of the identifiable net assets of S Ltd. approximated their book values except for an item of plant which had a fair value of Sh.175 million in excess of its carrying amount. The plant had a remaining economic useful life of 5 years as at that date.
2. On 1 April 2014, G Ltd. gained joint control over A Ltd. having acquired 50% of its ordinary shares for a cash consideration of Sh.500 million. At that date, the retained earnings of A Ltd. amounted to Sh.225 million. G Ltd. accounted for its share of interest in A Ltd. using the equity method in accordance with IAS 28 (Investments in Associates and Joint Ventures). On 1 April 2018, G Ltd. acquired a further 25% shareholding in A Ltd. for an additional cash consideration of Sh.250 million when the retained earnings of A Ltd. amounted to Sh.525 million. The fair value of the original investment in A Ltd. as at 1 April 2018 was Sh.980 million. No fair value adjustments were necessary in respect of the business combination relating to A Ltd.
3. The group policy is to measure non-controlling interests at fair value. At the respective dates of acquisition, the non-controlling interests in S Ltd. and A Ltd. had fair values of Sh.200 million and Sh.250 million respectively.
4. Goodwill of S Ltd. and A Ltd. was tested for impairment as at 30 September 2018. There was no impairment relating to A Ltd. The recoverable amount of the net assets of S Ltd. was Sh.3,480 million.
5. G Ltd. sold inventory to S Ltd. for Sh.54 million at fair value. G Ltd. reported a loss on the transaction of Sh.9 million and S Ltd. still held half of these goods in inventory at 30 September 2018.
6. On 1 October 2017, G Ltd. acquired patent rights for Sh.45 million to use in a project to develop new products. G Ltd. completed the investigative phase of the project, incurring an additional cost of Sh.32 million and determined that the project was feasible. An effective and working prototype was created at a cost of Sh.18 million and in order to put the products into a saleable condition, a further Sh.14 million was spent. Finally, marketing costs of Sh.9 million were incurred. All of the above costs are included in the intangible assets of G Ltd.

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Required:

(a) Determine the amount of goodwill arising on acquisition of S Ltd. and A Ltd. after the impairment review. (6 marks)

(b) Consolidated statement of financial position of G Ltd. group as at 30 September 2018 in accordance with International Financial Reporting Standards (IFRSs). (14 marks)

(Total: 20 marks)

QUESTION THREE

(a) (i) With reference to International Accounting Standard (IAS) 19 "Employee Benefits", briefly explain the accounting treatment of the defined benefit pension surplus (plan asset) in the financial statements of an employer. (4 marks)

(ii) W Limited, a public limited company, operates a defined benefit pension plan for its employees. The present value of the future benefit obligations as at 1 January 2018 was Sh.3,080 million and the fair value of the plan assets as at the same date was Sh.2,860 million.

Further information relating to the pension plan for the year ended 31 December 2018 was as follows:

	Sh."million"
Current service costs	209
Benefits paid to former employees	242
Contributions paid into the plan	259
Present value of benefit obligations as at 31 December 2018	3,360
Fair value of plan assets as at 31 December 2018	3,113

Additional information:

1. Interest cost (gross yield on "blue chip" corporate bonds) is at 5%.
2. On 1 January 2018, the pension plan was amended to provide enhanced benefits with effect from that date. The present value of the enhanced benefits as at 1 January 2018 was calculated by actuaries at Sh.110 million.

Required:
The required notes to the statement of comprehensive income and the statement of financial position to reflect the financial effects of the defined benefit pension plan in the year ended 31 December 2018.
(8 marks)

(b) Matatizo Limited has been recording losses for the last few years.

The statement of financial position of the company as at 31 March 2019 was as given below:

	Sh. "000"		Sh. "000"
Equity share capital (Sh.10 par value)	30,000	Goodwill	5,000
10% preference share capital (Sh.100 par value fully paid)	10,000	Plant and machinery	30,000
		Equipment	15,000
Share premium	4,000	Receivables	2,500
Loan from directors	5,000	Inventory	1,500
Bank overdraft	450	Cash in hand	150
Creditors	2,200	Patents and trademarks	500
12% debentures	5,000	Accumulated losses	2,000
	56,650		56,650

The authorised share capital of Matatizo Limited is composed of 5,000,000 equity shares of Sh.10 each and 200,000 10% preference shares of Sh.100 each. It was decided during a meeting of the shareholders and directors of the company to carry out a scheme of internal reconstruction with effect from 1 April 2019 as follows:

1. Each equity share is to be re-designated as a share of Sh.4.50. The equity shareholders are to accept a reduction in the nominal value of their shares from Sh.10 to Sh.4.50. In addition, the shareholders are to subscribe for a new issue of shares on the basis of one share for every 3 held at the price of Sh.6 per share.
2. The existing preference shares are to be exchanged for a new issue of 55,000 15% preference shares of Sh.100 each and 500,000 equity shares of Sh.4.50 each.
3. The 12% debentures are to be converted into 15% debentures. A further Sh.1,000,000 of 15% debentures of Sh.100 each are to be issued at Sh.75 each.
4. The directors agreed to forego 50% of their loan. The balance of the loan is to be settled by the issue of 400,000 equity shares of Sh.4.50 each.
5. The bank overdraft is to be repaid in full.
6. All intangible assets and accumulated losses are to be eliminated.
7. Creditors accepted to be paid half of the amount due at a discount of 10%.
8. Assets are to be adjusted to their fair values by the following amounts:

	Sh. "000"
Plant and machinery	6,100
Equipment	3,250
Receivables	1,160
Inventory	460

9. The share premium account is to be utilised for purposes of capital reduction.

Required:
A capital reduction account for Matatizo Limited after completion of the internal reconstruction. (8 marks)
(Total: 20 marks)

QUESTION FOUR
(a) Briefly explain the various classifications of financial instruments as per IFRS 9 (Financial Instruments). (6 marks)

(b) Tewa Ltd. has provided the following extracts from its income statements for the years ended 31 December 2017 and 31 December 2018:

	Year ended 31 December:	
	2017	2018
	Sh."million"	Sh."million"
Profit before tax (accrues evenly)	950	1,550
Income tax expense	(500)	(900)
Profit after tax	450	650

Capital structure includes:

	Sh."million"	Sh."million"
Ordinary shares of Sh.100 each	2,000	3,300
8% Redeemable preference shares of Sh.100 each	1,000	1,000
10% Convertible preference shares of Sh.100 each	500	500
10% Convertible loan stock	1,000	1,200

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Additional information:

1. Part of the increase in the share capital (ordinary) was due to a rights issue that was made on 1 April 2018. A shareholder was granted the right to buy 1 new ordinary share for every 5 ordinary shares held at a price of Sh.120 per share. The market price of the ordinary shares before the rights issue was Sh.125 per share.
2. The convertible loan stock was issued on 1 July 2017. Each Sh.1,000 loan stock is convertible to 25 ordinary shares. Holders of Sh.300 million worth of convertible loan stock exercised their rights on 1 January 2018.
3. The convertible preference shares were issued in the year 2015. One convertible preference share is entitled to one new ordinary share.
4. Meanwhile, on 1 April 2018, the company granted its employees the option to buy 4 million ordinary shares at a strike price of Sh.120 per share. No employee had exercised their right by 31 December 2018. The average market price of the ordinary shares during the year 2018 was Sh.125 per share.
5. The corporation tax rate is 30%.

Required:

(i) The basic earnings per share (EPS) for the years 2017 and 2018. (6 marks)

(ii) The diluted EPS for the years 2017 and 2018. (8 marks)

(Total: 20 marks)

QUESTION FIVE

The consolidated income statement for the year ended 31 March 2019 and the consolidated statements of financial position as at 31 March 2018 and 31 March 2019 of Tembea group were as follows:

Tembea Group
Consolidated income statement for the year ended 31 March 2019

	Sh."000"	Sh."000"
Revenue		74,364
Cost of sales		(56,680)
Gross profit		17,684
Other incomes: Investment income	616	
Gain on disposal of property, plant and equipment	388	1,004
		18,688
Expenses:		
Distributions costs	3,500	
Administrative expenses	5,406	
Finance costs	447	(9,353)
Profit before tax		9,335
Income tax expense		(3,081)
Profit for the year		6,254
Attributable to: Holding company		6,171
Non-controlling interest		83
		6,254

Tembea Group
Consolidated statement of financial position as at 31 March:

	2019 Sh."000"	2018 Sh."000"
Assets:		
Non-current assets:		
Property, plant and equipment	24,062	19,940
Intangible assets	324	540
	24,386	20,480
Current assets:		
Inventory	1,939	1,771
Trade receivables	9,792	9,085
Cash in hand and bank	3,923	3,679
	15,654	14,535
Total assets	40,040	35,015
Capital and liabilities:		
Ordinary share capital	2,479	2,319
Share premium	5,889	5,569
Other reserves	555	555
Retained earnings	7,040	9,379
	15,963	17,822
Non-controlling interest	483	619
Total equity	16,446	18,441

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	Sh."000"	Sh."000"
Non-current liabilities:		
Medium term bank loans	3,453	-
Finance lease obligations	476	715
Deferred tax	5,479	3,301
	9,408	4,016
Current liabilities:		
Trade payables	10,608	9,396
Finance lease obligations	141	202
Current tax	2,515	2,357
Bank overdraft	104	-
Interest accrued	54	11
Dividends proposed	764	592
	14,186	12,558
Total equity and liabilities	40,040	35,015

Additional information:

1. Intangible assets represent patents held by the company being amortised over their useful life. No new patents were registered in the year.
2. Property, plant and equipment is made up as follows:

	Land and buildings	Plant and machinery	Total
Cost/valuation	Sh."000"	Sh."000"	Sh."000"
Balance as at 1 April 2018	6,483	22,446	28,929
Subsidiary acquired	1,800	3,378	5,178
Additions	-	5,611	5,611
Disposals	-	(1,092)	(1,092)
Balance as at 31 March 2019	8,283	30,343	38,626
Depreciation:			
Balance as at 1 April 2018	2,582	6,407	8,989
Charge for year	820	2,232	3,052
Subsidiary acquired	1,280	2,023	3,303
Disposals	-	(780)	(780)
Balance as at 31 March 2019	4,682	9,882	14,564

3. Share capital is made up as follows:

	Ordinary share capital	Share premium
	Sh."000"	Sh."000"
As at 1 April 2018	2,319	5,569
Shares issued on acquisition	160	440
Expenses on issue	-	(120)
As at 31 March 2019	2,479	5,889

4. During the year, Tembea group acquired 100% of the shares of Kesi Ltd. The net assets of Kesi Ltd. as at the time of acquisition were as follows:

	Sh."000"
Property, plant and equipment	1,875
Inventory	456
Trade receivables	1,170
Cash at bank and in hand	42
Bank overdraft	(73)
Trade payables	(705)
Medium term bank loans	(967)
Deferred tax	(908)
	890
Consideration:	
Shares allotted	600
Cash	4,400
	5,000

5. During the year, a provision for ordinary dividend amounting to Sh.4.4 million was made from the retained profits.

Required:

Consolidated statement of cash flows in conformity with IAS 7 (Statement of Cash Flows) for the year ended 31 March 2019.

(20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 30 November 2018. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) Highlight four limitations of financial reporting in the context of reporting on the social and environmental impacts of corporate activity. (4 marks)

(b) With regard to International Public Sector Accounting Standard (IPSAS) 4 (The Effects of Changes in Foreign Exchange Rates), explain the accounting treatment of exchange differences arising on translation of both monetary and non-monetary items in the financial statements of a public sector entity. (4 marks)

(c) On 1 January 2015, G Limited granted each of its 200 employees 500 share options. These share options were to vest if the employees still worked for the entity as at 31 December 2017 and if the share price on that date exceeded Sh.45.

On the grant date, the fair value of each option was Sh.15.

The share price on 31 December 2015 was Sh. 27 and it was considered unlikely that the share price would rise above Sh. 45 by 31 December 2017.

Twenty employees left the company during the year ended 31 December 2015 and a further twenty were expected to leave in each of the two years ended 31 December 2016 and 31 December 2017.

During the years ended 31 December 2016 and 31 December 2017, 15 employees and 25 employees left the company respectively.

Required:
Extracts from the financial statements of G Limited for each of the years ended 31 December 2015, 2016 and 2017 to record the above transactions. (6 marks)

(d) International Financial Reporting Standard (IFRS) 9 (Financial Instruments), sets out the hedge accounting rules which can only be applied if the criteria for the hedging relationship are met.

Required:
Citing relevant examples, describe the hedge effectiveness requirements. (6 marks)
(Total: 20 marks)

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QUESTION TWO

B Limited and H Limited are private liability limited companies operating in the service sector. They have been reporting successive trading losses for several years, principally due to severe competition which has put downward pressure on their revenues.

The directors of the two entities, who are also the main shareholders, have unanimously agreed to wind up the companies' respective businesses and amalgamate them into a new company to be named S Limited with effect from 1 October 2018.

The statements of financial position of the two companies as at 30 September 2018 are as set out below:

	B Limited	H Limited
Assets:		
Non-current assets:	**Sh. "000"**	**Sh. "000"**
Property, plant and equipment	16,500	12,000
Intangible assets (copyrights)	8,400	-
	24,900	12,000
Current assets	52,500	30,000
Total assets	77,400	42,000

	Sh. "000"	Sh. "000"
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)	30,000	16,000
7.5% cumulative preference share capital (Sh.10 par value)	10,000	24,000
Share premium	1,600	1,400
Retained profits (losses)	(23,400)	(34,300)
	18,200	7,100
Non-current liabilities:		
10% bonds	20,000	15,000
Current liabilities:		
Trade payables	37,200	18,400
Bank overdraft	2,000	1,500
Total equity and liabilities	77,400	42,000

Additional information:

1. The authorised share capital of the new company was Sh.120 million comprising 12 million ordinary shares of Sh.10 par value.
2. Preference dividends in B Limited were three years in arrears while in H Limited, preference dividends had not been paid for two years including the current year to 30 September 2018. Only 20% of the arrears of preference dividends were settled by issue of ordinary shares of Sh.10 each in S Limited.
3. S Limited issued 3.4 million ordinary shares of Sh.10 each credited at Sh.5 each in favour of the preference shareholders in both companies. The ordinary shares were allotted on the basis of the preference shares held in the old companies. The preference shareholders committed to immediately pay the balance on the shares issued.
4. The bondholders in both companies were settled immediately by the new company issuing ordinary shares of Sh.10 each to satisfy the nominal value of the bonds.
5. The new company also issued 4.6 million ordinary shares of Sh.10 each credited at Sh.2.50 each in favour of the ordinary shareholders in the old companies. The ordinary shares were allotted on the basis of the ordinary shares held in the old companies. The ordinary shareholders were to pay the balance on their shares immediately.
6. The current liabilities of the old companies were transferred to the new company at their book values.
7. The copyrights in B Limited expired upon amalgamation of the old companies and were therefore to be written off.
8. The tangible assets were taken over by S Limited at their fair values as follows:

	B Limited Sh. "000"	H Limited Sh. "000"
Property, plant and equipment	12,500	9,500
Current assets	58,000	38,600

9. Liquidation expenses of B Limited and H Limited amounting to Sh.8 million and Sh.5 million respectively were paid for by S Limited and treated as preliminary expenses.
10. Assume that all the above transactions were completed by the close of business on 30 September 2018.

Required:

(a) The following ledger accounts, in columnar form, to close off the books of B Limited and H Limited:

(i) Realisation account. (4 marks)

(ii) Preference shareholders sundry members account. (4 marks)

(iii) Ordinary shareholders sundry members account. (4 marks)

(b) Journal entries in the books of S Limited to record the transfer of assets and liabilities (Ignore narrations). (4 marks)

(c) Opening statement of financial position of S Limited as at 1 October 2018. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) In the context of the IFRS for Small and Medium-sized Entities (SMEs), identify any four areas where the SMEs standard differs from the IFRSs and IASs adopted by public limited entities. (4 marks)

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(b) Below are the statements of financial position of Acacia Ltd., Baobab Ltd. and Cider Ltd. as at 30 June 2018.

	Acacia Ltd. Sh."million"	Baobab Ltd. Sh."million"	Cider Ltd. Sh."million"
Assets:			
Non-current assets:			
Property, plant and equipment	6,000	5,150	2,775
Investments	3,050	200	-
	9,050	5,350	2,775
Current assets:			
Inventories	1,520	645	600
Accounts receivable	735	300	315
Current account - Cider Ltd.	-	105	-
Cash and bank balance	178	450	375
	2,433	1,500	1,290
Total assets	11,483	6,850	4,065
Equity and liabilities:			
Equity:			
Ordinary shares of Sh.1 each	7,550	3,000	1,500
Share premium	67	200	168
Retained profit	1,200	1,650	987
	8,817	4,850	2,655
Non-current liabilities:			
8% debentures	975	1,020	900
Current liabilities:			
Accounts payable	1,050	690	420
Current tax	500	200	-
Dividend payable	141	90	-
Current account - Baobab Ltd.	-	-	90
	1,691	980	510
	11,483	6,850	4,065

Additional information:

1. Acacia Ltd. acquired 40% of the ordinary shares of Baobab Ltd. on 1 July 2016 at a cost of Sh.1,500 million when the retained profit and share premium of Baobab Ltd. were Sh.810 million and Sh.200 million respectively.

   On 1 January 2018, Acacia Ltd. acquired another 20% of the ordinary shares of Baobab Ltd. for a cash consideration of Sh.1,050 million. On that date, the fair value of the initial 40% ordinary shares of Baobab Ltd. was Sh.1,800 million.
2. On 1 January 2018, the carrying amount of the net assets of Baobab Ltd. reflected their fair value with the exception of an item of plant. The market value of the item of plant had decreased and the valuation report indicated a reduction of Sh.150 million. The plant had a remaining useful life of three years as at that date. Baobab Ltd. had not adjusted its books to reflect the new value.
3. Acacia Ltd. acquired 60% of the ordinary shares of Cider Ltd. on 1 July 2017 when the retained profit and share premium of Cider Ltd. were Sh.432 million and Sh.168 million respectively. The cost of this transaction was to be discharged by an issue of 600 million ordinary shares of Acacia Ltd. The fair value of the ordinary shares of Acacia Ltd. on 1 July 2017 was Sh.2.5 per share while that of Cider Ltd. was Sh.3.5 per share. This share exchange has not yet been recorded by Acacia Ltd. On 1 July 2017, the carrying amount of the identifiable net assets of Cider Ltd. reflected their fair values.
4. A quarter of the inventory of Cider Ltd. was purchased from Baobab Ltd. on 1 June 2018. The inventory had been invoiced at a mark-up of 25%.
5. On 1 June 2018, Acacia Ltd. disposed of a property to Baobab Ltd. at Sh.200 million above its carrying amount. The remaining useful life of this property was 10 years.
6. At the end of June 2018, Cider Ltd. had declared a final dividend of 3%. These dividends had not been provided for.
7. Acacia Ltd. has not yet recorded its share of the ordinary dividend from Baobab Ltd.
8. The difference in the current accounts is due to cash in transit.
9. Profits and losses of Baobab Ltd. were deemed to accrue evenly from 1 July 2016 until 30 June 2018.
10. Acacia Ltd. retained all its investments at cost.
11. The depreciation policy of the group is to depreciate all its property, plant and equipment on a straight line basis making a full year's charge in the year of purchase.
12. The group values the non-controlling interest at their proportionate share of the fair value of the net assets of the subsidiaries as at the acquisition date.

Required:

Consolidated statement of financial position of the Acacia group as at 30 June 2018. (16 marks)

(Total: 20 marks)

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QUESTION FOUR

The following draft consolidated financial statements relate to the Bakoki Ltd. group:

Consolidated statement of income for the year ended 31 July 2018:

	Sh."million"	Sh."million"
Revenue		5,845
Cost of sales		(2,160)
Gross profit		3,685
Distribution costs	510	
Administrative expenses	230	(740)
		2,945
Income from interests in associated company		990
Operating profit		3,935
Profit on disposal of tangible assets		300
Income from investments		80
Interest payable		(300)
Profit before tax		4,015
Income tax		(1,345)
Profit after tax		2,670
Non-controlling interest (equity)		(200)
Profit attributable to members of group		2,470
Dividend paid		(800)
Retained profit for the year		1,670

Consolidated statement of financial position as at 31 July:

	2018 Sh."million"	2017 Sh."million"
Assets:		
Non-current assets:		
Tangible assets	7,750	5,000
Intangible assets	200	-
Investment in associated company	2,200	2,000
Other investments	820	820
	10,970	7,820
Current assets:		
Inventories	3,930	2,000
Trade receivables	3,700	2,550
Cash and bank balances	9,030	3,640
	16,660	8,190
Total assets	27,630	16,010
Equity and liabilities:		
Equity:		
Share capital	7,880	4,000
Share premium	5,766	4,190
Retained earnings	6,270	4,600
	19,916	12,790
Non-controlling interest	230	-
	20,146	12,790
Non-current liabilities	4,400	1,366
Current liabilities	3,084	1,854
Total equity and liabilities	27,630	16,010

Additional information:

1. Bakoki Ltd. has two wholly owned subsidiaries. In addition, it acquired a 75% interest in Nyange Ltd. on 1 August 2017. It also holds a 40% interest in Birika Ltd. which it acquired several years ago. Goodwill has not become impaired.
2. The following are the fair values of Nyange Ltd. at the date of acquisition of its shares:

Nyange Ltd.
Statement of financial position as at 1 August 2017

	Sh."million"	Sh."million"
Plant and machinery		330
Current assets:		
Inventories	64	
Trade receivables	56	
Cash and bank balance	224	344
Current liabilities (including corporation tax of Sh.34 million)		(170)
		504

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	Sh."million"	Sh."million"
Share capital		100
Retained earnings		404
		504

3. The consideration for the purchase of the shares of Nyange Ltd. comprised 44 million ordinary shares of Sh.10 of Bakoki Ltd. at a value of Sh.550 million and a further payment of Sh.28 million being made in cash.

4. The tax charge in the consolidated income statement is made up of the following items:

	Sh."million"
Corporation tax	782
Deferred tax	208
Tax attributable to associated company	355
	1,345

5. The tangible non-current assets of Bakoki Ltd. group comprised the following:

	Building	Plant and Machinery	Total
Cost or valuation:	Sh."million"	Sh."million"	Sh."million"
As at 1 August 2017	5,100	2,800	7,900
Additions	-	4,200	4,200
Disposals	-	(1,000)	(1,000)
	5,100	6,000	11,100
Depreciation:			
As at 1 August 2017	700	2,200	2,900
Charge for the year	250	400	650
Disposal	-	(200)	(200)
	950	2,400	3,350
Carrying amount as at 31 July 2018	4,150	3,600	7,750

6. Included in the additions to plant and machinery are items totalling Sh.1,700 million acquired under finance leases. The plant and machinery disposed of during the year resulted in a profit of Sh.300 million. All lease rentals were paid on their due dates.

7. Non-current liabilities comprise the following:

	2018	2017
	Sh."million"	Sh."million"
Obligations under finance leases	1,417	1,340
6% debentures	2,923	-
Deferred tax	60	26
	4,400	1,366

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8. There had been an issue of debentures on 1 August 2017. The par value was Sh.3,000 million but they were issued at a discount of Sh.100 million. The effective rate of interest was 7%.

9. Current liabilities comprised the following items:

	2018	2017
	Sh."million"	Sh."million"
Trade payables	1,600	960
Obligations under finance leases	480	400
Corporation tax	924	434
Accrued interest	80	60
	3,084	1,854

Required:

Consolidated statement of cash flows for the Bakoki Ltd. group for the year ended 31 July 2018, in accordance with the requirements of International Accounting Standard (IAS) 7 "Statement of Cash Flows".

(Total: 20 marks)

QUESTION FIVE

(a) Citing four reasons, explain the usefulness of related party disclosures when analysing the financial position and financial performance of a business organisation. (4 marks)

(b) Discuss the significance of the earnings per share (EPS) figure in the analysis of the performance of companies. (4 marks)

(c) IAS 33 (Earnings Per Share) sets out the requirements for calculating and disclosing the basic earnings per share figure for quoted entities.

The following figures appeared in the consolidated income statement and other comprehensive income of Uwezo Ltd. for the year ended 31 July 2018 together with comparatives for the year ended 31 July 2017:

	2018 Sh."million"	2017 Sh."million"
Profit before tax	400	300
Income tax	(75)	(60)
Profit after tax	325	240
Other comprehensive income		
(Revaluation gain on land)	30	10
Total comprehensive income	355	250
Profit after tax for the year attributable to:		
Owners of the group	280	210
Non-controlling interest	45	30
	325	240
Total comprehensive income for the year attributable to:		
Owners of the group	310	220
Non-controlling interest	45	30
	355	250

The statement of financial position extract as at 31 July 2018 together with comparatives for the year ended 31 July 2017 were as follows:

	2018 Sh."million"	2017 Sh."million"
Equity share capital (Sh.0.5 each)	460	200
4% preference share capital	100	100
Share premium	215	60
Other equity reserves	90	60
Non-controlling interest	85	40
Retained earnings	688	570
Total equity	1,638	1,030

During the year ended 31 July 2018, the following changes took place in relation to the issued share capital of Uwezo Ltd.:

1. 100 million equity shares were issued in relation to the acquisition of another business. These shares were issued at full market price on 1 November 2017.
2. 150 million ordinary shares were issued for cash to existing shareholders on 1 February 2018. The issue price was Sh.1.5 per share which represents a discount of 25% on the traded price of Sh.2.0 per share immediately before the issue.
3. On 30 June 2018, a bonus issue was completed by capitalising Sh.135 million of retained earnings.
4. On 31 July 2018, the preference dividend for the year and an equity dividend of Sh.23 million were paid.

Required:

(i) The basic earnings per share (EPS) for the years ended 31 July 2017 and 31 July 2018. (10 marks)

(ii) The comparative EPS for 2017 to be reported in the 2018 financial statements. The EPS figure reported in 2017 was Sh.0.525. (2 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 25 May 2018. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) The Global Reporting Initiative (GRI) has a mission to develop global sustainability reporting guidelines for voluntary use by organisations reporting on the three linked elements of sustainability namely; the economic, environmental and social dimensions of their activities, products and services:

Required:
Describe four social indicators that might be reported under the social dimension. (8 marks)

(b) With regard to IPSAS 22 (Disclosure of Financial Information about the general Government Sector), highlight four characteristics of a government business enterprise (GBE). (4 marks)

(c) The IASB framework for the preparation and presentation of financial statements sets out the concepts that underlie the development of accounting standards.

Required:
Discuss two challenges that might be encountered in the practical application of the above framework. (4 marks)

(d) Under certain circumstances, non compliance with the detailed provisions of an accounting standard might be justified.

Required:
Highlight four disclosures that an entity that has elected not to comply with an accounting standard must make in order to explain the circumstances of the non compliance. (4 marks)

(Total: 20 marks)

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QUESTION TWO

(a) Explain the following terms as used in IAS 33 (Earnings Per Share):

(i) Contingently issuable ordinary shares. (2 marks)

(ii) Dilution. (2 marks)

(b) The following statement of financial position relates to the affairs of Fanakawa Ltd. as at 31 December 2017:

	Sh."000"	Sh."000"
Assets:		
Non-current assets:		
Land and buildings		3,160
Plant and machinery		4,040
Intangible assets:		
Goodwill		1,300
Development expenditure		750
Current assets:		
Inventories	1,900	
Receivables	1,700	3,600
Total assets		12,850
Equity and liabilities:		
Equity:		
Ordinary share capital (Sh.10 par value)		6,000
Share premium		2,000
Accumulated losses		(2,070)
Shareholders' funds		5,930

	Sh."000"	Sh."000"
Current liabilities:		
Trade payables	1,820	
Bank overdraft	1,100	
Bank loan (secured on land and buildings)	4,000	6,920
Total equity and liabilities		12,850

Additional information:

Fanakawa Ltd. has been making losses in recent years, but recent board changes and the development of a new product line are believed to have significantly improved the company's future prospects. The following scheme of financial reorganisation has been prepared for consideration by the shareholders and creditors:

1. The existing ordinary shares are to be written down to Sh.4 per share and then consolidated into shares of Sh.10 par.
2. Existing shareholders are to subscribe to a rights issue of three new shares for every one share held after making the changes in (1) above. The shares are to be issued at Sh.11 each.
3. The company's major supplier has agreed to convert an amount of Sh.1,000,000 owed to him into fully paid ordinary shares issued at par.
4. The bank requires immediate payment of the overdraft but has agreed to convert the loan currently payable on demand, into a debenture carrying an interest of 10% per annum payable in full in the next 5 years.
5. The balances in the accumulated losses and goodwill accounts are to be written off.
6. Development expenditure is to be written off.
7. The remaining assets are to be restated to their fair values as follows:

	Sh. "000"
Land and buildings	3,320
Plant and machinery	1,000
Inventories	1,500
Receivables	1,700

8. The amount in the share premium account is to be utilised in the capital reduction scheme.

Required:

(i) Journal entries to record the above transactions. (6 marks)

(ii) Capital reduction account. (4 marks)

(iii) Statement of financial position after effecting the scheme of capital reduction. (6 marks)

(Total: 20 marks)

QUESTION THREE

The following financial statements relate to Radi Ltd. (the investor entity) and two investee companies which also operate in the same industry as the investor entity:

Statement of comprehensive income for the year ended 30 April 2018

	Radi Ltd. Sh."000"	Mvua Ltd. Sh."000"	Upepo Ltd. Sh."000"
Revenue	92,500	48,000	30,000
Cost of sales	(70,500)	(36,000)	(18,000)
Gross profit	22,000	12,000	12,000
Distribution expenses	(2,500)	(1,200)	(1,000)
Administrative expenses	(5,500)	(2,400)	(2,000)
Finance cost	(100)	-	-
Profit before tax	13,900	8,400	9,000
Income tax	(3,900)	(1,600)	(2,200)
Profit for the year	10,000	6,800	6,800
Other comprehensive income:			
Gain on revaluation of land	500	-	-
Total comprehensive income	10,500	6,800	6,800

Statement of financial position as at 30 April 2018

	Radi Ltd. Sh."000"	Mvua Ltd. Sh."000"	Upepo Ltd. Sh."000"
Assets:			
Non-current assets:			
Property, plant and equipment	18,300	18,900	15,000
Investments	12,600	1,200	350
	30,900	20,100	15,350

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	Sh."000"	Sh."000"	Sh."000"
Current assets:			
Inventory	5,200	1,000	1,400
Trade and other receivables	4,580	800	900
Financial assets at fair value	1,200	350	500
Cash and bank	1,520	250	200
	12,500	2,400	3,000
Total assets	43,400	22,500	18,350
Equity and liabilities:			
Equity:			
Ordinary share capital (Sh.1 par value)	15,000	5,000	6,000
Revaluation reserve (property, plant and equipment)	2,000	-	-
Other equity reserve	500	-	-
Retained earnings	12,900	9,500	5,000
	30,400	14,500	11,000
Non-current liabilities:			
6% loan notes	3,000	-	-
Deferred tax	1,600	1,200	350
	4,600	1,200	350
Current liabilities:			
Trade and other payables	5,600	5,600	5,000
Current tax	2,800	1,200	2,000
	8,400	6,800	7,000
Total equity and liabilities	43,400	22,500	18,350

Additional information:

1. On 1 January 2018, Radi Ltd. acquired 80% of the equity shares of Mvua Ltd. The consideration consisted of two elements; a share exchange of three shares in Radi Ltd. for every five shares acquired in Mvua Ltd. and the issue of a Sh.100, 6%, loan note for every 500 shares acquired in Mvua Ltd. The share issue has not yet been recorded by Radi Ltd., but the issue of the loan note has been recorded. At the date of acquisition, shares in Radi Ltd. had a market value of Sh.5 each and the shares of Mvua Ltd. had a stock market price of Sh.3.50 each.

   Radi Ltd. had earlier acquired 2.4 million shares of Upepo Ltd. on the securities exchange at a price of Sh.1.5 per share on 1 November 2017.
2. As at the date of acquisition of the shares in Mvua Ltd., the fair value of Mvua Ltd.'s assets was equal to their carrying amount with the exception of its property which had a fair value of Sh.1.2 million below its carrying amount. This property had a remaining useful life of 8 years.
3. The group policy is to revalue all properties to current value at each year end. On 30 April 2018, the value of Mvua Ltd.'s property was unchanged from its value at acquisition, but the land element of Radi Ltd.'s property had increased in value by Sh.500,000 as shown in other comprehensive income.
4. Sales from Mvua Ltd. to Radi Ltd. in the post-acquisition period were Sh.4,000,000. Mvua Ltd. made a mark-up of 25% on these sales. As at 30 April 2018, Radi Ltd. had Sh.2,000,000 (at cost to Radi Ltd.) of inventory that had been supplied in the post-acquisition period by Mvua Ltd.
5. In April 2018, Radi Ltd. sold goods to Upepo Ltd. for Sh.2,000,000, realising a profit mark-up of 25%. The entire consignment remained unsold as at 30 April 2018 and was included in the inventory of Upepo Ltd.
6. Radi Ltd.'s investments include some available for sale investments that had increased in value by Sh.300,000 during the year. The other equity reserve relates to these investments and is based on their value as at 30 April 2017. There were no acquisitions or disposals of any of these investments during the year ended 30 April 2018.
7. The group policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, the price of Mvua Ltd.'s share as at that date can be determined to be representative of the fair value of the shares held by the non-controlling interest.
8. It was determined at the year end that 10% of the goodwill relating to the acquisition of Mvua Ltd. was impaired.
9. Radi Ltd. owed Mvua Ltd. Sh.100,000 as at the year end with regard to the transaction in Note (4) above. The books of Radi Ltd. however showed that it owed Mvua Ltd. only Sh.80,000. Radi Ltd. had sent a cheque to Mvua Ltd. on 27 April 2018 which had not been received by Mvua Ltd. until 4 May 2018.

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Required:

(a) Consolidated statement of comprehensive income for the year ended 30 April 2018. (10 marks)

(b) Consolidated statement of financial position as at 30 April 2018. (10 marks)

(Total: 20 marks)

QUESTION FOUR

(a) E Ltd. issued a bond for Sh.200 million on 1 January 2018. Interest on the bond is payable in arrears on 31 December each year at the rate of 12% per annum. The bond will be held to maturity and redeemed on 31 December 2020 for Sh.258.24 million. The effective rate of interest is 20% per annum. The bond has not been designated as at fair value through profit or loss (FVTPL).

Required:

(i) Charge to the income statement for each of the two years ending 31 December 2018 and 31 December 2019. (4 marks)

(ii) Extracts from the statement of financial position as at 31 December 2018 and 31 December 2019. (2 marks)

(b) Ufanisi Ltd. operates a defined benefit plan for its employees. The plan is contributory and the details of the benefits plan for the year ended 30 November 2017 were as follows:

	Sh."million"
Plan assets as at 1 December 2016	30,540
Plan assets as at 30 November 2017	33,384
Current service cost	420
Post service cost	270
Employees' contributions	1,260
Employer's contributions	360
Benefits paid	1,080
Foreign exchange losses on plan assets	600
Dividend income on plan assets invested in shares	414
Interest income on plan assets invested in bonds	240
Rental income from benefit plan properties	166.5
Foreign tax on income from foreign investments	90
Net profit on disposal of plan investments	300
Administrative expenses of benefit plan management	210
General expenses of benefit plan management	60

Additional information:

1. The present value of plan obligations as at 1 December 2016 stood at Sh.33,600 million while as at 30 November 2017, it was Sh.35,241 million.
2. The interest rate on high quality corporate debt (constant during the year) was 5% per annum.
3. Benefits paid, employer's contributions and employees' contributions were all evenly spread over the year.
4. The past service cost arose as a result of improvement in benefits offered to all plan members effective from 1 November 2016. In order to receive the benefit, plan members must have remained in employment until at least 30 November 2017. The figures provided above are the total expected costs as calculated by the actuary.

Required:

(i) Statement of changes in the fair value of plan assets in accordance with IAS 19 (Employee Benefits) for the year ended 30 November 2017. (4 marks)

(ii) Statement of changes in the present value of plan obligations in accordance with IAS 19 for the year ended 30 November 2017. (4 marks)

(iii) Statement of changes in net assets available for benefits for the plan itself as required by IAS 26 (Accounting and Reporting by Retirement Benefit Plans). (6 marks)

(Total: 20 marks)

QUESTION FIVE

G Ltd. is a company that is quoted on the securities exchange. The following trial balance was extracted from the books of the company as at 31 March 2018:

	Sh."000"	Sh."000"
Revenue		18,960
6% convertible bonds		3,000
Cost of sales	5,670	
Property, plant and equipment	19,420	
Intangible assets	1,750	
Administrative expenses	2,830	
Selling and distribution cost	1,890	
Provision for damages		1,200
Finance cost	1,560	
Inventories	4,730	
Trade and other receivables	1,270	
Ordinary share capital		5,800
Trade and other payables		920
Retained earnings		5,410
Instalment tax paid	740	

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	Sh."000"	Sh."000"
Deferred tax		270
Share premium		1,400
Revaluation reserve (property, plant and equipment)		1,500
Cash in hand	380	
Financial assets at fair value	1,250	
Investment income		120
Accumulated depreciation (property, plant and equipment)		2,910
	41,490	41,490

Additional information:

1. G Ltd. is also a sales agent for another company, P Ltd. and is entitled to a sales commission of 10% on the sales made on behalf of P Ltd. The net proceeds obtained from the sale (after deducting the commission) are remitted to P Ltd. During the financial year ended 31 March 2018, G Ltd. sold goods worth Sh.2,400,000 on behalf of P Ltd. This amount was included in the sales revenue disclosed in the trial balance. G Ltd. had not remitted the net sales proceeds to P Ltd. as at 31 March 2018.
2. During the year ended 31 March 2018, G Ltd. incurred Sh.1,750,000 relating to research and development expenditure on a new product. All of this expenditure was capitalised as an intangible asset. The Sh.1,750,000 expenditure was composed of the following costs:

	Sh."000"
Background investigation work (1 April 2017 – 31 May 2017)	250
Initial development work (1 June 2017 – 15 July 2017)	428
Second phase development work (16 July 2017 – 30 November 2017)	600
Product launch cost (December 2017)	316
Staff training (February 2018)	156
	1,750

The product was assessed as being commercially viable on 16 July 2017 and product development was completed on 30 November 2017. The product was launched in December 2017 although the first products were not delivered until April 2018.

3. On 1 April 2017, G Ltd. issued Sh.3,000,000, 6% convertible bonds at par. Each bond could be redeemed for cash at par or converted into three ordinary shares on 31 March 2020. The interest due on the bonds was paid on 1 April 2018. The equivalent effective interest rate on similar bonds without the conversion right is 9% per annum. The only accounting entries which had been made as at 31 March 2018 were to recognise the Sh.3,000,000 cash proceeds as a non-current liability.
4. On 1 January 2018, G Ltd. made a one-off purchase from a supplier in Zebuland. The goods were invoiced in the local currency of Zebuland which is the Zebu (Zb). The purchase was for Sh.2,200,000 and a 120-day credit period was given by the supplier. The purchase was recognised in purchases and payables using the 1 January 2018 spot exchange rate. No other accounting entries have been made. The cash was paid to the supplier on 1 May 2018. The relevant spot exchange rates were as follows:

1 January 2018 - 1 Ksh = 10 Zb
31 March 2018 - 1 Ksh = 11 Zb
1 May 2018 - 1 Ksh = 12 Zb

5. Depreciation on property, plant and equipment for the year ended 31 March 2018 has not yet been charged. All depreciation is provided on a straight line basis. Buildings were assessed as having a 40-year useful life and plant and machinery a 15-year useful life with a scrap value of Sh.150,000.

The cost of property, plant and equipment as at 1 April 2017 included:

	Sh.
Land	13,420,000
Building	3,600,000
Plant and machinery	2,400,000

Depreciation on plant and machinery is classified as cost of sales while depreciation on building is classified as administrative expenses.

6. Selling and distribution expenses included a provision for damages payable to a customer whose order had not been delivered on time. A provision for damages amounting to Sh.1,200,000 had been made. This provision is to be reversed.
7. The current year's tax is estimated at Sh.980,000. The net taxable temporary differences amount to Sh.840,000.
8. The applicable tax rate is 30%.

Required:

The following statements in a form suitable for publication:

(a) Statement of comprehensive income for the year ended 31 March 2018. (10 marks)

(b) Statement of changes in equity for the year ended 31 March 2018. (2 marks)

(c) Statement of financial position as at 31 March 2018. (8 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 1 December 2017. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) Explain three benefits of integrated reporting to both an organisation and the users of financial statements. (6 marks)

(b) The following statements of comprehensive income relate to W Ltd. and its investee companies S Ltd. and F Ltd. for the year ended 31 March 2017:

Statements of comprehensive income:

	W Ltd. Sh."million"	S Ltd. Sh."million"	F Ltd. Sh."million"
Revenue	976	420	63
Cost of sales	(687)	(228)	(26.2)
Gross profit	289	192	36.8
Other income	6.1	-	-
Dividend received	8.1	-	-
Operating expenses	(68)	(54)	(13.4)
Finance cost	(12)	(18)	(6.2)
Profit before tax	223.2	120	17.2
Income tax expense	(45)	(30)	(3.2)
Profit after tax for the year	178.2	90	14
Other comprehensive income:			
Gain on revaluation of property	15	12	2
Total comprehensive income for the year	193.2	102	16
Retained earnings (1 April 2016)	2,350	625	145
Equity share capital (1 April 2016)	1,000	775	10

Additional information:

1. W Ltd. bought 60% holding in the equity shares of S Ltd. on 1 April 2016. The purchase consideration was agreed at Sh.900 million of which Sh.600 million was paid in cash. The balance was satisfied by immediate issue of a 5% bond at par. S Ltd.'s net assets had a fair value of Sh.1,400 million as at 1 April 2016 represented by equity share capital of Sh.775 million and retained earnings of Sh.625 million. It was decided to apply the proportion of net assets method to calculate goodwill on acquisition. No impairment loss on goodwill arose during the year ended 31 March 2017.
2. W Ltd. sold its entire 60% equity holding in S Ltd. on 31 March 2017 for Sh.1,150 million in cash. No entry had been made to reflect this transaction.
3. W Ltd. owned 90% of the equity shares of F Ltd. since incorporation. No goodwill arose on this acquisition. There were no retained earnings in existence as at the acquisition date.
4. During the year ended 31 March 2017, W Ltd. sold goods to F Ltd. for Sh.15 million. These goods were sold by W Ltd. at a mark-up of 50% on cost. Three fifth (3/5) of these goods remained in the inventory of F Ltd. as at 31 March 2017. An amount of Sh.4.3 million remained outstanding to W Ltd. in respect of these goods as at 31 March 2017.
5. On 1 March 2017, F Ltd. declared an interim dividend of Sh.9 million. W Ltd. has recorded its share of this dividend as income. No other dividends were declared by the group companies during the year ended 31 March 2017.
6. All expenses and gains are assumed to accrue evenly throughout the year. No new equity capital was issued by any group company during the year ended 31 March 2017.
7. Interest on the 5% bond was payable in arrears. No payment had been made or provided for.

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Required:

(i) The gain (or loss) on disposal of the shares in S Ltd. on 31 March 2017. (4 marks)

(ii) Consolidated statement of comprehensive income for the year ended 31 March 2017. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) With reference to International Public Sector Accounting Standard (IPSAS) 21 "Impairment of Non-Cash-Generating Assets", explain three matters in respect of which an entity should disclose each material impairment loss recognised or reversed during the reporting period. (6 marks)

(b) On 1 January 2014, R Ltd. promised to pay its 200 employees a bonus in cash that would be based on how the company's share performed on the securities exchange. The bonus was to be paid on 31 December 2016 as long as the market price of the company's share was Sh.55 and above and the employee was still working for the company. As at 1 January 2014, the market price of the share was Sh.50 and the par value of one share was Sh.10. The bonus was to be the equivalent of 100 shares.

The following information in relation to the three years was availed:

Year ended	Number of employees leaving	Market price of a share (Sh.)
31 December 2014	10	55
31 December 2015	15	58
31 December 2016	15	60

All the employees who were in employment as at 31 December 2016 were paid the bonus.

Required:

Show how the bonus would be accounted for and reported over the three-year period ended 31 December 2016.

(6 marks)

(c) The following information was extracted from the books of Comfort Retirement Benefit Scheme for the years ended 31 October 2016 and 31 October 2017:

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	2016	2017
Discount rate on 1 November	10%	8%
Expected rate of return on plan assets – 1 November	12%	10%
Average remaining service life (years)	10	10

	2016 Sh. "million"	2017 Sh. "million"
Fair value of plan assets – 1 November	96	110
Present value of plan obligations – 1 November	100	125
Current service cost	8	10
Benefits paid	15	12
Contributions to the scheme	9	11
Past service cost	4	-

Additional information:

1. As at 1 November 2015, the present value of plan obligations and the fair value of plan assets were both Sh.100 million.
2. Assume all transactions occurred at the year end.

Required:

For each of the years ended 31 October 2016 and 31 October 2017, determine:

(i) The actuarial gains or losses. (2 marks)

(ii) The net pension cost to be charged in the income statement for each of the two years. (4 marks)

(iii) Balances to be reflected in the statement of financial position as at the end of each year. (2 marks)

(Total: 20 marks)

QUESTION TIIREE

(a) Citing three reasons, explain the rationale behind the inclusion of an environmental report in a reporting entity's annual report. (6 marks)

(b) The following are the group statement of comprehensive income and the group statement of financial position of Maneno Group of Companies for the financial years ended 31 October 2016 and 31 October 2017:

Maneno Group
Statement of comprehensive income for the year ended 31 October 2017

	Sh. "million"	Sh. "million"
Revenue		3,075
Cost of sales		(1,470)
		1,605
Gain on sale of subsidiary		120
Share of profit after tax in associate		144
		1,869
Expenses:		
Distribution costs	240	
Administrative expenses	480	
Finance cost	450	1,170
Profit before tax		699
Income tax expense		(144)
Profit after tax for the year		555
Gain on revaluation of land		60
Total comprehensive income for the year		615
Attributable to: Parent	540	
Non-controlling interest	75	615

Maneno Group
Statement of financial position as at 31 October:

	2017		2016	
	Sh. "million"	Sh. "million"	Sh. "million"	Sh. "million"
Assets:				
Non-current assets:				
Property, plant and equipment		18,000		13,500
Goodwill		255		390
Investment in associate		510		420
		18,765		14,310
Current assets:				
Inventory	3,900		3,090	
Trade receivables	3,120		3,120	
Financial assets at fair value	135		30	
Cash and bank balances	510	7,665	390	6,630
Total assets		26,430		20,940
Equity and liabilities:				
Ordinary share capital		6,000		4,500
Share premium		900		-
Revaluation reserve		150		-
Retained profit		10,200		9,960
Shareholders' funds attributable to parent		17,250		14,460
Shareholders' funds attributable to non-controlling interest		225		525
		17,475		14,985
Non-current liabilities:				
Bank loans	4,200		3,000	
Obligations under finance lease	630		135	
Deferred tax	1,020	5,850	915	4,050
Current liabilities:				
Trade payables	2,955		1,785	
Accrued interest	21		27	
Current tax	84		63	
Obligations under finance lease	45	3,105	30	1,905
Total equity and liabilities		26,430		20,940

Additional information:

1. During the year ended 31 October 2017, depreciation of Sh.240 million was charged in relation to property, plant and equipment.
2. An item of property with a carrying value of Sh.885 million was disposed of during the year ended 31 October 2017 for Sh.750 million in cash. The loss on disposal is part of the cost of sales.

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3. On 1 August 2017, the group disposed of an 80% owned subsidiary for Sh.1,170 million in cash. The subsidiary had the following net assets as at the date of disposal:

	Sh. "million"
Property, plant and equipment	2,025
Inventory	90
Trade receivables	135
Cash and bank balances	105
Trade payables	(540)
Current tax	(15)
Bank loans	(600)
	1,200

The subsidiary had been acquired on 1 November 2012 for a cash payment of Sh.660 million when its net assets had a fair value of Sh.675 million and the non-controlling interest had a fair value of Sh.150 million.

4. Additional property, plant and equipment was acquired by way of lease amounting to Sh.900 million during the year ended 31 October 2017.
5. Dividends paid by the holding company during the year ended 31 October 2017 amounted to Sh.120 million.
6. Land was revalued upwards by the holding company by Sh.60 million during the year ended 31 October 2017.

Required:

The group statement of cash flows in accordance with International Accounting Standard (IAS) 7 "Statement of Cash Flows" for the year ended 31 October 2017. (14 marks)

(Total: 20 marks)

QUESTION FOUR

(a) International Financial Reporting Standard (IFRS) 3 "Fair Value Measurement" establishes a fair value hierarchy that categorises into three levels the inputs to the valuation techniques used to measure fair value.

Required:

Explain the three levels referred to above. (6 marks)

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(b) The following information relates to SugarServe Ltd. for the year ended 31 May 2016:

1. The net profit of the company for the period attributable to preference shareholders and ordinary shareholders of the company was Sh.14.6 million.

2. Information on ordinary shares was as follows:

	"million"
• Ordinary shares of Sh.10 each in issue as at 1 June 2015	6
• Ordinary shares issued on 1 September 2015 at full price	1.2

The average market price of the shares for the year ended 31 May 2016 was Sh.100 and the closing price of the shares as at 31 May 2016 was Sh.110. On 1 January 2016, 300,000 partly paid ordinary shares of Sh.10 each were issued. They were issued at Sh.80 per share with Sh.40 payable on 1 January 2016 and Sh.40 payable on 1 January 2017. Dividend participation was 50% until fully paid.

3. Convertible loan stock of Sh.20 million at an interest rate of 5% per annum was issued at par on 1 April 2015. Half year's interest was payable on 30 September and 31 March each year. Each Sh.1,000 of the loan stock was convertible at the holder's option into 300 ordinary shares at any time. Sh.5 million of the loan stock was converted into ordinary shares on 1 April 2016 when the market price of the shares was Sh.100 per share.
4. Sh.1 million of convertible preference shares of Sh.10 each were issued in the year ended 31 May 2012. Dividends were to be paid half yearly on 30 November and 31 May at the rate of 6% per annum. The preference shares were convertible into ordinary shares at the option of the preference shareholders on the basis of two ordinary shares for each preference share issued. Holders of Sh.600,000 preference shares converted them into ordinary shares on 1 December 2015.
5. Corporate tax rate was 30%.

Required:

(i) Basic earnings per share (EPS) for the year ended 31 May 2016. (6 marks)

(ii) Diluted EPS for the year ended 31 May 2016. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Highlight six examples of unethical behaviour by the management of business entities which professional accountants should report about. (6 marks)

(b) (i) With reference to International Financial Reporting Standard (IFRS) 8 "Operating Segments", outline four disclosure requirements for a reportable segment. (4 marks)

(ii) The following information was obtained from the financial records of Super Food Group for the year ended 31 October 2017:

Consolidated income statement for the year ended 31 October 2017:

	Sh. "000"
Sale of goods	237,489
Service revenue	17,131
Rental income	1,404
Revenue	256,024
Cost of sales	(163,816)
Gross profit	92,208
Other income	1,585
Selling and distribution costs	(14,775)
Administrative expenses	(64,055)
Other expenses	(1,088)
Operating profit	13,875
Finance revenue	785
Finance cost	(1,627)
Share of associate's profit	83
Profit before tax	13,116
Tax expense	(3,775)
Profit after tax for the year	9,341

Consolidated statement of financial position as at 31 October 2017:

	Sh. "000"	Sh. "000"
Assets:		
Non-current assets:		
Property, plant and equipment		33,919
Investment properties		10,803
Intangible assets		6,195
Investment in associate		764
Available for sale investments		10,082
Deferred tax assets		383
		62,146
Current assets:		
Inventories	33,875	
Trade and other receivables	39,873	
Derivative financial instruments	153	
Cash and short-term deposits	22,628	96,529
Total assets		158,675
Equity and liabilities:		
Issued share capital		52,375
Retained earnings		39,190
		91,565
Non-current liabilities:		
Interest bearing loans and borrowings		15,078
Convertible preference shares		2,778
Employee benefit liabilities		7,644
Deferred tax liability		3,103
Current liabilities:		
Trade and other payables	17,841	
Interest bearing loans and borrowings	2,460	
Income tax payable	3,980	
Provisions	599	
Other liabilities	13,627	38,507
Total equity and liabilities		158,675

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Additional information:

1. For management purposes, the business is organised into five operating segments: retail, catering, manufacturing, publishing and others.
2. Details of the operating segments are provided below:

(a) **Revenues**

	Total revenue Sh. "000"	Inter-segment revenue Sh. "000"
Retail	129,842	-
Catering	66,853	7,465
Manufacturing	39,495	36,791
Publishing	32,306	-
Others	37,447	5,663

(b) **Operating profit**

	Sh. "000"
Retail	6,887
Catering	4,716
Manufacturing	1,283
Publishing	1,169
Others	3,284

(c) **Segment assets and liabilities**

	Assets Sh. "000"	Liabilities Sh. "000"
Retail	50,152	14,839
Catering	45,145	9,783
Manufacturing	24,620	3,609
Publishing	14,165	4,704
Others	23,829	34,175
Investment in associate	764	

3. Inter-segment profit amounted to Sh.4,223,000.

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Required:

Segment report, as far as the information provided above allows, according to International Financial Reporting Standard (IFRS) 8 "Operating Segments". (10 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 26 May 2017. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

The following is the summary of financial statements relating to A Ltd., B Ltd., C Ltd. and D Ltd. for the financial year ended 31 March 2017:

Income statements for the year ended 31 March 2017:

	A Ltd. Sh."million"	B Ltd. Sh."million"	C Ltd. Sh."million"	D Ltd. Sh."million"
Revenue	1,200	850	600	800
Cost of sales	(650)	(450)	(320)	(410)
Gross profit	550	400	280	390
Other incomes	50	29.5	-	-
	600	429.5	280	390
Distribution costs	(120)	(70)	(90)	(100)
Administrative expenses	(180)	(80)	(120)	(120)
Finance cost	(20)	(10)	(30)	(20)
Profit before tax	280	269.5	40	150
Income tax expense	(60)	(80)	(12)	(50)
Profit for the period	220	189.5	28	100
Dividends paid	(80)	(60)	(10)	(50)
Retained profit for the year	140	129.5	18	50
Retained profit brought forward	450	300	218	260
Retained profit carried forward	590	429.5	236	310

Statement of financial position as at 31 March 2017:

Assets:	A Ltd. Sh."million"	B Ltd. Sh."million"	C Ltd. Sh."million"	D Ltd. Sh."million"
Non-current assets:				
Property, plant and equipment	1,400	800	1,200	1,100
Intangible assets	250	180	200	120
Investment in B Ltd.	800			
Investment in C Ltd.		600		
Investment in D Ltd.		400		
Available for sale financial assets	50	30		
	2,500	2,010	1,400	1,220
Current assets:				
Inventory	100	80	90	70
Trade and other receivables	160	140	150	120
Bank and cash balances	40	60	30	50
	300	280	270	240
Total assets	2,800	2,290	1,670	1,460
Capital and liabilities:				
Ordinary share capital (Sh.10 par value)	1,000	500	400	500
Share premium	400	300	250	300
Available for sale reserve	10	5		
Retained profits	590	429.5	236	310
	2,000	1,234.5	886	1,110

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	A Ltd. Sh."million"	B Ltd. Sh."million"	C Ltd. Sh."million"	D Ltd. Sh."million"
Non-current liabilities:				
10% loan stock	200	100	300	200
Deferred tax	40	30	20	30
	240	130	320	230
Current liabilities:				
Trade and other payables	280	425.5	260	100
Bank loans	200	400	150	-
Current tax	80	100	54	20
	560	925.5	464	120
Total capital and liabilities	2,800	2,290	1,670	1,460

Additional information:

1. A Ltd. acquired 80% of the share capital in B Ltd. on 1 April 2014 when the retained profits of B Ltd. were Sh.100 million. An item of plant in B Ltd. had a fair value of Sh.20 million above its carrying amount and depreciation is at 20% per annum. There were no other reserves other than the share premium.
2. B Ltd. acquired 75% of the share capital in C Ltd. on 1 April 2015 when the retained profits of C Ltd. were Sh.100 million. Land belonging to C Ltd. had a fair value of Sh.50 million above its carrying amount.
3. B Ltd. also acquired 40% shares of D Ltd. on 1 April 2015 when the retained profits of D Ltd. were Sh.150 million.
4. The group uses the partial goodwill method and even though no impairment was reported in previous years, half of the goodwill has been reported impaired in the current year for B Ltd. and C Ltd. The goodwill of D Ltd. was not impaired.
5. Intercompany sales were as follows during the year:

Seller	Buyer	Selling price Sh."million"	Margin %	Balance in stock
C Ltd.	B Ltd.	200	50	50%
B Ltd.	A Ltd.	250	40	25%
B Ltd.	D Ltd.	100	40	-

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6. Inter-company balances were as follows:

	Sh."million"
Due from B Ltd. to C Ltd.	40
Due from A Ltd. to B Ltd.	50
Due from D Ltd. to B Ltd.	20

Required:

(a) Consolidated income statement for the year ended 31 March 2017. (10 marks)

(b) Consolidated statement of financial position as at 31 March 2017. (10 marks)

(Total: 20 marks)

QUESTION TWO

(a) Explain the accounting treatment of embedded derivatives under IFRS 9 (Financial Instruments). (4 marks)

(b) Distinguish between a "fair value hedge" and a "cash flow hedge" citing the accounting treatment of each. (6 marks)

(c) On 1 January 2014, Comair Ltd. issued 500 share options to each of its 1,000 employees eligible for the employee share ownership scheme.

The fair value of each option at the date of grant was Sh.30. The options had a vesting period of three years, and any employee who resigned before 31 December 2016 was not entitled to any shares.

As at 1 January 2014, the management estimated that 5% of the employees would exit during the year. On 1 January 2015, the estimated number of employees who would exit was revised to 8%.

Actual information from the company's human resources department indicated that 24 employees exited during the year to 31 December 2014, 17 employees exited during the year to 31 December 2015 and 6 employees exited during the year to 31 December 2016.

Required:

(i) Journal entries to record the transactions with regard to the share options for each of the years ended 31 December 2014, 31 December 2015 and 31 December 2016. (8 marks)

(ii) Explain how your answer in (c) (i) above would be different if the employees had the option to be paid the cash equivalent to the market price of the shares vested. (2 marks)

(Total: 20 marks)

QUESTION THREE

Juhudi Ltd. is an electronics company which has been listed on the securities exchange for the last two years. Provided below are the equity and long-term funds of the company as at 30 April 2016.

Also provided are the income statements and statements of movements in reserves for the years ended 30 April 2016 and 30 April 2017 respectively.

Equity and long-term funds as at 30 April 2016:

	Sh. "000"
Ordinary share capital (Sh.8 par value)	19,200
Share premium	4,800
6% preference share capital	500
Retained profit	3,240
Total equity	27,740
Long term funds:	
8% convertible loan stock	1,000
Total equity and non-current liabilities	28,740

Income statement for the year ended 30 April:

	2017 **Sh. "000"**	**2016** **Sh. "000"**
Revenue	25,100	21,720
Cost of sales	(20,080)	(16,290)
Gross profit	5,020	5,430
Operating expenses	(1,220)	(1,200)
Profit before interest and tax	3,800	4,230
Interest on loan stock	(80)	(80)
Profit before tax	3,720	4,150
Taxation	(535)	(520)
Profit for the year	3,185	3,630

Statement of movements in reserves as at:

	30 April 2017 **Sh. "000"**	**30 April 2016** **Sh. "000"**
Retained profit brought forward	3,240	-
Profit for the year	3,185	3,630
Preference dividend	(30)	(30)
Ordinary dividend	(480)	(360)
Retained profit carried forward	5,915	3,240

Additional information:

1. On 1 November 2016, the company made a bonus issue of shares on the basis of one ordinary share for every six ordinary shares held.
2. On 1 March 2017, the company made a rights issue of one ordinary share for every seven ordinary shares held. The rights issue price was Sh.8.5 per share. The market value of one ordinary share on the date of the rights issue was Sh.12.5 per share.
3. The 8% convertible loan stock can be converted at the option of the holders from the year 2022 at the rate of 125 ordinary shares for every Sh.1,000 of the loan stock held.
4. The corporation tax rate is 30%.
5. There was no issue of preference share capital in the year 2017.
6. There was no issue of loan stock in the year 2017.

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Required:

(a) The basic earnings per share (EPS) for the year ended 30 April 2016. (2 marks)

(b) The basic earnings per share (EPS) for the year ended 30 April 2017. (8 marks)

(c) The adjusted earnings per share (EPS) for the year 2016 that would be shown in the year 2017 as a comparative for the EPS. (4 marks)

(d) The diluted earnings per share. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) The management commentary (management discussion and analysis) provides users with integrated information that provides a context for the related financial statements.

Required:

Discuss three contents of a management commentary in an entity's financial statements. (6 marks)

(b) Munro Ltd., a manufacturing company, provides for deferred income tax in accordance with IAS 12 (Income Taxes). The following is an extract from the statement of financial position as at 30 April 2017:

Assets:	**Sh."000"**
Non-current assets:	
Property, plant and equipment	14,000
Intangible assets	4,000
Goodwill	6,000
Financial assets – available for sale	12,000
Current assets:	
Inventories	7,500
Trade receivables	6,650
Prepayments	3,200
Cash and cash equivalents	1,250
	54,600
Equity and liabilities:	
Equity:	
Share capital	12,000
Revaluation reserves	3,000
Retained profit	12,260
Non-current liabilities:	
Interest-bearing loans	16,000
Deferred income tax (1 May 2016)	1,200
Current liabilities:	
Trade and other payables	8,000
Employee benefits	2,000
Current income tax	140
	54,600

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Additional information:

1. The tax bases of the assets are as follows:

	Sh."000"
Property, plant and equipment	2,800
Prepayments	1,500
Interest-bearing loans	17,000
Financial assets (available for sale)	14,000

2. Inventories are stated at fair value less cost to sell which is lower than the original cost due to a general provision for price decline of Sh.3.5 million.
3. The intangible assets comprise development cost which is tax deductible when the amount is paid out. The cost of intangible assets was paid in the year 2014 and is presented net of armotisation cost.
4. Goodwill and employee benefits are tax exempt.
5. Trade and other payables include provision for leave allowance of Sh.1.4 million which is tax deductible on cash basis.
6. Trade receivables are stated net of general allowances for bad debts at the rate of 5% of the gross receivables. The general allowance is not tax deductible until it becomes specific.

7. The building, which is included in property, plant and equipment was revalued during the year. The increase in value of Sh.3 million does not affect the tax base.
8. The tax base of other items is equal to their carrying amount.
9. The tax rate applicable is 30%.

Required:

(i) Deferred tax balance as at 30 April 2017. (12 marks)

(ii) Deferred income tax account as at 30 April 2017. (2 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Summarise three main reasons for developing a conceptual framework for the preparation and presentation of financial statements. (6 marks)

(b) (i) In the context of International Public Sector Accounting Standard (IPSAS) 18 "Segment Reporting", differentiate between a "service segment" and a "geographical segment". (4 marks)

(ii) IPSAS 25 "Employee Benefits" prescribes the accounting and disclosure requirements by public sector entities for employee benefits.

Required:

Explain three types of employee benefits with a brief description of the accounting treatment of each. (6 marks)

(c) To maintain or create a good corporate image to the society within which a company operates, there is need to take responsibility for any actual or potential social impact caused by the company's activities. This should be reported through a social responsibility report.

Required:

Comparing conventional financial reporting with social responsibility reporting, explain two practical challenges peculiar to social responsibility reporting. (4 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 25 November 2016. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

H Ltd., a public limited company based in Kenya, owns 75% of the ordinary share capital of S Ltd., a public limited company based in Rwanda. H Ltd. acquired S Ltd. on 1 May 2015 for 1,200 million Rwandan Francs (RWF) when the retained profits of S Ltd. were 800 million RWF. The functional currency of H Ltd. is the Kenya shilling (KSh). The functional currency of S Ltd. is the Rwandan Franc (RWF). S Ltd. has not revalued its assets or issued any share capital since its acquisition by H Ltd. The following financial statements relate to H Ltd. and S Ltd.

Statement of financial position as at 30 April 2016:

	H Ltd. KSh. "million"	S Ltd. RWF "million"
Assets:		
Property, plant and equipment	2,970	1,460
Investment in S Ltd.	480	-
Loan to S Ltd.	50	-
Current assets	3,550	1,020
Total assets	7,050	2,480
Equity and liabilities:		
Ordinary shares of KSh.10/RWF 10	600	320
Share premium	500	200
Retained earnings	3,600	950
Total equity	4,700	1,470
Non-current liabilities	300	410
Current liabilities	2,050	600
Total equity and liabilities	7,050	2,480

Income statement and other comprehensive income

	H Ltd. KSh. "million"	S Ltd. RWF "million"
Revenue	2,000	1,420
Cost of sales	(1,200)	(960)
Gross profit	800	460
Distribution and administration expenses	(300)	(200)
Profit from operations	500	260
Interest receivable	40	-
Interest payable	-	(20)
Profit before tax	540	240
Income tax expense	(200)	(90)
Profit for the year	340	150

Additional information:

1. Goodwill is reviewed for impairment annually. As at 30 April 2016, the impairment loss on recognised goodwill was RWF 42 million.
2. During the year ended 30 April 2016, S Ltd. purchased raw materials from H Ltd. and denominated the purchase in RWF in its financial records. The details of the transaction are as shown below:

Nature of goods	Date of transaction	Selling price KSh. "million"	Profit percentage on selling price
Raw materials	1 February 2016	60	20%

As at 30 April 2016, half of the raw materials purchased were still in the inventory of S Ltd.

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3. H Ltd. issued an interest-free loan to S Ltd. of KSh.50 million on 1 May 2015. The loan was repaid on 31 May 2016. S Ltd. included the loan in its non-current liabilities.
4. The fair value of the net assets of S Ltd. as at the date of acquisition is assumed to be the same as the carrying value.
5. H Ltd. paid a dividend of KSh.80 million during the year ended 30 April 2016. This dividend had not been included in the company's income statement.
6. The corporation tax rate is 30%.
7. It is the group's policy to value the non-controlling interest at acquisition at its proportionate share of the fair value of the subsidiary's identifiable net assets.
8. The following exchange rates are relevant to the financial statements:

	RWF to KSh.
30 April 2015/1 May 2015	2.5
1 November 2015	2.6
1 February 2016	2.0
30 April 2016	2.1
Average rate for the year ended 30 April 2016	2.0

Required:
Prepare the following statements in accordance with the applicable International Financial Reporting Standards (IFRSs):

(a) Consolidated income statement for the year ended 30 April 2016. (10 marks)

(b) Consolidated statement of financial position as at 30 April 2016. (10 marks)

(Total: 20 marks)

QUESTION TWO
The following are the group income statement and group statement of financial position of Kijiko group of companies for the financial year ended 31 October 2016:

Kijiko Group
Income statement for the year ended 31 October 2016

	Sh."million"	**Sh."million"**
Revenue (from credit sales)		25,530
Cost of sales		(18,140)
Gross profit		7,390
Other incomes: Investment income	250	
Share of associate company's profit	200	450
		7,840
Expenses:		
Distribution costs	1,250	
Administrative expenses	2,640	
Finance costs	750	(4,640)
Profit before tax		3,200
Income tax expense		(1,400)
Profit for the year		1,800
Profit attributable to: Holding company		1,650
Non-controlling interest		150
		1,800

Kijiko Group
Statement of financial position as at 31 October:

	2016 Sh."million"	**2015 Sh."million"**
Non-current assets:		
Property, plant and equipment	3,800	3,050
Intangible assets (including goodwill)	2,500	2,000
Investments: In associate company	650	500
Others	-	250
	6,950	5,800

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	2016	2015
Current assets:	**Sh."million"**	**Sh."million"**
Inventories	1,500	1,020
Trade receivables	3,900	3,150
Short-term investments	500	-
Cash balance	20	10
Total assets	12,870	9,980
Equity and liabilities:		
Ordinary share capital	2,000	1,500
Revaluation reserve	1,010	910
Retained profits	1,740	1,200
Share premium	1,600	1,500
	6,350	5,110
Non-controlling interest	500	300
Non-current liabilities:		
Loan notes	1,700	500
Current liabilities:		
Trade payables	2,270	1,990
Bank overdraft	850	980
Current tax	1,200	1,100
Total equity and liabilities	12,870	9,980

Additional information:

1. An item of plant with an original cost of Sh.850 million and with a net book value of Sh.450 million was sold for Sh.320 million during the year ended 31 October 2016.
2. Other investments were sold for Sh.300 million during the year ended 31 October 2016.
3. During the year ended 31 October 2016, Kijiko Ltd. acquired 80% of the share capital of Sahani Ltd. The assets of Sahani Ltd. were as follows as at the date of acquisition.

	Sh."million"
Property, plant and equipment	600
Inventories	400
Trade receivables	300
Loan notes	(250)
Trade payables	(400)
Bank balance	(100)
Tax	(50)
Net assets	500

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4. The following information relates to property, plant and equipment as at:

	31 October 2016	31 October 2015
	Sh."million"	**Sh."million"**
Cost	7,200	5,950
Accumulated depreciation	(3,400)	(2,900)
Net book value	3,800	3,050

The cost of property, plant and equipment of Sahani Ltd. on the date of acquisition was Sh.1,000 million and the accumulated depreciation on the property, plant and equipment was Sh.400 million. During the year ended 31 October 2016, there was a revaluation gain of Sh.100 million attributable to the holding company's property, plant and equipment.

5. The total purchase consideration of S Ltd. was Sh.450 million paid by issuing Sh.100 million worth of ordinary shares at par. The balance was paid in cash.
6. Depreciation and loss on sale of plant are included in the cost of sales.

Required:

Group statement of cash flows in conformity with IAS 7 (Statement of Cash Flows) for the year ended 31 October 2016 using the direct method of presentation. **(20 marks)**

QUESTION THREE

(a) Explain four differences between an internal reconstruction and an external reconstruction. (4 marks)

(b) The following is the summarised statement of financial position of P Ltd. as at 30 June 2016:

	Sh."million"	Sh."million"	Sh."million"
Non-current assets:			
Tangible: Freehold property			680
Plant			80
			760
Intangible: Patents		244	
Goodwill		224	468
			1,228
Current assets:			
Inventory	680		
Accounts receivable	776		
Investment (market value Sh.224 million)	88	1,544	
Current liabilities:			
Accounts payable	400		
Bank overdraft	312		
Debenture interest payable	36		
Accruals	80		
Directors' loans	160	(988)	556
			1,784
Financed by:			
Share capital:			
120 million ordinary shares of Sh.10 each			1,200
6% 64 million cumulative preference shares of Sh.10 each			640
			1,840
Revenue reserves:			
Accumulated losses			(656)
			1,184
Non-current liabilities:			
6% debentures			600
			1,784

The court approved a scheme of reorganisation submitted by the debenture holders and agreed upon by other interested parties to take effect on 1 July 2016. Details of the approved scheme are as follows:

1. The 6% debenture holders were to have their interest paid in cash and to take over part of the freehold property (book value Sh.160 million) at a valuation of Sh.192 million in part repayment of their holding. The 6% debenture holders are also to provide additional cash of Sh.208 million secured by a floating charge on the company's assets at an interest rate of 12% per annum.
2. Patents and goodwill are to be written off, Sh.120 million is to be written off inventory and Sh.93.6 million is to be provided for bad debts. The remaining freehold property is to be revalued at Sh.620 million. The investment was sold at the prevailing market value.
3. The directors were to accept settlement of their loans as to 90% thereof by allotment of ordinary shares at par and as to 5% in cash. The balance of 5% was to be waived.
4. The trade payables are to be paid Sh.0.10 in every shilling to maintain and obtain an extension of the credit period.
5. The bank has sanctioned an overdraft limit of Sh.10 million to provide working capital.
6. The 6% preference dividends are four years in arrears of which three-quarters are to be waived and ordinary shares are to be allocated at par for the balance.
7. The 6% preference shares are to be written down to Sh.7.50 each and the existing ordinary shares to Sh.2 each. All the ordinary shares are to be consolidated into shares of Sh.10 each. The rate of dividends on preference shares is to be increased to 10%.
8. There are capital commitments amounting to Sh.600 million which are to be cancelled on payment of 3⅓% of the contract price as a penalty.

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Required:

(i) The capital reduction account to record the scheme of capital reorganisation. (8 marks)

(ii) The statement of financial position of P Ltd. as at the close of business on 1 July 2016 immediately after effecting the scheme of reorganisation. (8 marks)

(Total: 20 marks)

QUESTION FOUR

(a) With reference to International Accounting Standard (IAS) 24 (Related Parties), explain three examples of related party relationships. (6 marks)

(b) The following information relates to Jambo Ltd:

1. Net profit after tax:

Year ended 31 December:	2013	2014	2015
Sh. "million"	30	38	45

2. On 1 February 2014, a rights issue of one new share for each five shares outstanding was made at an exercise price of Sh.5.
3. Before the rights issue, the number of shares outstanding was 5,000,000.
4. The last date to exercise the rights was 1 March 2014.
5. The fair value of one ordinary share immediately before exercise of the rights on 1 March 2014 was Sh.11.

Required:

Earnings per share (EPS) for each of the years ended 31 December 2013, 2014 and 2015. (6 marks)

(c) As part of its staff motivation programme, Better Ltd. decided to grant each of its 600 employees 100 options to purchase the company's shares effective from 1 April 2016. These options were conditional upon one still being in employment as at 31 March 2020.

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The following additional details were provided with respect to the scheme:

Year ended	**Number of employees expected to terminate or leave employment**	**Fair value of each option Sh.**
31 March 2017	25	20
31 March 2018	15	16
31 March 2019	10	16
31 March 2020	10	12

The fair value of the option was Sh.25 as at 1 April 2016. The exercise price of the option will be Sh.12 and the par value of the company's share is Sh.6. The average market price of the share over the four years to 31 March 2020 is expected to be Sh.25.

Required:

Show how Better Ltd. should report the transactions of the above scheme as per the requirements of IFRS 2 (Share-based Payment) over the four years ending 31 March 2020. Assume that all the eligible employees will exercise their rights on 31 March 2020. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Analyse three functions of the International Financial Reporting Interpretations Committee (IFRIC). (6 marks)

(b) (i) Define the term "social responsibility accounting". (2 marks)

(ii) Explain three advantages of social responsibility accounting. (6 marks)

(c) The following summary of receipts and payments was extracted from the records of a hypothetical Ministry of Finance for the fiscal year ended 30 June 2016:

Receipts:	**Original budget Sh."billion"**	**Actual Sh."billion"**
Taxation revenue	320	300
Borrowings – foreign	180	180

	Sh."billion"	Sh."billion"
Aid from international agencies	100	90
Disposal of assets	90	100
Trading activities	200	190
Other receipts	40	30
Payments:		
Education	180	170
Health	160	170
Defence	140	120
Housing	80	100
Internal security	120	120
Others	170	180

Additional information:

1. The Minister for Finance presented the following supplementary finance bills which were approved and effected:
   - Disposal of a parastatal – Sh. 20 billion.
   - Domestic borrowings – Sh.30 billion.
   - Increase in expenditure for defence – Sh.10 billion.
   - Reduction in expenditure for health – Sh.15 billion.
2. All the other receipts and payments remained as budgeted.

Required:

The statement of comparison of budget and actual amounts for the fiscal year ended 30 June 2016 in accordance with International Public Sector Accounting Standard (IPSAS) 24 (Presentation of Budget Information in Financial Statements). (6 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 27 May 2016. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

On 1 April 2011, D Ltd. acquired 80% of the ordinary shares of S Ltd. S Ltd. had acquired 60% of the ordinary shares of E Ltd. on 1 July 2010.

D Ltd. had also invested in the ordinary shares of A Ltd. to the extent of 75% on 1 April 2012. On 30 June 2015, D Ltd. disposed of 1/3 of its investment in A Ltd.

The following financial statements relate to the above companies for the year ended 31 March 2016.

Statement of comprehensive income for the year ended 31 March 2016:

	D Ltd. Sh."million"	S Ltd. Sh."million"	E Ltd. Sh."million"	A Ltd. Sh."million"
Revenue	26,400	24,000	20,000	15,000
Cost of sales	(12,000)	(12,000)	(16,000)	(12,000)
Gross profit	14,400	12,000	4,000	3,000
Investment income	3,520	540	-	-
	17,920	12,540	4,000	3,000
Distribution cost	(3,320)	(2,360)	(1,360)	(800)
Administrative expenses	(3,880)	(2,440)	(1,140)	(900)
Finance cost	(420)	-	-	-
Profit before tax	10,300	7,740	1,500	1,300
Income tax expenses	(2,440)	(2,400)	(580)	(500)
Profit for the year	7,860	5,340	920	800
Other comprehensive income:				
Adjustment of available for sale financial assets	500	-	-	-
Total comprehensive income	8,360	5,340	920	800

Statement of financial position as at 31 March 2016:

Non-current assets:	D Ltd. Sh."million"	S Ltd. Sh."million"	E Ltd. Sh."million"	A Ltd. Sh."million"
Property, plant and equipment	8,760	2,200	4,500	3,500
Investment in: S Ltd.	6,720	-	-	-
E Ltd.	-	4,600	-	-
A Ltd.	4,480	-	-	-
Available for sale financial assets	3,000	-	-	-
	22,960	6,800	4,500	3,500
Current assets:				
Inventories	2,100	2,200	1,650	1,270
Trade receivables	2,640	6,600	500	800
Financial assets at fair value through profit and loss	1,000	-	-	-
Cash and cash equivalents	400	2,200	300	430
	6,140	11,000	2,450	2,500
Total assets	29,100	17,800	6,950	6,000

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	D Ltd. Sh."million"	S Ltd. Sh."million"	E Ltd. Sh."million"	A Ltd. Sh."million"
Equity and liabilities:				
Equity:				
Ordinary share capital (Sh.100 par value)	6,000	3,200	2,000	2,500
Share premium	3,000	1,600	1,000	1,250
Revenue reserves	9,580	5,600	2,120	1,650
	18,580	10,400	5,120	5,400
Non-current liabilities:				
12% loan stock	3,500	-	-	-
Deferred tax liability	2,660	2,200	370	-
Current liabilities:				
Trade and other payables	2,020	3,000	790	460
Current income tax	2,340	2,200	670	140
	10,520	7,400	1,830	600
Total equity and liabilities	29,100	17,800	6,950	6,000

Additional information:

1. D Ltd. acquired its investments in S Ltd. and A Ltd. when the revenue reserve balances of S Ltd. and A Ltd. were Sh.2,600 million and Sh.650 million respectively.
2. The revenue reserves of E Ltd. amounted to Sh.2,400 million as at 1 July 2010 and Sh.2,750 million as at 1 April 2011.
3. During the year ended 31 March 2016, S Ltd. sold goods at a normal mark up of $33\frac{1}{3}\%$ at a price of Sh.2,400 million to D Ltd. 20% of the goods remained unsold by D Ltd. as at 31 March 2016.
4. The financial assets held at fair value through profit and loss in the books of D Ltd. have not been adjusted to their fair value of Sh.1,200 million. Revenue reserves of D Ltd. include the fair value adjustment of available for sale financial assets.
5. Investment income includes dividends received from subsidiaries. D Ltd. received Sh.3,200 million from S Ltd. while S Ltd. received Sh.360 million from E Ltd. Total dividends paid by D Ltd. amounted to Sh.2,000 million.
6. The disposal proceeds from the sale of shares in A Ltd. on 30 June 2015 amounted to Sh.1,500 million received in cash. D Ltd. will account for the remaining interest in A Ltd. using the equity method in accordance with IAS 28.
7. Included in trade receivables and trade payables are the following balances:
   - Due from D Ltd. to S Ltd. Sh.250 million.
   - Due from A Ltd. to D Ltd. Sh.140 million.
   - Due from E Ltd. to S Ltd. Sh.240 million.
8. Inventories sold by S Ltd. to D Ltd. worth Sh.60 million at normal mark up had neither been received nor recorded by D Ltd. as at 31 March 2016.
9. All goodwill of the investee companies had been impaired by 25% during the year ended 31 March 2015. No impairment occurred in the year ended 31 March 2016. The group uses the partial goodwill method in preparing the group financial statements.

Required:

(a) Group statement of comprehensive income for the year ended 31 March 2016. (10 marks)

(b) Group statement of financial position as at 31 March 2016. (10 marks)

(Total: 20 marks)

QUESTION TWO

The Samaki group has prepared the following financial statements for the year ended 31 December 2014 and 31 December 2015.

Samaki Group
Statement of comprehensive income for the year ended 31 December 2015

	Sh."million"	Sh."million"
Revenue		24,600
Cost of sales		(19,230)
		5,370
Other incomes: Share of profit after tax from associate		249
Gain on disposal of property, plant and equipment		45
Interest income		141
		5,805

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	Sh."million"	Sh."million"
Distribution costs	2,406	
Administrative expenses	1,110	
Finance costs	111	(3,627)
Profit before tax		2,178
Income tax expense		(594)
Profit after tax for the year		1,584
Attributable to:		
Parent		1,254
Non-controlling interest		330
		1,584

Samaki Group
Statement of financial position as at 31 December:

Assets:	**2015** **Sh."million"**	**2014** **Sh."million"**
Non-current assets:		
Property, plant and equipment	3,957	3,270
Goodwill	270	246
Investments	2,340	810
	6,567	4,326
Current assets:		
Inventories	2,400	1,914
Trade receivables	1,830	1,440
Cash and cash equivalents	135	420
	4,365	3,774
Total assets	10,932	8,100
Capital and liabilities:		
Capital and reserves:		
Ordinary share capital (Sh.10 par value)	540	450
Share premium account	255	45
Revaluation reserve	90	30
Retained earnings	597	306
Non-controlling interest	753	450
Long-term liabilities:		
Interest bearing borrowings	4,194	3,180
Current liabilities	4,503	3,639
	10,932	8,100

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Statement of changes in equity for the year ended 31 December 2015:

	Share capital **Sh."million"**	**Share premium** **Sh."million"**	**Revaluation reserve** **Sh."million"**	**Retained earnings** **Sh."million"**	**Total** **Sh."million"**
Balance brought down (1 January 2015)	450	45	30	306	831
Gain on revaluation of property	-	-	60	-	60
Net profit for the period	-	-	-	1,254	1,254
Dividend paid	-	-	-	(378)	(378)
Exchange difference: On retranslation of foreign investment	-	-	-	(615)	(615)
Exchange difference: On loan to finance equity investment	-	-	-	30	30
Issue of share capital	90	210	-	-	300
Balance carried down (31 December 2015)	540	255	90	597	1,482

Additional information:

1. Samaki Ltd. acquired 80% of the ordinary shares in Zebra Ltd. on 1 January 2015. The fair value of the assets of Zebra Ltd. as at 1 January 2015 were as follows:

	Sh."million"
Property, plant and equipment	180
Inventories	120
Trade receivables	45
Cash and cash equivalents	105
Trade payables	(48)
Accruals	(12)
Current tax	(90)
Net assets	300

The purchase consideration was Sh.291 million and comprised 6 million ordinary shares of Sh.10 par value in Samaki Ltd. (issued at Sh.40 each) and Sh.51 million in cash.

2. The summary of property, plant and equipment was as follows:

	Sh."million"
Balance as at 1 January 2015	3,270
Additions (including Zebra Ltd.)	834
Revaluation of property, plant and equipment	60
Disposal	(90)
Depreciation	(117)
Balance as at 31 December 2015	3,957

There have been no sales of investments. The investments included under non-current assets were made up of the following items as at 31 December:

	2015 Sh."million"	2014 Sh."million"
Investment in associate company	900	660
Trade investments (including purchases of foreign equity investment)	1,440	150

Interest receivable included in trade receivables was Sh.45 million as at 1 January 2015 and Sh.51 million as at 31 December 2015.

3. Current liabilities comprised the following items as at 31 December:

	2015 Sh."million"	2014 Sh."million"
Trade payables (including interest payable of Sh.27 million as at 31 December 2015)	3,579	2,739
Current tax	609	600
Accruals	315	300
	4,503	3,639

4. The exchange differences included in the statement of changes in equity relate to a transaction involving a foreign equity investment. An interest bearing loan of Sh.900 million was obtained during the year to finance the foreign equity investment. Both amounts are after retranslation as at 31 December 2015.
5. During the year ended 31 December 2015, an interest bearing loan amounting to Sh.300 million was obtained to acquire additional property, plant and equipment. The assets were acquired in the course of the year.

Required:

The group statement of cash flow in accordance with IAS 7 (Statement of Cash Flows) for the year ended 31 December 2015.

(20 marks)

QUESTION THREE

Hasara Ltd., which has been operating in the telecommunications sector, has been posting successive trading losses. The directors of the company have made a proposal to reconstruct the company by transferring the entire operations of the company to a new entity to be called Zawadi Ltd. with effect from 1 April 2016.

The following statement of financial position relates to Hasara Ltd. as at 31 March 2016:

Hasara Ltd.
Statement of financial position as at 31 March 2016

Assets:	**Sh."000"**
Non-current assets:	
Property, plant and equipment	10,957.4
Available for sale financial assets	647
Goodwill	120
Preliminary expenses	87.8

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Current assets:	**Sh."000"**
Inventories	872.5
Accounts receivable	689.9
Financial assets at fair value through profit and loss	216.4
Total assets	13,591
Equity and liabilities:	
Equity:	
Ordinary share capital (Sh.10 par value)	6,000
7% cumulative preference share capital (Sh.10 par value)	4,000
Revaluation reserves	400.8
Revenue reserves	(3,822.7)
	6,578.1
Non-current liabilities:	
10% debentures	4,000
Current liabilities:	
Bank overdraft	775.8
Accounts payable	1,962
Current income tax	275.1
Total equity and liabilities	13,591

Additional information:

1. Zawadi Ltd. issued 3 new ordinary shares of Sh.10 each for every five 7% cumulative preference shares in Hasara Ltd. In addition, the 7% cumulative preference shareholders in Hasara Ltd. were issued with two new 10% preference shares of Sh.10 par value in Zawadi Ltd. for every five 7% cumulative preference shares held.
2. The preference dividends in Hasara Ltd. were three years in arrears. The 7% cumulative preference shareholders in Hasara Ltd. will accept three fully paid ordinary shares of Sh.10 each in Zawadi Ltd. and Sh.20 of 8% debentures in Zawadi Ltd. for every Sh.100 of the preference dividend in arrears.
3. The existing 10% debenture holders in Hasara Ltd. were issued with five fully paid ordinary shares of Sh.10 each in Zawadi Ltd. and Sh.40 of 8% debentures for every Sh.100 of 10% debentures.
4. The ordinary shareholders in Hasara Ltd. were issued with 2 new ordinary shares of Sh.10 each in Zawadi Ltd. for every five ordinary shares held.
5. The current liabilities of Hasara Ltd. were taken over by Zawadi Ltd. at book value.
6. The assets of Hasara Ltd. were taken over by Zawadi Ltd. at their fair values as follows:

	Sh. "000"
Property, plant and equipment	9,486.8
Available for sale financial assets	810
Inventories	608.7
Accounts receivable	477.1
Financial assets at fair value through profit and loss	216.4

7. The liquidation expenses of Hasara Ltd. amounted to Sh.30,000 and were paid by Zawadi Ltd.
8. All the above transactions were completed on 1 April 2016.

Required:

(a) The relevant ledger accounts to close the books of Hasara Ltd. (8 marks)

(b) Journal entries to record the relevant transactions in the books of Zawadi Ltd. (6 marks)

(c) Statement of financial position of Zawadi Ltd. as at 1 April 2016. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) With reference to IAS 36 (Impairment of Assets), discuss the treatment of impairment losses. (6 marks)

(b) In the context of IPSAS 4 (The Effects of Changes in Foreign Exchange Rates), explain the procedure to be adopted when translating the financial performance and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy into a different presentation currency. (6 marks)

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(c) XYZ Ltd. issued share options to staff on 1 January 2013. The details relating to these share options are as follows:

Number of staff	1,000
Number of options to each member of staff	500
Vesting period	3 years
Fair value at grant date (per option)	Sh.30
Expected employee turnover (per annum)	5%

Additional information:

1. In the financial statements for the year ended 31 December 2014, the company revised its estimate of employee turnover to 8% per annum for the three-year vesting period.
2. In the financial statements for the year ended 31 December 2015, the actual employee turnover had averaged 6% per annum for the three-year vesting period.
3. Options vest as long as the staff remain with the company for the three-year period.

Required:

The charge to be made to the statement of comprehensive income for share-based payments, in conformity with the requirements of IFRS 2 (Share-based Payment) for each of the years ended 31 December 2013, 31 December 2014 and 31 December 2015. (8 marks)

(Total: 20 marks)

QUESTION FIVE

(a) Discuss the rationale for a regulatory framework in financial reporting. (6 marks)

(b) Explain how the International Accounting Standards Board (IASB) approaches the task of producing a standard, with particular reference to the development and publication of an exposure draft. (8 marks)

(c) In the context of recent trends in financial accounting and reporting, explain why "social accounting and reporting" has gained prominence. (6 marks)

(Total: 20 marks)

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CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

FRIDAY: 27 November 2015. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

(a) In the context of IFRS 3 (Business Combinations), discuss how non-controlling interests (NCI) are measured. (4 marks)

(b) On 1 April 2015, H Ltd. acquired 75% of the equity shares of F Ltd. through a share exchange of three shares in H Ltd. for every five shares in F Ltd. The nominal value of each share for both H Ltd. and F Ltd. is Sh.5. The shares of these companies were trading in the securities exchange at Sh.30 and Sh.16 for H Ltd. and F Ltd. respectively.
On the same date, H Ltd. acquired 30% of the equity shares of N Ltd. paying Sh.10 per share. The nominal value of each share of N Ltd. is Sh.5.

The statements of comprehensive income for the three companies for the year ended 30 September 2015 are as set out below:

	H Ltd. Sh."million"	F Ltd. Sh."million"	N Ltd. Sh."million"
Sales revenue	1,680	1,200	400
Cost of sales	(630)	(500)	(250)
Gross profit	1,050	700	150
Distribution cost	(89.6)	(56)	(70)
Administrative expenses	(146.4)	(72)	(128)
Finance costs	(14.4)	(24)	-
	799.6	548	(48)
Investment income	76	-	-
Profit before tax	875.6	548	(48)
Income tax	(120)	(80)	8
Profit/loss after tax	755.6	468	(40)

The summarised equity information for the three companies as at 30 September 2015 is given below:

	H Ltd. Sh."million"	F Ltd. Sh."million"	N Ltd. Sh."million"
Ordinary share capital (Sh.5 par value)	1,600	960	320
Share premium	2,400	-	-
Retained earnings (1 October 2014)	320	1,216	120
Profit/loss for the year ended 30 September 2015	755.6	468	(40)
Dividend paid (20 September 2015)	-	64	-

Additional information:

1. On 1 April 2015, H Ltd. invested Sh.100 million in 10% debentures of F Ltd. All interest accruing to 30 September 2015 had been accounted for by both companies. F Ltd. also had other loans in issue as at 30 September 2015.
2. During the year ended 30 September 2015, H Ltd. sold goods to F Ltd. for Sh.120 million at a mark-up of 25%. One third of these goods were still in the inventory of F Ltd. as at 30 September 2015.
3. As at 30 September 2015, the investment of H Ltd. in N Ltd. had been impaired by Sh.24 million owing to the losses that N Ltd. had been incurring. Any goodwill arising on H Ltd.'s investment in F Ltd. is not impaired.
4. An item of plant of F Ltd. had a carrying amount of Sh.96 million and a fair value of Sh.136 million as at the date of acquisition. This plant had a remaining life of five years as at the date of acquisition of the shareholding in F Ltd. All other assets of F Ltd. had fair values which were equal to their carrying values as at the date of acquisition.

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5. F Ltd. owned a registered trade mark with a remaining useful life of five years as at the date of acquisition. This trade mark was valued by a specialist at Sh.40 million as at this date. This registered trade mark had not been reflected in the financial statements of F Ltd.
6. H Ltd. had included the whole of the dividend it received from F Ltd. in its investment income.
7. No fair value adjustments were required on the acquisition of the investment in N Ltd.
8. The non-controlling interest in F Ltd. was to be valued at its full fair value as at the date of acquisition.
9. Incomes and expenses of all the three companies were deemed to accrue evenly throughout the year unless otherwise indicated.

Required:

(i) Goodwill on the acquisition of H Ltd.'s shareholding in F Ltd. (4 marks)

(ii) Consolidated statement of comprehensive income for the year ended 30 September 2015. (12 marks)

(Total: 20 marks)

QUESTION TWO

(a) Integrated reporting (IR) is aimed at promoting a more cohesive and efficient approach to corporate reporting. It serves to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

With reference to the above statement, highlight six content elements that an integrated report should contain. (6 marks)

(b) Tabu Ltd. is a private company. Three quarters of the issued share capital of the company are held by the directors and members of their immediate family. The company's draft statement of financial position as at 31 December 2014 was as follows:

		Sh. "000"	Sh. "000"
Non-current assets:			
Intangible assets:	Development costs		85,000
	Goodwill		60,000
Tangible assets:	Buildings		270,000
	Plant and machinery		326,000
			741,000
Current assets:			
Inventories		426,000	
Trade receivables		531,000	957,000
Current liabilities:			
Trade payables		393,000	
Bank loans and overdrafts		687,000	(1,080,000)
Net assets			618,000
Equity:			
Ordinary share capital (Sh.10 par)			800,000
Share premium			50,000
Accumulated losses			(232,000)
Net equity			618,000

Bank loans and overdrafts consist of a 10% loan of Sh.400 million carrying a fixed charge on the company's buildings and an unsecured overdraft of Sh.287 million.

The demand for the company's products has fallen drastically in recent years, owing to the importation of high quality and cheaper alternative products from South-East Asia. The development costs appearing in the statement of financial position relate to a new product that has been perfected to a marketable stage and for which there is believed to be a strong demand. These costs have been properly capitalised in accordance with the provisions of IAS 38 (Intangible Assets). The company is in urgent need of capital to meet existing liabilities and the necessary new investment in plant and working capital.

A scheme of reorganisation has been drawn up for consideration by the shareholders and creditors. The terms of this scheme are as follows:

1. The shares of Sh.10 each are to be written down to Sh.2 per share and subsequently every five shares of Sh.2 each consolidated into one fully paid share of Sh.10.

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2. The existing shareholders are to subscribe for a rights issue of two new Sh.10 ordinary shares at par for every share held after the proposed reduction and consolidation.
3. A major supplier agrees to exchange a debt of Sh.180 million included in trade payables for 18 million ordinary shares of Sh.10 par value.
4. In full satisfaction of the Sh.687 million owing to the bank, the bank agrees to accept an immediate payment of Sh.87 million and to consolidate the balance of Sh.600 million into a loan carrying interest at 13% per annum, payable in five equal annual installments commencing 31 December 2016. The loan is to be secured by a fixed charge on the buildings and a floating charge on the company's remaining assets.
5. The credit balance on the share premium account and the accumulated losses and goodwill, considered valueless, are to be written off.
6. The assets listed below are to be restated to the following amounts:

	Sh. "000"
Plant and machinery	125,000
Inventories	210,000
Trade receivables	500,000
Buildings	320,000

7. A group of dissatisfied shareholders plan to oppose the scheme because they feel they have borne an inordinate burden of reorganisation whereas the bank has lost nothing.
8. The company has received a cash offer of Sh.1,120 million for its non-current and current assets.

Required:

(i) The revised statement of financial position of Tabu Ltd. as at 1 January 2015 after conclusion of the proposed scheme of reorganisation. (10 marks)

(ii) A report to the group of dissatisfied shareholders advising on whether they should accept or reject the scheme of reorganisation. (4 marks)

(Total: 20 marks)

QUESTION THREE

(a) Compare and contrast the relative merits of the "direct method" and the "indirect method" of presentation of the statement of cash flows. (4 marks)

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(b) Mawingu Group has prepared the following financial statements for the year ended 31 October 2014 and 31 October 2015:

Mawingu Group
Statement of comprehensive income for the year ended 31 October 2015:

		Sh. "million"	**Sh. "million"**
Revenue			31,116
Cost of sales			(22,936)
Gross profit			8,180
Other incomes:	Share of profit in associate company		160
	Investment income		200
			8,540
Expenses:			
Administration expenses		3,560	
Distribution costs		1,820	
Finance cost		600	(5,980)
Profit before tax			2,560
Taxation			(1,120)
Profit for the year			1,440
Profit attributable to:	The holding company		1,320
	Non-controlling interest		120
			1,440

Mawingu Group
Statement of financial position as at 31 October:

	2015 Sh. "million"	2014 Sh. "million"
Non-current assets:		
Property, plant and equipment	3,080	2,480
Intangibles (including goodwill)	1,960	1,560
Investments - In associate company	520	400
Other investments	-	200
	5,560	4,640
Current assets:		
Inventories	1,400	1,016
Trade receivables	2,920	2,320
Financial assets at fair value	400	-
Cash in hand	16	8
Total assets	**10,296**	**7,984**
Capital and liabilities:		
Ordinary share capital	1,680	1,280
Share premium	1,200	1,120
Revaluation reserve	800	728
Retained profit	1,400	960
	5,080	4,088
Non-controlling interest	400	240
Non-Current liabilities:		
Debentures	1,360	400
Current liabilities:		
Trade payables	1,616	1,392
Accrued expenses	200	200
Bank overdraft	680	784
Taxation	960	880
Total capital and liabilities	**10,296**	**7,984**

Additional information:

1. Some items of machinery with an original cost of Sh.680 million and a net book value of Sh.360 million were sold for Sh.256 million during the year ended 31 October 2015.

   The following information relates to property, plant and equipment:

	31 October 2015 Sh. "million"	31 October 2014 Sh. "million"
Cost	5,800	4,800
Depreciation	(2,720)	(2,320)
Net book value	3,080	2,480

2. During the year ended 31 October 2015, Mawingu group acquired 80% of the share capital of Mwewe Ltd. The net assets of Mwewe Ltd. were as follows as at the date of acquisition:

	Sh. "million"
Property, plant and equipment	480
Inventories	400
Trade receivables	160
	1,040
Debentures	(320)
Trade payables	(200)
Bank balance	(80)
Taxation	(40)
	400

3. The cost of the property, plant and machinery of Mwewe Ltd. on the date of acquisition was Sh.800 million and the accumulated depreciation was Sh.320 million.
   During the year ended 31 October 2015, there was a revaluation gain of Sh.80 million attributable to the holding company's property, plant and machinery.

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4. The other investments were sold for Sh.240 million during the year.
5. The total purchase price of the 80% shareholding in Mwewe Ltd. was Sh.360 million which was paid by issuing Sh.80 million worth of shares at par value with the balance being paid in cash.

Required:
The group statement of cash flows, using the indirect method, for the year ended 31 October 2015 in conformity with the requirements of IAS 7 (Statement of Cash Flows). (16 marks)

(Total: 20 marks)

QUESTION FOUR

(a) In the context of IAS 38 (Intangible Assets), discuss the accounting treatment of brands in an entity's books of account. (6 marks)

(b) Evaluate the potential problems that an investor might encounter in placing undue emphasis on the earnings per share (EPS) figure. (4 marks)

(c) Winam Ltd., a limited company, has an authorised share capital of Sh.4,000 million comprising 600 million ordinary shares each of Sh.5 par value and 50 million 10% convertible preference shares each of Sh.20 par value.

On 1 January 2013, the company had in issue 160 million ordinary shares and 30 million 10% convertible preference shares.
All the preference shares were fully paid while only 100 million ordinary shares were fully paid, the balance of the shares being 80% paid.

The following transactions took place in the years ended 31 December 2013 and 31 December 2014:

1. The partly paid ordinary shares of Sh.5 par value were fully paid on 1 April 2013.
2. On 1 June 2013, the company issued for consideration 72 million ordinary shares of Sh.5 par value at Sh.8 each in full settlement, the market price of the ordinary shares on this day being Sh.10 per share.
3. On 1 September 2013, the company issued 48 million ordinary shares of Sh.5 each at fair value of Sh.12 per share in settlement of the purchase consideration on the acquisition of property.
4. On 1 March 2014, the company issued one fully paid bonus share for every 5 ordinary shares outstanding as at 31 December 2013.
5. Due to low market price per ordinary share at the securities exchange, the company decided to effect a consolidation of the shares (reverse split) and issued one new ordinary share of Sh.10 par value for every two outstanding and fully paid ordinary shares of Sh.5 par value. This was done on 1 August 2014.
6. On 1 October 2014, holders of 10 million 10% convertible preference shares converted these shares into ordinary shares. The preference shares were convertible into eight fully paid ordinary shares of Sh.5 for every two fully paid 10% preference shares of Sh.20 each. An appropriate adjustment for the number of ordinary shares issuable on conversion of preference shares is to be effected for any ordinary share split or consolidation that may be carried out. Preference shareholders are entitled to dividends up to the date of conversion of the shares.
7. The company made a net profit after tax of Sh.225.75 million in the year ended 31 December 2013 and Sh.262.6 million in the year ended 31 December 2014.

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Required:
(i) Basic Earnings Per Share (EPS) for each of the two years ended 31 December 2013 and 31 December 2014. (8 marks)

(ii) The restated Basic Earnings Per Share (EPS) for the year ended 31 December 2013 as at 31 December 2014. (2 marks)

(Total: 20 marks)

QUESTION FIVE

(a) With reference to IPSAS 9 (Revenue from Exchange Transactions), differentiate between "exchange transactions" and "non-exchange transactions". (4 marks)

(b) Directors, as key decision-makers, should oversee the implementation of high standards throughout the financial reporting process. They should work with management to implement a principled and transparent accounting system that effectively collates and reports financial data across the company's supply chain.

In the context of the above observation, highlight four items of information that should be included in a directors' report. (4 marks)

(c) Evaluate three factors that a country should consider in deciding whether it would be in its best interests to develop its own accounting standards. (6 marks)

(d) ABC Ltd. has granted 100 share options to each of its 500 employees. Each grant is conditional upon the employee working for the company over the next three years. The company estimates that the fair value of each share option is Sh.15.
The company also estimates that 20% of the employees will leave during the three-year period and, therefore, forfeit their rights to the share options.

Required:
Determine how ABC Ltd. would account for the share options in each of the three years in accordance with the requirements of IFRS 2 (Share-based Payment). (6 marks)
(Total: 20 marks)

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KASNEB

CPA PART III SECTION 6

ADVANCED FINANCIAL REPORTING

PILOT PAPER

September 2015. **Time Allowed: 3 hours.**

Answer ALL questions. Marks allocated to each question are shown at the end of the question. Show ALL your workings.

QUESTION ONE

Khan Ltd. operates in the media sector. The company has invested in two other companies. The draft statements of financial position as at 30 April 2015 for Khan Ltd. and its investee companies Choby Ltd. and Ghax Ltd. were as presented below:

	Khan Ltd. Sh."million"	Choby Ltd. Sh."million"	Ghax Ltd. Sh."million"
Assets			
Non-current assets			
Property, plant and equipment	6,590	4,000	2,400
Investments in: Choby Ltd.	3,350		
Ghax Ltd.	1,400		
	11,340	4,000	2,400
Current assets	1,970	1,722	300
	13,310	5,722	2,700
Equity and liabilities			
Ordinary share capital	1,700	2,040	1,200
Retained earnings	6,680	1,960	700
Other reserves	500	160	80
	8,880	4,160	1,980
Non-current liabilities	3,790	1,350	400
Current liabilities	640	212	320
	13,310	5,722	2,700

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Additional information:

1. Khan Ltd. acquired 30% of Choby Ltd. on 1 May 2012 for a cash consideration of Sh.1,200 million when the fair value of Choby Ltd.'s identifiable assets was Sh.3,680 million. Khan Ltd. treated the investment as an associate up to 1 May 2014 when its share of post acquisition profits in Choby stood at Sh.180 million and its share of post acquisition revaluation reserve was Sh.20 million. On this date Khan Ltd. acquired a further 40% of the ordinary shares of Choby Ltd. for a cash consideration of Sh.1,950 million thereby acquiring control.
2. On 1 May 2014, the fair value of Choby Ltd.'s identifiable net assets was Sh.4,500. The fair value of the interest in Choby Ltd. held by Khan Ltd. before the combination was Sh.1,410 million and the fair value of the 30% non controlling interest was assessed at Sh.1,240 million. Retained earnings of Choby Ltd. on 1 May 2014 and its other reserves were Sh.1,800 million and Sh.140 million respectively. Non controlling interest is measured at fair value in group financial statements.
3. On the date of the business combination with Choby Ltd., Khan Ltd. included in the fair value of Choby Ltd. an unrecognised contingent liability in respect of a legal claim against Choby Ltd. in the amount of Sh.12 million. The amount was revised on 1 August 2014 to Sh.10 million. The amount has met the criteria for recognition as a provision under current liabilities and the revision estimate is deemed to be a measurement period adjustment.
4. In addition, buildings with a carrying amount of Sh.400 million and had been included in the fair value of Ghoby Ltd. on 1 May 2014. The buildings had a remaining useful life of 20 years on that date and Khan Ltd. had commissioned an independent valuation which was subsequently received on 1 September 2014 resulting in a decrease of Sh.80 million in the property, plant and equipment of Choby Ltd. on acquisition date. This decrease did not affect the fair value of the non controlling interest and has not been reflected in the financial statements. The excess of fair value of net assets over the carrying value on 1 May 2014 is due to an increase in the value of non depreciable land and the contingent liability.
5. On 1 May 2014, Khan Ltd. acquired 80% of the equity interest of Ghax Ltd. paying Sh.1,400 million in cash. The fair value of net identifiable assets was Sh.1,920 million and the fair value of non controlling interest on this date was Sh.500 million. The retained earnings and other reserves of Ghax Ltd. on acquisition date were Sh.600 million and Sh.80 million respectively. The excess in fair value is due to an unrecognised franchise right which Khan Ltd. granted to Ghax Ltd. on 1 May 2013 for 5 years. On the date of acquisition, the franchise could be sold at market value.

6. On 30 April 2014, Khan Ltd. carried a property in its financial statements at its revalued amount of Sh.28 million. Depreciation is charged at Sh.600,000 per annum on a straight line basis. In August 2014, the management decided to sell the asset and it was advertised for sale and by 31 August 2014 the sale was considered highly probable and the criteria for non-current assets held for sale was met. On this date, fair value of the asset was Sh.30.8 million and its value in use was Sh.31.6 million. Costs to sell the asset were estimated at Sh.600,000. On 30 April 2015, the asset was sold for Sh.31.2 million. No entries have been made as the cash proceeds on the sale were not received until 31 May 2015. This transaction is deemed material.

Required:
Consolidated statement of financial position for Khan group as at 30 April 2015. (20 marks)

QUESTION TWO
Cindy Ltd.'s trial balance as at 30 June 2015 was as follows:

		Sh. "000"	Sh. "000"
Revenue			320,250
Cost of sales		205,200	
Distribution costs		26,250	
Administrative expenses		28,500	
Interest on loan note		2,250	
Investment income			600
Ordinary shares Sh.0.50 each			90,000
6% loan note			37,500
Retained earnings 1 July 2014			6,450
Land and buildings (land Sh.15 million)		75,000	
Plant and equipment at cost		125,550	
Accumulated depreciation 1 July 2014:	- Buildings		12,000
	- Plant and equipment		50,550
Financial asset carried at fair value		25,500	
Inventory		37,200	
Trade receivables		42,750	
Bank		4,350	
Current tax		1,650	
Deferred tax			1,800
Trade payables			55,050
		574,200	574,200

Additional information:
1. On 1 July 2014, Cindy Ltd. sold one of its products for Sh.15 million (included in revenue) and committed to provide ongoing service and maintenance for three years from the date of transaction. The estimated servicing cost is Sh.900,000 per annum and Cindy Ltd.'s gross profit margin on this type of servicing is 25%. Ignore discounting.
2. Cindy Ltd. issued a Sh.37.5 million 6% loan on 1 July 2014. Issue costs were Sh.3 million included in administrative expenses. Interest is paid annually on 30 June each year. The loan will be redeemed on 30 June 2017 at a premium which gives an effective interest rate of 8%.
3. Cindy Ltd. has been carrying land and buildings at depreciated cost using the cost model. However, due to a recent rise in prices the company decided to revalue its property on 1 July 2014. A professional valuer confirmed the value of property at Sh.90 million (land element Sh.18 million) on that date. Property had a remaining useful life of 16 years and deferred tax on the revaluation is to be adjusted in the income statement from the profits for the year.
4. On 1 July 2014, Cindy Ltd. had a processing plant installed at a cost of Sh.15 million included in the cost of plant in the trial balance. The process the plant performs will cause immediate contamination of nearby land. Cindy Ltd. will have to clean up this land at the end of the plant's ten year life. The present value of the clean up discounted at 10% per annum was Sh.9 million on 1 July 2014 and the company has not recorded this cost. This plant is depreciated at 10% per annum on straight line basis.
   All other plant and equipment are depreciated at 12.5% per annum on a reducing balance basis. All depreciation is charged to the cost of sales and amounts for the current year have not been charged.
5. The fair value of investments was Sh.23.55 million on 30 June 2015.
6. The balance on current tax represents under/overprovision of tax liability for the year ended 30 June 2014. Current tax provision for the year ended 30 June 2015 is estimated at Sh.11.1 million. Cindy Ltd. had taxable temporary differences amounting to Sh.7.5 million on 30 June 2015.
7. Corporate tax rate was 30%.

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Required:
In a format and classification suitable for publication:

(a) Statement of comprehensive income for the year ended 30 June 2015. (12 marks)

(b) Statement of financial position as at 30 June 2015. (8 marks)

(Total: 20 marks)

QUESTION THREE

(a) Galvin Ltd. purchased a zero coupon bond for Sh.600,000 redeemable in five years on 1 January 2014. The effective interest rate is 10% and the bond is carried at amortised cost.

Required:

(i) Valuation of the bond to be reflected in the statement of financial position as at 31 December 2015. (3 marks)

(ii) Finance income for the year ending 31 December 2015. (3 marks)

(b) Sophistic Ltd., a newly listed company has provided the following information with regards to computation of its tax expense for the year ended 31 May 2014:

	Sh. "000"
Accounting profit	42,900
Depreciation	6,000
Donations	1,000
Amortisation of software	2,400
	52,300
Capital allowances	(7,500)
	44,800
Tax expense - at 25%	11,200

The company has not yet determined tax expense for the year ended 31 May 2015.

Additional information:

1. Accounting profit for the year ended 31 May 2015 was Sh.55,200,000 while donations amounted to Sh.600,000.
2. An extract of non-current assets movement schedule for the year ended 31 May 2015 was as follows:

	Plant	**Software**
Cost 1 June 2014	32,000	9,000
Additions during the year	-	-
Accumulated depreciation 1 June 2014	19,200	5,400
Tax written down value 1 June 2014	18,500	?

3. Plant is depreciated at 20% per annum using the straight line method while wear and tear allowance on plant is provided at 25% on a reducing balance basis.
4. Software development commenced in the year ended 31 May 2011 and was completed in the immediate subsequent year. The company capitalised development costs which amounted to Sh.9,000,000 and amortisation commenced on 1 June 2012 using the sum of digits method over the estimated useful life of 5 years. Software development costs are allowed in full for tax purposes in the year in which they are incurred.
5. Donations made by the company were not tax allowable.
6. Corporate tax rate applicable on the company's earnings for the year ended 31 March 2015 is 30% and the company is expected to continue generating taxable profits in the foreseeable future.

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Required:

(i) Current tax to be charged in the income statement for the year ended 31 May 2015. (4 marks)

(ii) Deferred tax liability to be reflected in the statement of financial position as at 31 May 2014. (4 marks)

(iii) Deferred tax liability account for the year ended 31 May 2015. (6 marks)

(Total: 20 marks)

QUESTION FOUR

(a) Volta Ltd. operates a defined retirement benefit plan for its employees. On 1 January 2014, the fair value of the pension plan assets was Sh.2,600,000 and the present value plan liabilities were Sh.2,900,000.

The actuary estimated current and past service costs for the year ended 31 December 2014 at Sh.450,000 and Sh.90,000 respectively. The past service cost is caused by an improvement in pension benefits commencing 31 December 2014.

The pension plan paid Sh.240,000 on 31 December 2014 and on the same date Volta Ltd. paid Sh.730,000 in contributions to the plan.

Interest rate on high quality corporate bonds for the year was 8%.

As at the year end fair value of pension plan assets was Sh.3,400,000 and present value plan liabilities were Sh.3,500,000.

In accordance with year 2011 revision to IAS 19 Employee Benefits, Volta Ltd. recognises measurement gains and losses in other comprehensive income in the period they occur.

Required:
Calculate the measurement gains or losses on pension plan assets and liabilities that will be included in other comprehensive incomes for the year ended 31 December 2014. (6 marks)

(b) Ozen Ltd. is a manufacturing company quoted on the securities exchange. The following information was extracted from the records of the company:

1. On 1 January 2013, the company had an issued and outstanding share capital of 300,000 ordinary shares of Sh.20 each and 100,000 8% convertible preference shares of Sh.50 each. All ordinary shares were fully paid and the preference shares were convertible into ordinary shares at the rate of 3 ordinary shares for every two preference shares fully paid.
2. The company reported profits after tax of Sh.1,200,000 in the year ended 31 December 2013 and Sh.1,800,000 in the year ended 31 December 2014. The profit for the year ended 31 December 2014 is after inclusion of a profit of Sh.250,000 from operations discontinued in the period.
3. On 1 April 2013 the company made a rights issue of one fully paid ordinary share at Sh.60 for every 3 ordinary shares when the shares were trading at Sh.84. each.
4. On 1 October 2013 the company issued 200,000 ordinary shares at market price.
5. Due to the high market price of its shares Ozen Ltd. split its shares in the ratio of two fully paid ordinary shares of Sh.10 each for every one ordinary share of Sh.20 each on 1 April 2014.
6. The company offered 200,000 stock options on 1 June 2014 with an exercise price of Sh.30 when the average market price per share was Sh.40 in the year. None of the options were exercised.
7. On 1 July 2014 the company issued 8% convertible debentures amounting to Sh.4 million. The debentures were convertible into ordinary shares at the rate of 60 fully paid ordinary shares for every Sh.1,000 of the debentures. None of the debentures were converted in the year ended 31 December 2014.
8. The company had issued 6% debentures with a nominal value of Sh.5 million in the year 2010. The debentures were convertible into ordinary shares at the rate of 60 fully paid ordinary shares for every Sh.1,000 of the debentures. None of the debentures had been converted by 31 December 2013. However, on 1 October 2014 holders of Sh.3 million debentures converted them to ordinary shares.
9. Corporate tax rate was 30%.

Required:

(i) Basic EPS for each of the years ended 31 December 2013 and 2014. (8 marks)

(ii) Diluted EPS for the year ended 31 December 2014. (6 marks)

(Total: 20 marks)

QUESTION FIVE

(a) In line with IPSAS 23 - Revenue from Non Exchange transactions:

(i) Distinguish between exchange transactions and non exchange transactions. (4 marks)

(ii) Enumerate four examples of non exchange transactions. (4 marks)

(b) Explain the contents of the following reports:

(i) Environmental report. (6 marks)

(ii) Directors report. (6 marks)

(Total: 20 marks)

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