



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ECONOMICS AND BUSINESS SCIENCES

EXAMINATION PAPER

COURSE CODE : CAC 410
COURSE TITLE : PUBLIC SECTOR ACCOUNTING 2
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 4.2
DATE :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer any **FIVE (5)** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []
5. Non programmable calculators may be used

Question One

Revenue collection is an important aspect of public financial management. This is due to the fact that the revenue collected finances government activities.

Required:

- a) Mention any **five** sources of government revenue. You should also state whether the sources are revenue from exchange or non-exchange transactions in line with IPSAS 9 *Revenue From Exchange Transactions* and IPSAS 23 *Revenue From Non-Exchange Transactions*. [10 Marks]
- b) Explain any **five** responsibilities which have been placed on revenue collectors in the public sector. [10 Marks]

[Total 20marks]

Question Two

An accounts assistant of a government body has prepared a list of balances as at 31 December 2015:

	\$'000
Property tax	3,765,313
Public contributions and donations	50,928
Fines, penalties and levies	1,425,336
Transfer from the Government	3,006,268
Proceeds from sale of machinery	360,000
Rendering of services	1,794,610
Sale of water and electricity	7,895,410
Rental revenue from facilities	231,789
Other income	265,210
Finance income from investments	271,360
Employee costs	560,000
Remuneration of councilors	80,000
Repairs and maintenance	1,760,000
Grants and subsidies	280,000
Bulk purchase of water and electricity	4,560,000
Other expenses	2,460,000
Finance costs	168,160

The following information is also available:

- (1) The agency classifies its receipts into taxation, external assistance, other grants and aid, other borrowings, capital receipts, trading activities and other receipts.
- (2) The agency's expenses are categorised into operations, transfers, capital expenditure, loan and interest payments and other payments.
- (3) The agency's cash balance on 1 January 2015 was K4,105,480.
- (4) The agency applies cash basis accounting in line with Government requirements.

Required:

- (a) Explain the difference between a cash basis of accounting and accruals basis of accounting. [5 Marks]
- (b) Prepare a statement of cash receipts and payments for the agency for the year ended 31 December 2015. [15 Marks]
- [Total 20marks]

Question Three

- a) Cash accounting policies and accrual accounting policies when applied respectively to the same transaction or events of the same entity will produce different pictures of the financial performance, position and cash flow information of the entity. Thus, the choice of alternative policies needs to be given much consideration. The International Public Sector Accounting Standards Board (IPSASB) permits the use of cash accounting policies whilst encouraging the application of accrual accounting policies in the preparation of financial reports for public sector.

Required:

Discuss the difference between *cash accounting policies* and *accrual accounting policies* in terms of recognition and or treatment of the following in the Financial Statements:

- i) Revenue
 - ii) Capital asset
 - iii) Allowances and provisions
 - iv) Contingent liability [4 marks]
- b) Explain **TWO (2)** functions of the International Public Sector Accounting Standards Board (IPSASB) [4 marks]
- c) Explain what a *covered entity* is in Public Sector Accounting and Finance? [2 marks]
- d) Some accountants hold the view that development of a Conceptual Framework for General Purpose Financial Reporting (simply, the Conceptual Framework) in the Public Sector is needless and a mere information overload on the Accountants. This argument is predicated on the fact that the Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopts IPSAS, nor does it override the requirements of the International Public Sector Accounting Standards (IPSAS) or the Recommended Practice Guides (RPGs).

Required:

- i) Explain the connection between the *Conceptual Framework* on one hand and *IPSAS* and *RPGs* on the other hand. (2 marks)
- ii) Illustrate a practical case where the *Conceptual Framework* would be useful to an accountant in the preparation and presentation of a *General Purpose Financial Report* for his organisation. (4 marks)
- iii) Explain **TWO (2)** constraints on information included in the General Purpose Financial Reports (4 marks)

[Total 20 marks]

Question Four

Below is the extract from the records of Damsa Municipal Assembly (DMA).

Trial Balance as at 31 December 2020		
	\$'000	\$'000
	10,000	
Travel and transport	8,700	
Seminar and conference	5,600	
Independence Day celebration	4,100	
Office consumables	1,200	
Inventory of office consumables	300	
Local Consultancy	1,300	
Limited engagement	4,400	
Non-established post salaries	2,100	
Allowances for staff	950	
Assembly members allowances	500	
Foreign travels per diems	1,800	
Foreign travels		68,000
Share of District Assembly Common Fund		13,000
Share of stool land revenues		11,250
Ceded revenues from GRA		10,000
Basic rates		26,000
Property rates		6,800
Market tolls		9,100
Market store fees		600
Lorry parks		1,400
Advertisements and promotions		560
Vehicle licenses		120
Hawkers licenses		700
Entertainment licenses		800
Fixed deposit interest	10,000	
Fixed deposit investment	25,000	5,000
Motor vehicles	15,000	3,000
Furniture and fittings	86,000	5,600
Premises	34,000	3,600
Equipment	5,400	
Cash and cash equivalent	6,200	
Loans and advances	300	
Revenue receivable	1,700	
Other expenses		47,020
Accumulated surpluses		12,000
District development facility	<u>224,550</u>	<u>224,550</u>

Additional Information:

- i) The central government has a constitutional responsibility to pay all established post salaries of the Assembly from the Consolidated Fund. The established post salaries paid by the central government on behalf of the assembly for 2020 amounted to \$64,000,000. This payment has not reflected in the books of DMA.

ii) Office consumables in respect of stationery and other items bought for \$1,800,000 remained unused during the year. The current replacement cost of the inventories is \$1,050,000. Meanwhile, the net realizable value of the inventories is estimated at \$1,400,000. No market exists for unused office consumables and other items.

iii) Consumption of fixed capital is to be charged as follows:

Assets	Estimated useful life
Motor vehicles	5 years
Furniture and fittings	5 years
Premises	10 years
Equipment	8 years

iv) During the year, the following assets were acquired and outright payments made for them: Motor Vehicle \$7,000,000; Equipment \$4,000,000. These have been accounted for.

v) DMA could not pay the electricity bill for the last quarter of 2020. This was brought to its attention by the Electricity Company Ltd. of Ghana. The amount involved is \$4,000,000.

vi) The government has assigned some young graduates to DMA as part of the Nation Builders Corp programme to support the Assembly in revenue mobilization. The allowances amounting to \$2,000,000 due them from DMA for the last month of the year was outstanding. DMA promises to pay them by the end of the first quarter of 2020.

vii) Fixed deposit attracts interest of 20% per annum and some interest is due as at 31 December 2020.

viii) The market store fees received was for two years: 2020-2021.

ix) During the year, the chiefs and people of the Assembly donated a new vehicle valued at \$400,000 to the DMA. No record was made in the books.

x) Extract of the 2020 Budget of the DMA is as follows:

	\$'00
Decentralised transfer	185,00
Compensation of employees	74,30
Goods and Services	35,60
Other expenses	1,70
Internally Generated Funds	102,00
Donations and grants	1,00

Required:

Prepare in accordance with the *IPSAS* and the *Public Financial Management Act*,

- a) Statement of Financial Performance for the year ended 31 December 2020. [5 marks]
- b) Statement of Financial Position as at 31 December 2020. [5 marks]
- c) Statement of Budget Information in Comparison with Actuals for the year ended 31 December 2020. [5 marks]
- d) Notes to the financial statements. [5 marks]

[Total 20 marks]

Question Five

Perseverance Group prepares its financial statements for the year ended 31 December 2020 in accordance with the IFRS, IAS and GAAP Financial information for 2020 (in thousands of currency units):

	2020	2019
	\$000	\$000
Accounts receivable	725	850
Trade payables	310	425
Inventory	625	550
<i>Increase</i> in other expenses payable—services	15	
<i>Increase</i> in wages and salaries payable	65	
<i>Increase</i> in accrued interest	2	
<i>Increase</i> in current tax payable	10	
<i>Decrease</i> in deferred tax—asset	7	
Purchases of inventory	5,425	
Sales revenue from the sale of goods and rendering services	16,540	
Other expenses—services	210	
Wages and salaries expense	4,690	
Interest expense	95	
Income tax expense	205	

The group classifies interest paid in operating activities and interest received in investing activities. In 2016 the group:

- borrowed (and received) \$590 (long-term loan)
- paid \$90 to settle long-term borrowing
- received interest of \$5
- paid \$265 for property, plant and equipment acquired
- received \$150 from the sale of equipment
- paid \$135 to acquire a software licence custom-made for its production process
- paid \$345 to acquire an investment property
- purchased a second investment property on credit for \$345

- paid \$110 as a reduction of financial lease liability.

The group had \$130 in cash and cash equivalents at beginning of the 2020 reporting period and \$5,940 in cash and cash equivalents at the end of the 2020 reporting period.

Required

Prepare the group's consolidated statement of cash flow for the year ended 31 December 2020 using the direct method of presenting operating cash flows. [20 Marks]

[Total 20marks]

END OF EXAMINATION QUESTION PAPER