Section A - This ONE question is compulsory and MUST be attempted

1. The following draft financial statements relate to Zambeze, a public limited company:

Draft Group Balance Sheets at 30 June

	20X6 $m	20X5 $m
Assets:		
Non-current assets:		
Property, plant and equipment	1,315	1,005
Goodwill	30	25’
Investment in associate	270	290
	1,615	**1,320**
Current assets:		
Inventories	650	580
Trade receivables	610	530
Cash at bank and cash equlvalents	50	140
	1,310	**1,250**
Total assets	**2,925**	**2,570**
Equity and liabilities:		
Share capital	100	85
Share premlum account	30	15
Revaluation reserve	50	145
Retained earnings	254	250
	434	495
Non-Controlling Interest	60	45
Total equity	**494**	**540**
Non-current liabilities	850	600
Current liabilities	1,581	1,430
Total liabilities	2,431	2,030
Total equity and liabilities	**2,925**	**2,570**

Draft Group Income Statement for the year ended 30 June 20X6

	$m
Revenue	4,700
Cost of sales	(3,400)
Gross profit	**1,300**
Distribution and administrative expenses	(600)
Finance costs (interest payable)	(40)
Share of profit in associate	30'
Profit before tax	**690**
Income tax expense (including tax on income from associate $10 million)	(210)
Profit for the period	**480**
Attributable to:	
Equity holders of the parent	455
Non-Controlling Interest	25
	480

Draft Group Statement of Recognised Income and Expense for the year ended 30 June 20X6

	$m
Foreign exchange difference of associate	(5)
Impairment losses on property, plant and equipment offset against revaluation surplus	(95)
Net expense recognised in equity	(100)
Profit for period	455
Total recognised income and expense	355

Draft Statement of changes in equity for the year ended 30 June 20X6

	$m
Total recognised income and expense for the period	355
Dividends paid	(446)
New shares issued	30
Total movement during the year	(61)
Shareholders' funds at 1 July 20X5	495
Shareholders' funds at 30 June 20X6	434

The following relates to Zambeze:
(i) Zambeze acquired a seventy per cent holding in Damp, a public limited company, on 1 July 20X5. The fair values of the net assets acquired were as follows:

	$m
Property, plant and equipment	70
Inventories and work in progress	90
	160

The purchase consideration was $100 million in cash and $25 million (discounted value) deferred consideration which is payable on 1 July 20X6. The difference between the discounted value of the deferred consideration ($25 million) and the amount payable ($29 million) is included in ''¡interest payable”. Zambeze wants to set up a provision for reconstruction costs of $10 million retrospectively on the acquisition of Damp. This provision has not yet been set up.

(ii) There had been no disposals of property, plant and equipment during the year. Depreciation for the period charged in cost of sales was $60 million.

(iii) Current liabilities comprised the following Items

	20X6 $m	20X5 $m
Trade payables	1341	1200
Interest payable	50	45
Taxation	190	185
	1581	**1430**

(iv) Non-current liabilities comprised the following:

	20X6 $m	20X5 $m
Deferred consideration - purchase of Damp	29	-
Liability for the purchase of Property, plant and equipment	144	-
Loans repayable	621	555
Provision for deferred tax	30	25
Retirement benefit liability	26	20
	850	**600**

v) The retirement benefit liability comprised the following:

	$m
Movement in year:	
Liability at 1 July 20X5	20
Current and past Service costs charged to income statement	13
Contributions paid to retirement benefit scheme	(7)
Liability 30 June 20X6	**26**

There was no actuarial gain or loss in the year.

(vi) Goodwill was impairment tested on 30 June 20X6 and any impairment was included in the financial statements for the year ended 30 June 20X6. /

(vii) The Finance Director has set up a company, River, through which Zambeze conducts its investment activities. Zambeze has paid $400 million to River during the year and this has been included in dividends paid. The money was invested in a specified portfolio of investments. Ninety five per cent of the profits and one hundred per cent of the losses in the specified portfolio of investments are transferred to Zambeze. An investment manager has charge of the company's investments and owns all of the share capital of River. An agreement between the investment manager and Zambeze sets out the operating guidelines and prohibits the investment manager from obtaining access to the investments for the manager's benefit. An annual transfer of the profit/loss will occur on 30 June annually and the capital will be returned in four years time. The transfer of $400 million cash occurred on 1 January 20X6 but no transfer of profit/loss has yet occurred. The balance sheet of River at 30 June 20X6 is as follows:

River - Balance sheet at 30 June 20X6

Investment at fair value through profit or loss	390
	390
Share capital	400
Retained earnings	(10)
	390

Required:
Prepare a group cash flow statement for the Zambeze Group for the year ended 30 June 20X6 using the indirect method. (35 marks)