# Welcome To Starry Gold

# Corporate Reporting

# Live Class

# Starting By 9:00am

# Prompt.

# 6/11/2021

# THE INSTITUTE OF CHARTERED ACCOUNTANT OF NIGERIA (ICAN)

## PROFESSIONAL LEVEL

## CORPORATE REPORTING

## NOVEMBER 2021 DIET

# LIVE CLASS

## General Examination Tips

1. Ensure you get to the exams hall 30 Minutes before the exams and identify your sit if possible
2. Once you get to the exams hall, don't panic as that will increase your level of anxiety thereby making you easily forget what you already know.

3. If you are given the exams question paper, the first thing you should do is read carefully the instruction to have a better understanding of what you are required to do.

4. If you come across any question you don't understand don't be scared and start wasting time on the question. Doesn't start with those questions first, just go ahead

answering the ones you already understand and then come back to the tough oneslater

5. Make sure that you conclude and round up your work at least 10mins before the schedule time, so that you can cross check your work properly.

## Additional Tips:

- **Basic Readiness** - Get your Biro, ruler, Exam dockets and Calculator
- ***Mental***, ***Emotional***&***Psychological*** Readiness - Sleep well, Don't over stress yourself.
- Be 100% Focus. Avoid distraction and Avoid unnecessary Panic &Fear.
- Believe In Yourself (Be Self-confidence) - **What you know is enough to pass the exam**.
- Read carefully ALL**instructions at the top of the examination paper**
- Always start by **reading the Case Study, Appendices and the exam question/requirements, taking note of specific demands of the question.**
- **Re-read** the Question requirements very well**to ensure complete understanding of what is required**, by ***underlining the key facts*** **of each given appendix.**

# Now Let Us Start

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# TIMELINE

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STARRY GOLD ACADEMY

SKILLS LEVEL EXAMINATION

CORPORATE REPORTING

Time Allowed: 3 hours, 15 minutes

SECTION A: COMPULSORY QUESTION (30 MARKS)

QUESTION 1

Bagat Plc has two subsidiaries (Megat and Mingat) and one associate (Cagat). Since the adoption of IFRS by Government Bagat has been preparing its consolidated financial statements in accordance with the principles of International Financial Reporting Standards (IFRS). The draft Statements of Financial Position of Bagat and its two subsidiaries as at 31 May 2013 are as follows:

as follows:

| | BAGAT | MEGAT | MINGAT |
|---|---|---|---|
| | ₦'M | ₦'M | ₦'M |
| **Assets:** | | | |
| **Non-current assets:** | | | |
| **Plant** | 5,300 | 4,600 | 3,220 |

| | | | |
|---|---|---|---|
| **Investments – Megat** | **6,000** | | |
| **Mingat** | **2,560** | | |
| **Associate Cagat** | **400** | | |
| **Available for Sale Investment** | **1,020** | **120** | **100** |
| | **15,280** | **4,720** | **3,320** |
| | | | |
| **Current assets:** | | | |
| **Inventory** | **2,700** | **1,100** | **1,460** |
| **Trade receivables** | **1,820** | **900** | **640** |
| **Cash and cash equivalents** | **2,040** | **2,000** | **160** |
| | **6,560** | **4,000** | **2,260** |
| **Total assets** | **21,840** | **8,720** | **5,580** |
| | | | |
| **Equity and liabilities:** | | | |
| **Share capital** | **10,400** | **4,400** | **2,000** |
| **Retained earnings** | **4,800** | **3,000** | **1,600** |
| **Other components of equity** | **240** | **80** | **140** |
| **Total equity** | **15,440** | **7,480** | **3,740** |
| | | | |

**Non-current liabilities:**

| | | | |
|---|---|---|---|
| **Long-term loans** | **2,400** | **300** | **100** |
| **Deferred tax** | **500** | **180** | **60** |
| **Total Non-current liabilities** | **2,900** | **480** | **160** |
| **Current liabilities:** | | | |
| **Trade payables** | **2,300** | **600** | **1,200** |
| **Current tax payable** | **1,200** | **160** | **480** |
| | | | |
| | **3,500** | **760** | **1,680** |
| **Total equity and liabilities** | **21,840** | **8,720** | **5,580** |

The following information is relevant to the preparation of the group financial statements:

i. On 1 June, 2012, Bagat acquired 80% of the equity interest of Megat Plc.

On the date of acquisition, the retained earnings of Megat was ₦2.72billion and other components of equity were ₦80million. There had been no new issue of capital by Megat since the date of acquisition. The purchase consideration comprised cash of ₦6billion whereas the fair value of the identifiable net assets of Megat on this date was ₦8billion. The excess of the fair value of the net assets is due to an increase in the value of non-depreciable land. An independent valuer has stated that the fair value of the non-controlling interests in Megat was ₦1.72billion on 1 June, 2012. It is the policy of Bagat to measure non-controlling interests on the basis of their proportionate share in the identifiable net assets of the acquired subsidiary and not at fair value (full goodwill method).

ii. Also on 1 June, 2012, Bagat acquired 70% of the ordinary shares of

Mingat. The consideration for the acquisition of these shares was ₦2.56billion. Under the purchase agreement of 1 June, 2012, Bagat is required to pay the former shareholders of Mingat 30% of the profits of Mingat on 31 May, 2014 for each of the financial years to 31 May, 2013 and 31 May, 2014. The fair value of this arrangement was estimated at ₦120million at 1 June, 2012 and this value has not changed.

This amount has not been included in the financial statements.

The fair value of the identifiable net assets at 1 June, 2012 of Mingat was ₦3.52billion and the retained earnings and other components of equity were ₦1.1billion and ₦140million respectively. There had been no new issue of share capital by Mingat since the date of acquisition and the excess of the fair value of the net assets is due to an increase in the value of property, plant and equipment (PPE). The fair value of the noncontrolling interests in Mingat was ₦1.06billion on this date. PPE is depreciated on a straight-line basis over seven years.

iii. Finally, Bagat acquired a 25% interest in Cagat Plc on 1 June, 2012 for ₦400million achieving significant influence over that company in its financial and operating policy decisions. Cagat Plc retained earnings for the year to 31 May, 2013 was ₦200 million.

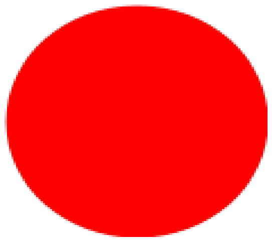
iv. Included in trade receivables of Bagat at 31 May, 2013 is a receivable from Megat of ₦30million. Unknown to Bagat, Megat has paid this amount through a bank transfer by the close of work on 31 May, 2013 but it had not yet been reflected in the bank statement of Bagat.

Megat has already passed accounting entries to reflect this transaction.

v. Goodwill arising on the purchase of Mingat was tested for impairment on 31 May, 2013 and this provided evidence of impairment to the tune of ₦36million. No accounting entries have been passed to reflect the impairment.

Required:

Prepare a consolidated statement of financial position as at 31 May, 2013 for the
Bagat Group. (30 Marks)



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SECTION B:

INSTRUCTION: ANSWER ANY THREE OUT OF FIVE QUESTIONS IN THIS SECTION

# QUESTION 2

The Board of Directors of Maranathan plc at its meeting in August, 2019 expressed series of concerns over some of the growth strategies for the company. One of the concerns relates to the financial position of the company as presented in the financial statements, whether that will be adequate or sufficient to convince its bank to approve the loan request needed for expansion and diversification. Also, the diversification contemplated might require business combination. Therefore, there is the urgent need to analyse the company‟s financial position so as to enter into a good bargain with the other business associates. The financial statements are presented below.

# Statement of Profit or Loss and other Comprehensive Income for the year endedDecember 31, 2018

| | 2018 | 2017 |
|---|---|---|
| | ₦"000 | ₦"000 |
| **Revenue** | **1,558,750** | **1,112,500** |
| **Cost of sales** | (1,049,375) | (720,000) |
| **Gross profit** | 509,375 | 392,500 |
| **Administrative expenses** | **(71,000)** | **(63,750)** |
| **Distribution costs** | (148,375) | (98,750) |
| **Profit from operations** | 290,000 | 230,000 |
| **Finance cost** | (62,250) | (30,625) |
| | 227,750 | 199,375 |
| | (37,250) | (27,812.5) |
| **Profit before tax** | 190,500 | 171,562.5 |

| | | |
|---|---|---|
| Taxation | | |
| Profit for the year | | |
| Other comprehensive income gain on revaluation | 46,000 | 20,687.5 |
| Total comprehensive income for the year | 236,500 | 192,250 |
| Dividends paid | 100,000 | 50,000 |

**Statement of financial position as at December 31, 2018**

| | 2018 | 2017 |
|---|---|---|
| | ₦"000 | ₦"000 |
| Non-current assets | | |
| Property, plant and equipment | 531,250 | 398,750 |
| Current assets | | |
| Inventory | 111,625 | 65,000 |
| Receivables | 248,250 | 136,125 |
| Cash and cash equivalents | - | 21,375 |
| Total assets | 891,125 | 621,250 |
| Equity and liabilities | | |
| Share capital (₦1 per share) | 125,000 | 125,000 |
| Revaluation reserve | 82,250 | 36,250 |

| | | |
|---|---|---|
| **Retained earnings** | **268,000** | ~~177,500~~ ~~338,750~~ |
| | **475,250** | |
| **Non- current liabilities** | | |
| **Loan notes** | **325,000** | **212,500** |
| **Current liabilities** | | |
| **Trade payables** | **72.125** | **70,000** |
| **Overdraft** | **18,750** | **-** |
| | **90,875** | **70,000** |
| **Total equity and liabilities** | **891,125** | **621,250** |

You are required to:

Write a report to the Board of Directors of Maranathan plc. analysing the financial statements and assessment of the financial performance of the company using the following ratios

i. Profitability and efficiency ii. Short term liquidity
iii. Long term liquidity and solvency

(Total 20 Marks)

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QUESTION 3

Tinubun Plc., a public limited company, operates two pension plans.

Pension Plan 1

The terms of the plan are as follows:

(i) Employees contribute 6% of their salaries to the plan

(ii) Tinubun Plc. contributes, currently, the same amount to the plan for the benefit of the employees

(iii) On retirement, employees are guaranteed a pension which is based upon the number of years‟ service with the company and their final salary.

(iv) This plan was closed to new entrants from October 31, 2016 but which was open to future service accrual for the employees already in the scheme.

The following details relate to the plan in the year to October 31, 2017:

| | ₦„m |
|---|---|
| **Present value of obligation at November 1, 2016** | **200** |
| **Present value of obligation at October 31, 2017** | **240** |
| **Fair value of plan assets at November 1, 2016** | **190** |

| | |
|---|---|
| **Fair value of plan assets at October 31, 2017** | **225** |
| **Current service cost** | **20** |
| **Pension benefits paid** | **19** |
| | 17 |

Total contributions paid to the scheme
for year to October 31, 2017

Actuarial gains and losses are recognised in the Statement of Other Comprehensive Income.

Pension Plan 2

Under the terms of the plan, Tinubun Plc. does not guarantee any return on the contributions paid into the fund. The company"s legal and constructive obligation is limited to the amount that is contributed to the fund. The following details relate to this scheme

| | ₦'m |
|---|---|
| **Fair value of plan assets at October 31, 2017** | **21** |
| **Contributions paid by company for year to October 31, 2017** | **10** |
| **Contributions paid by employees for year to October 31, 2017** | **10** |

The discount rates for the two plans are:

| | October 31, 2017 | November 1, 2016 |
|---|---|---|
| Discount rate | 6% | 5% |

Required:

a. Explain the nature of and differences between a defined contribution plan and a defined benefit plan with specific reference to the company‟s two schemes.

b. Show the accounting treatments for the two Tinubun Plc. pension plans for the year ended October 31, 2017 under IAS 19 „Employee Benefits‟.

(Total 20 marks)

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QUESTION 4

Otedang Limited manufactures and sells electronic and home appliances to a nationwide customer base. All products sold come with a free three year manufacturer‟s warranty and additional optional warranty can be purchased by interested customers. This additional warranty is for a pre-determined fee and will extend the warranty for another two years.

At year-end 2018, the sales department had 1million products under free warranty which Otedang Limited will have to repair any manufacturing defect. The cost of repair will depend on the extent of the defect in the product sold. Major defects are expected to cost ₦2,500 to repair while minor defects will cost an estimated ₦1,000 to repair. From the historical data and past experience of products sold, 80% of the products sold have no defects, minor defects occur 18% of the time while major defects occur only 2% of the time.

Otedang Limited has estimated the warranty obligation and has recorded this obligation as a financial liability in its year-end financial statements. The recently appointed senior accountant is concerned with this accounting treatment and although this has been the accounting treatment in prior year‟s financial statements. She believes this treatment is inconsistent with IAS 32-Financial Instruments: Presentation.

The company‟s earnings and profitability have been growing in recent years beyond analysts‟ predictions. Due to its growth, the company has become an acquisition target for multinational companies.

As a result of becoming a target for acquisition, Otedang Limited is making the transition to International Financial Reporting Standards (IFRS) in the current year end. The company has written off a previously deferred asset of ₦3.1million to statements of comprehensive income in an attempt to be in compliance with IFRS 1- First Time Adoption of IFRS.

Required:

a. Estimate the amount of provision Otedang Limited should recognise in its books in relation to the warranty obligation at year end in accordance with

IAS 37- Provisions, Contingent Liabilities and Contingent Assets.

b. Comment on the senior accountant‟s view that the treatment of the warranty obligation in the prior years and current year-end financial statements is inconsistent with IAS 32- Financial Instruments: Presentation.

c. Comment on the treatment of the deferred assets in the year-end financial statements.

(20 Marks)

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# QUESTION 5

Manipulation of reporting entities book's and records have been termed in many quarters as "Creative Accounting" and "Window Dressing". The Management of Wastage Plc requires clarification of these two concepts.

You are required to write a report to the management of Wastage Plc,. Your report should include:

a. Definitions of the TWO concepts
b. FIVE examples of each
c. THREE possible reasons for Creative Accounting and Window Dressing.
d. Advise to management on FIVE possible preventive measures of Creative

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# And Your Contributions.

# Bye For Now

# And Good Luck In Your Exams

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