Q(1)

THE FOLLOWING ARE THE FINANCIAL STATEMENTS FOR GREEN VALLEY GROUP OF COMPANIES LTD FOR THE YEAR ENDED 31/12/2017.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR GREEN VALLEY AS AT 31/12/2017

DETAILS	31/12/2016 $000	31/12/2017 $000
ASSETS		
NON – CURRENT ASSETS		
Tangible assets	7.520	11.720
investments	2.700	3.000
	10.220	14.720
CURRENT ASSETS		
Inventories	5.740	6.135
Receivables	4.380	5.720
Cash at bank and in hand	169	820
	10.289	12.675
TOTAL ASSETS	**20.509**	**27.395**
EQUITY & LIABILITIES		
SHARE CAPITAL & RESERVES		
Ordinary share capital	7.500	11.000
Share premium	77	401
Foreign currency translation	2.100	2.800
Retained earnings	4.905	5.674
	14.582	19.875
Non – controlling interest	2.500	2.800
TOTAL EQUITY	17.082	22.675
NON – CURRENT LIABILITIES		
Loans	800	1.200
Obligations under finance leases	250	740
Deferred tax	400	550
	1.450	2.490
CURRENT LIABILITIES		
TRADE PAYABLES	1.760	1.420
Tax	167	700
Obligations under finance leases	50	110
TOTAL CURRENT LIABILITIES	1.977	2.230
TOTAL LIABILITIES	3.427	4.720
TOTAL EQUITY & LIABILITIES	**20.509**	**27.395**

CONSOLIDATED INCOME STATEMENT FOR GREEN VALLEY CO. THE YEAR ENDED 31/12/2017

DETAILS	2016 $000	2017 $000
Revenue	18.173	19.308
Cost of sales	(4.620)	(4.315)
GROSS PROFIT	**13.553**	**14.993**
Distribution costs	(6.126)	(6.439)
Administrative expenses	(6.719)	(5705)
Profit before tax and finance costs	**708**	**2.849**
Finance income	75	90
Finance costs	(230)	(350)
Profit before taxation	**553**	**2.589**
Income tax expense	(125)	(800)
Profit for the year	**428**	**1.789**
Attributable to :-		
Equity holders of the parent	318	1.369
Non – controlling interest	110	420
	428	1.789

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR 31-12-2017

DETAILS	SHARE CAPITAL	SHARE PREMIUM	Foreign currency translation	Retained earnings	total	NCI	equity
Balance at 1-1-2017	7.500	77	2.100	4.905	14.582	2.500	17.082
Issue of shares	3.500	324			3.824		3.824
Profit for year				1.369	1.369	420	1.789
dividends				(600)	(600)	(295)	(895)
Exchange gain			700		700	175	875
	11.000	**401**	**2.800**	**5.674**	**19.875**	**2.800**	**22.675**

THE FOLLOWING INFORMATION ARE RELEVANT FOR THE PREPARATION OF THE CASH FLOW STATEMENT: -

(1) OPERATING PROFIT IS STATED AFTER CHARGING:

	2016 **000**	**2017** **000**
depreciation	840	960
Assets held under finance leases	120	240
	960	1.200

(2) Finance costs

	2016 **000**	**2017** **000**
Loan interest	80	120
Finance charge on finance leases	132	205
Exchange rate losses on long term loans	18	25
	230	350

(3) taxation

	2016 **000**	**2017** **000**
Tax on income at 30%	90	600
Deferred tax	35	150
Under provision in respect of previous years	0	50
	125	800

(4) foreign exchange differences

	2017 **000**	**2017** **000**
Gains arising on re-translation	400	700

The exchange rate gain relates to the translation of an 80% owned overseas subsidiary, under the closing rate method. the gain comprises:

	000
Non-current assets	424
Inventories	117
Receivables	339
Cash	53
Trade payables	(58)
	875
Attributable to NCI	(175)
Attributable to owners of parent	700

(5) during the year non-current assets additions of 700.000 were acquired under finance leases. Payments on finance leases are made in arrears. The net book value of non-current assets disposed of was 720.000, with sale proceeds of 810.000.

REQUIRED:

(A) **PREPARE THE STATEMENT OF CASH FLOWS FOR GREEN VALLEY GROUP IN ACCORDANCE WITH IAS (7) FOR THE YEAR ENDED 31/12/2017.**

(40) MARKS

(B) The directors of green valley co. are confused over several issues relating to IAS (7) statement of cash flow. They wish to know the principles utilized by the international accounting standard board in determining how cash flows are classified, including how entities determine the nature of the cash flows being analyzed.

They have entered into the following transactions after the year end and wish to know how to deal with them in a cash flow statement, as they are unsure of the meaning of the definition of cash and cash equivalents.

Green valley co. had decided after the year end to deposit the funds with the bank in two term deposit accounts as follows: -

(1) 3 million dollars into a 12-month term account, earning 3.5% interest. the cash can be withdrawn by giving 14 days' notice but green valley co. will incur a penalty, being the loss of all interest earned.

(2) A 7 million dollars into a 12-month term account earning 3% interest. The cash can be withdrawn by giving a 21 days' notice. Interest will be paid for the period of the deposit but if money is withdrawn, the interest will be at the rate of 2%, which is equivalent to the banks stated rates for short term deposits.

Green valley is confident that it will not need to withdraw the cash from the higher rate deposit within the term, but want to keep easy access to the remaining 7 million dollars to cover any working capital short falls which might arise.

Required:

Discuss the principles behind the classifications in the statement of cash flows whilst advising the green valley co. On how to treat the two transactions above

(10) Marks

Q (2)

The following information relates to the defined benefit plan for golden eagle co. for the year ended 31/12/2017: -

	2016 $000	**2017 $000**
Opening position at 1 January		
Fair value of the plan assets	850	879
Present value of the plan obligations	1.960	2.400
Unrecognized actuarial loss brought forward	43	0
During the period :-		
Current service cost	100	110
Contributions paid into the plan	140	120
Benefits paid out by the plan	150	100
Actuarial assumptions:-		
Discount rate	11%	11%
Expected return on plan assets	3%	3%
The actuarial valuation at 31 December :-		
Fair value of the plan assets	879	980
Present value of the plan obligations	2.400	2.780

The company has a policy of applying a 10% corridor, any excess being amortized over the average remaining service lives of ten years.

Required

For each year

(1) Calculate the actuarial gain or loss arising in the year?
(2) Applying the corridor approach, calculate the amount of the difference to be recognized?
(3) Calculate the liability to be disclosed in the statement of financial position?
(4) Prepare an analysis of the expense taken to the income statement?

(25) MARKS

Q (3)

1. THE MANAGEMENT OF PIPELINES CO. SOLD A PROPERTY ON 1-1-2017 UNDER A TWENTY YEARS LEASE TO SHELL CO. THE CONSIDERATION FOR THE LEASE IS **4.5** MILLION DOLLARS. PIPELINES CO.HAS SIGNED AN UNCONDITIONAL AGREEMENT TO REPURCHASE THE LEASE OF THE PROPERTY AFTER FOUR YEARS FOR A FIXED AMOUNT OF **5.5** MILLION. THE PROPERTY HAS BEEN TAKEN OFF THE BALANCE SHEET AND THE PROFIT ON THE TRANSACTION, WHICH HAS BEEN INCLUDED IN THE INCOME STATEMENT, IS **500.000** DOLLARS. THE PROFIT HAS BEEN CALCULATED BY COMPARING THE CARRYING VALUE OF THE PROPERTY WITH THE CONSIDERATION RECEIVED. **(6) MARKS**
2. PIPELINES CO. INTENDED TO DIVERSIFY ITS INVESTMENTS TO REDUCE ITS RISKS, AS A RESULT IT ENTERS INTO TELECOMMUNICATION INDUSTRY. THE INDUSTRY IS CAPITAL INTENSIVE WITH HEAVY INVESTMENTS IN LICENCES AND NETWORK INFRASTRUCTURE. COMPETITION IN THE SECTOR IS FIERCE AND TECHNOLOGICAL ADVANCES ARE A CHARACTERISTIC OF THE INDUSTRY. THE COMPANY HAS REPONDED TO THESE FACTORS BY OFFERING INCENTIVES TO CUSTOMERS AND, IN AN ATTEMPT TO ACQUIRE AND RETAIN THEM, IT PURCHASED A TELECOM LICENCE ON **1-1-2016** FOR **120** MILLION DOLLAR. THE LICENCE HAS A TERM OF **6** YEARS AND CANNOT BE USED UNTIL THE NETWORK ASSETS AND INFRASTRUCUTE ARE READY FOR USE. THE RELATED NETWORK ASSETS AND INFRASTRUCTURE BECAME READY FOR USE ON **1-1-2017**. THE COMPANY COULD NOT OPERATE IN THE COUNTRY WITHOUT THE LICENCE AND IS NOT PERMITTED TO SELL THE LICENCE. THE COMPANY EXPECTS ITS SUBSCRIBERS BASE TO GROW OVER THE PERIOD OVER THE LICENCE BUT IS DISAPPOINTED WITH ITS MARKET SHARE FOR THE YEAR **31-12-2017.** THE LICENCE AGREEMENTDOES NOT DEAL WITH THE RENEWAL OF THE LICENCE BUT THERE IS AN EXPECTATION THAT THE REGULATER WILL GRANT A SINGLE RENEWAL FOR THE SAME PERIOD OF TIME AS LONG AS CERTAIN CRITERIA REGARDING NETWORK BUILD QUALITY AND SERVICE QUALITY ARE MET. THE COMPANY HAS NO EXPERIENCE OF THE CHARGE THAT WILL BE MADE BY THE REGULATOR FOR THE RENEWAL BUT OTHER LICENCES HAVE BEEN RENEWED AT A NOMINAL COST. THE LICENCE IS CURRENTLY STATED AT ITS ORIGINAL COST OF **120** MILLION DOLLAR IN THE STATEMENT OF FINANCIAL POSITION UNDER NON – CURRENT ASSETS**.** **(6) MARKS**
3. PIPELINES COMPANY IS CONSIDERING EXTENDING ITS NETWORK AND HAS CARRIED OUT A FEASIBILITY STUDY DURING THE YEAR **31-12-2017**. THE DESIGN

AND PLANNING DEPARTMENT IDENTIFIED FIVE POSSIBLE GEOGRAPHICAL AREAS FOR THE EXTENSION OF ITS NETWORK. THE INTERNAL COST FOR THIS STUDY WERE **150.000** DOLLAR AND THE EXTERNAL COSTS WERE **100.000** DOLLAR DURING THE YEAR TO **31-12-2017**. FOLLOWING THE FEASIBILITY STUDY, THE COMPANY CHOSE A GEOGRAPHICAL AREA WHERE IT WAS GOING TO INSTALL A BASE STATION FOR THE TELEPHONE NETWORK. THE LOCATION OF THE BASE STATION WAS DEPENDENT UPON GETTING PLANNING PERMISSION. A FURTHER INDEPENDENT STUDY HAS BEEN CARRIED OUT BY THIRD PARTY CONSULTANTS IN AN ATTEMPT TO PROVIDE A PREFERRED LOCATION IN THE AREA, AS THERE IS A NEED FOR THE OPTIMAL OPERATION OF THE NETWORK IN TERMS OF SIGNAL QUALITY AND COVERAGE. THE COMPANY PROPOSES TO BUILD A BASE STATION ON THE RECOMMENDED SITE ON WHICH PLANNING PERMISSION HAS BEEN OBTAINED. THE THIRD PARTY CONSULTANTS HAVE CHARGED **50.000** DOLLAR FOR THE STUDY. ADDITIONALLY, THE COMPANY HAS PAID **300.000** DOLLAR AS A SINGLE PAYMENT TOGETHER WITH **60.000** A MONTH TO THE GOVERNMENT OF THE REGION FOR ACCESS TO THE LAND UPON WHICH THE BASE STATION WILL BE SITUATED. THE CONTRACT WITH THE GOVERNMENT IS FOR A PERIOD OF **12** YEARS AND COMMENCED ON **1-12-2017.** THERE IS NO RIGHT OF RENEWAL OF THE CONTRACT AND LEGAL TITLE TO THE LAND REMAINS WITH THE GOVERNMENT. **(7) MARKS**

<u>REQUIRED:</u>

EXPLAIN HOW THE ABOVE THREE EVENTS SHOULD BE TREATED IN THE ACCOUNTS OF PIPELINES CO.?

(I) AT THE START OF **2016** PIPELINES CO. ISSUED **2.000** CONVERTIBLE BOND. THE BONDS HAS A THREE –YEAR TERM, AND ARE ISSUED AT PAR WITH A FACE VALUE OF $**1.000** PER BOND, GIVING TOTAL PROCEEDS OF $ **2.000.000**. INTEREST IS PAYABLE ANNUALLY IN ARREARS AT A NOMINAL ANNUAL INTEREST RATE OF **6%.** EACH BOND IS CONVERTIBLE AT ANY TIME UP TO MATURITY INTO **250** COMMON SHARES.

WHEN THE BONDS ARE ISSUED, THE PREVAILING MARKET INTEREST RATE FOR SIMILAR DEBT WITHOUT CONVERSION OPTIONS IS **9%.** AT THE ISSUE DATE, THE MARKET PRICE OF ONE COMMON SHARE IS **$ 3**. THE DEVIDEND EXPECTED OVER THE THREE-YEAR TERM OF THE BOND AMOUNT TO **14 CENT** PER SHARE AT THE END OF THE YEAR. THE RISK-FREE ANNUAL INTEREST RATE FOR A THREE-YEAR TERM IS **5%.**

<u>REQUIRED:</u>

WHAT IS THE VALUE OF EQUITY COMPONENT IN THE BOND?

(6) Marks

Q (4) (A)

JUST AS THE CORPORATE REPORT NOW INCLUDE A STATEMENT ON CORPORATE GOVERNANCE, PERHAPS IN THE FUTURE A STATEMENT OF ENVIRONMENTAL COST OR EXPENDITURE COULD BE DISCLOSED. IN ORDER TO AVOID SUGGESTIONS THAT A COMPANY MAY NOT BE SHOWING THE FULL COST TO SOCIETY OF ITS OPERATIONS, AND THAT THE LACK OF ACCOUNTING RULES FOR ENVIRONMENTAL ITEMS PENALISES THE ENVIRONMENTALLY RESPONSIBLE BUSINESS.

REQUIRED:

YOU ARE REQUIRED TO PROVIDE SUGGESTIONS OF INFORMATION THAT MIGHT BE DISCLOSED IN ENVIRONMENTAL AND SOCIAL REPORT?

(12) MARKS

Q (4) (B)

THE DIFFERENCE BETWEEN DEBT AND EQUITY IN AN ENTITYS STATEMENT OF FINANCIAL POSITION **IS** NOT EASILY DISTINGUISHABLE FOR PREPARERS OF FINANCIAL STATEMETS. SOME FINANCIAL INSTRUMENTS MAY HAVE BOTH FEATURES, WHICH CAN LEAD TO INCONSISTENCY OF REPORTING. THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) HAS AGREED THAT GREATER CLARITY MAY BE REQUIRED IN ITS DEFINITIONS OF ASSETS AND LIABILITIES FOR DEBT INSTRUMENTS. ITS THOUGHT THAT DEFINING THE NATURE OF LIABILITIES WOULD HELP THE IASB THINKING ON THE DIFFERENCE BETWEEN FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY AND LIABILITIES.

REQUIRED

(1) **DISCUSS THE RULES THAT SHOULD BE APPLIED WHEN DECIDING IF A FINANCIAL INSTRUMENT SHOULD BE CLASSIFIED AS DEBT OR EQUITY? EXAMPLES SHOULD BE GIVEN TO ILLUSTRATE YOUR ANSWER.** (8) MARKS
(2) **EXPALIN WHY ITS IMPORTANT FOR ENTIRIES TO CORRECTLY CLASSIFY A FINANCIAL INSTRUMENT AS EQUITY OR LIABILITY IN THE FINANCIAL STATEMENTS?** (5) MARKS

END OF QUESTIONS