



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

1. Tapson plc's accounting records shown the following:

Income tax payable for the year	\$60,000
Over provision in relation to the previous year	\$4,500
Opening provision for deferred tax	\$2,600
Closing provision for deferred tax	\$3,200

What is the income tax expense that will be shown in the Statement of profit or loss for the year?

- A \$58,700 B \$63,900 C \$65,100 D \$56,100
2. Janileka 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.
3. 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.
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. 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.
6. Foreign operations that are an integral part of the operations of the entity would have the same functional currency as the entity. Where a foreign operation functions independently from the parent, the functional currency will be:
- A. That of the parent.
 - B. Determined using the guidance for determining an entity's functional currency.
 - C. That of the country of incorporation.
 - D. The same as the presentation currency.
7. 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.
8. In the case of grants related to an asset, which of these accounting treatments (statement of financial position presentation) is prescribed by IAS 20?
- A. Record the grant at a nominal value in the first year and write it off in the subsequent year.
 - B. Either set up the grant as deferred income or deduct it in arriving at the carrying amount of the asset.
 - C. Record the grant at fair value in the first year and take it to income in the subsequent year.
 - D. Take it to the income statement and disclose it as an extraordinary gain.
9. Interim financial reports should include as a minimum:
- A. A complete set of financial statements complying with IAS 1.
 - B. A condensed set of financial statements and selected notes.
 - C. A balance sheet and income statement only.
 - D. A condensed balance sheet, income statement, and cash flow statement only.
10. An entity prepares quarterly interim financial reports in accordance with IAS 34. The entity sells electrical goods, and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was \$10 million. However, in the second quarter, a design fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were \$15 million.
- What would be the provision charged in the second quarter's interim financial statements?**

- A. \$750,000 B. \$1.25 million. C. \$1.5 million. D. \$2 million

11. 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.

12. On June 1, 2016, an entity offered its employees share options subject to the award being ratified in a general meeting of the shareholders. The award was approved by a meeting on September 5, 2016. The entity’s year-end is June 30. The employees were to receive the share options on June 30, 2018.

At which date should the fair value of the share options be valued for the purposes of IFRS 2?

- A. June 1, 2016.
B. June 30, 2016.
C. September 5, 2016.
D. June 30, 2018.

[Total 24marks]

SECTION B: ANSWER ALL QUESTIONS.

Begin each question on a new page.

Question 1

- 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. [10]

- 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. [10]
[25 marks]

Question 2

- 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. [22] **[Total 26marks]**

Question 3

Livestock Ltd had a herd of 10 two-year-old animals at 1 January 2019. One animal, aged 2.5 years, was purchased on 1 July 2019 for \$324, and one animal was born on 1 July 2019. No animals were sold during the year. Fair values less estimated point-of-sale costs per animal were as follows:

	\$
2-year-old animal at 1 January 2019	300.00
New born animal at 1 July 2019	210.00
2½-year-old animal at 1 July 2019	324.00
New born animal at 31 December 2019	216.00
½-year-old animal at 31 December 2019	240.00
2-year-old animal at 31 December 2019	315.00
2½-year-old animal at 31 December 2019	333.00
3-year-old animal at 31 December 2019	360.00

Required:

- a) Applying the provisions of IAS 41 (Agriculture):
Define the following terms and concepts:
- i. Agricultural Activity [3]
 - ii. Biological assets [2]
- b) Show the overall movement in the valuation of Livestock Ltd's herd for 2019. [5]
- c) Calculate the physical changes and price changes for livestock Ltd's herd in 2019 [10]
- d) Outline the minimum components of an interim report as prescribed by IAS 34 (Interim Financial Reporting). [5 marks]
- [Total 25marks]**

THE END
