



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC405
COURSE TITLE : SPECIFIC FINANCIAL REPORTING
DURATION : 3 Hours
LEVEL : 4.1
DATE :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for Section B only.
4. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS (Each question carries 2 marks)

1. A piece of machinery cost \$5,000. Tax depreciation to date has amounted to \$2,200 and depreciation charged in the financial statements to date is \$1,000. The rate of income tax is 30%.

Which of the following statements is incorrect according to IAS 12 Income Taxes?

- A. The provision for deferred tax in relation to the asset is \$360
 - B. The tax base of the asset is \$2,800
 - C. There is a deductible difference of \$1,200
 - D. There is a taxable temporary difference of \$1,200
2. **Which ONE of the following statements regarding IFRS 13 is NOT true?**
- A. Level 1 inputs are likely to be used without adjustment.
 - B. Level 1 inputs comprise quoted prices in active markets for identical assets and liabilities at the reporting date.
 - C. Level 2 inputs may include quoted prices for similar (but not identical) assets and liabilities in active markets.
 - D. Level 3 inputs are based on the best information available to market participants and are therefore regarded as providing the most reliable evidence of fair value.

3. Jacos owned a one year old herd of cattle on 1 January, recognised in the financial statements at \$140,000. At 31 December, the fair value of a two year old herd of cattle is \$170,000. Costs to sell are still estimated to be \$5,000.

What is the correct accounting treatment for the cattle at 31 December according to IAS 41 Agriculture?

- A. Revalue to \$165,000, taking gain of \$25,000 to other comprehensive income.
 - B. Revalue to \$165,000, taking gain of \$25,000 to the statement of profit or loss.
 - C. Revalue to \$170,000, taking gain of \$30,000 to other comprehensive income.
 - D. Revalue to \$170,000, taking gain of \$30,000 to the statement of profit or loss.
4. An entity contributes to an industrial pension plan that provides a pension arrangement for its employees. A large number of other employers also contribute to

the pension plan, and the entity makes contributions in respect of each employee. These contributions are kept separate from corporate assets and are used together with any investment income to purchase annuities for retired employees. The only obligation of the entity is to pay the annual contributions.

This pension scheme is a:

- A. Multiemployer plan and a defined contribution scheme.
 - B. Multiemployer plan and a defined benefit scheme.
 - C. Defined contribution plan only.
 - D. Defined benefit plan only.
5. In the case of a nonmonetary grant, **which of the following accounting treatments is prescribed by IAS 20?**
- A. Record the asset at replacement cost and the grant at a nominal value.
 - B. Record the grant at a value estimated by management.
 - C. Record both the grant and the asset at fair value of the nonmonetary asset.
 - D. Record only the asset at fair value; do not recognize the fair value of the grant.
6. **Which of these disclosures is not required by IAS 20?**
- A. The accounting policy adopted for government grants, including methods of presentation adopted in the financial statements.
 - B. Unfulfilled conditions and other contingencies attaching to government assistance.
 - C. The names of the government agencies that gave the grants along with the dates of sanction of the grants by these government agencies and the dates when cash was received in case of monetary grants.
 - D. The nature and extent of government grants recognized in the financial statements and an indication of other forms of government assistance from which the entity has directly benefited.
7. **Which of these considerations would not be relevant in determining the entity's functional currency?**
- A. The currency that influences the costs of the entity.
 - B. The currency in which finance is generated.
 - C. The currency in which receipts from operating activities are retained.
 - D. The currency that is the most internationally acceptable for trading.

8. Under IAS 34, interim financial reports should be published:

- A. Once a year at any time in that year.
- B. Within a month of the half-year-end.
- C. On a quarterly basis.
- D. Whenever the entity wishes

9. An entity operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of \$2 million were incurred on March 1, 2017, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around \$20 million for the year; of that sum, \$3 million would relate to the period ending March 31, 2017.

What costs should be included in the entity's quarterly financial report to March 31, 2017?

- A. Advertising costs \$2 million; staff bonuses \$5 million.
- B. Advertising costs \$0.5 million; staff bonuses \$5 million.
- C. Advertising costs \$2 million; staff bonuses \$3 million.
- D. Advertising costs \$0.5 million; staff bonuses \$3 million.

10. Which of the following transactions involving the issuance of shares does not come within the definition of a "share-based" payment under IFRS 2?

- A. Employee share purchase plans.
- B. Employee share option plans.
- C. Share-based payment relating to an acquisition of a subsidiary.
- D. Share appreciation rights

[Total 20marks]

SECTION B: ANSWER ALL QUESTIONS. Begin each question on a new page.

Question 1

- a) State the disclosure requirements of IAS21 Foreign currency transactions [3]
- b) Define the following terms:
- i. Functional currency [2]
 - ii. Presentation currency [2]
 - iii. Monetary items [3]
- c) Explain the factors management take into consideration when determining the functional currency [10]
- d) Proton Co, whose year-end is 31 December, buys some goods from Rinka Lactate of France on 30 September 2019. The invoice value is €80,000 and is due for settlement in equal instalments on 30 November 2019 and 31 January 2020. The exchange rate moved as follows.

	€= \$1
30 September 2019	1.60
30 November 2019	1.80
31 December 2019	1.90
31 January 2020	1.85

Required: Journalise the accounting entries in the books of Proton Co [10]

[Total 30marks]

Question 2

- a) Differentiate between permanent differences and temporary differences. [5]
- b) A company's financial statements show profit before tax of \$100,000 in each of years 2016, 2017, and 2018. This profit is stated after charging depreciation of \$20,000 per annum. This is due to the purchase of an asset of \$60,000 in year 2016 which is being depreciated over its 3-year economic life on a straight line basis. The tax capital allowances granted for the related asset are:

Year 2016	\$24,000
Year 2017	\$21,000
Year 2018	\$15,000

Income tax is calculated as 30% of taxable profits.

Apart from the above depreciation and tax allowances there are no other differences between the accounting and taxable profits.

Required:

- i. Ignoring deferred tax, prepare statement of profit or loss extracts for each of years 2016, 2017 and 2018. [8]

- ii. Accounting for deferred tax, prepare statement of profit or loss and statement of financial position extracts for each of years 2016, 2017 and 2018. [12]
[25 marks]

Question 3

- a) Identify the main difference between a defined benefit pension plan and a defined contribution pension plan. [4]
b) The following data applies to the post-employment defined benefit compensation scheme of Biddulphs Co.
Discount rate: 10% (each year)
Present value of obligation at start of 2016: \$1million
Market value of plan assets at start of 2016: \$1million

The following figures are also relevant:

	2016	2017	2018
	\$'000	\$'000	\$'000
Current service cost	140	150	150
Benefits paid out	120	140	150
Contributions paid by enterprise	110	120	120
Present value of obligations at 31 December	1,200	1,650	1,700
Market value of plan assets at 31 December	1,250	1,450	1,610

Additional information:

At the end of 2017, a division of the company was sold. As a result of this, a large number of the employees of that division opted to transfer their accumulated pension entitlement to their new employer's plan. Assets with a fair value of \$48,000 were transferred to the other company's plan and the actuary has calculated that the reduction in Biddulphs' defined benefit liability is \$50,000. The year-end valuations in the table above were carried out before this transfer was recorded.

At the end of 2018, a decision was taken to make a one-off additional payment to former employees currently receiving pensions from the plan. This was announced to the former employees before the year end. This payment was not allowed for in the original terms of the scheme. The actuarial valuation of the obligation in the table above includes the additional liability of \$40,000 relating to this additional payment.

Required:

Show how the reporting entity should account for this defined benefit plan in each of years 2016, 2017 and 2018. [21] [Total 25marks]

THE END