



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

---

### FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

---

#### DEPARTMENT OF ACCOUNTANCY AND FINANCE

#### EXAMINATION PAPER

<b>COURSE CODE</b>	:	CAC 207
<b>COURSE TITLE</b>	:	GENERAL FINANCIAL REPORTING
<b>SPECIAL REQUIREMENTS</b>	:	
<b>DURATION</b>	:	3 Hours
<b>LEVEL</b>	:	2.2
<b>DATE</b>	:	

#### INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **ALL FOUR (4)** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets [ ]

### **QUESTION ONE**

Samatha plc acquired 100% of the common shares of Samuel plc on 1 January 2018 and gained control. At that date the statements of financial position of the two companies were as follows:

	<i>Samatha 000</i>	<i>Samuel 000</i>
<b>ASSETS</b>		
<i>Non-current assets</i>		
Property, plant and equipment	250	100
Investment in Samuel	90	
Current assets	100	70
Total assets	<u>440</u>	<u>170</u>
<b>EQUITY AND LIABILITIES</b>		
<i>Capital and reserves</i>		
\$1 shares	200	100
Retained earnings	160	10
	<u>360</u>	<u>110</u>
Current liabilities	80	60
Total equity and liabilities	<u>440</u>	<u>170</u>

*Notes:*

- The fair value is the same as the book value.
- \$15,000 of the negative goodwill arises because the net assets have been acquired at below their fair value and the remainder covers expected losses of \$3,000 in the year ended 31/12/2018 and \$2,000 in the following year.

**Required:**

- Prepare a consolidated statement of financial position for Samatha plc as at 1 January 2018. **[20 marks]**
- Explain how the negative goodwill will be treated. **[5 marks]**

**[TOTAL 25 MARKS]**

### **QUESTION TWO**

- Describe how users of financial statements benefit from information relating to discontinued operations; and briefly explain the main disclosures in respect of discontinued operations. **[10 marks]**
- Being the financial consultant of Insha Chemicals Limited (ICL), a listed company, you have been approached to advise on certain accounting issues. Accordingly, you are required to explain how the following transactions should be disclosed in ICL's financial statements for the year ended June 30, 2019 in accordance with International Financial Reporting Standards: (a) In a board meeting held on January 1, 2019, the board of directors showed concern over the poor results of one of the company's cash generating unit, Lahore Division (LD). It was principally decided in the meeting that this division should be discontinued.  
ICL's CEO announced the closure of LD in a press conference held on February 15, 2019. He also informed that negotiations to sell the entire division are in progress and the sale is expected to be finalized within few months. On June 14, 2019, the CEO reported to the board of directors that negotiations with Bashir Limited are proceeding

well and the disposal of LD is expected to materialize before July 31, 2019. However, it is estimated that the assets would be sold at 95% of their fair value.

[15 marks]

### **QUESTION THREE**

Taguta developed a new food processing methodology over a five-year period, during which the following costs are recorded.

2003

- Research as to the extent of the market for the methodology, identification of potential buyers 300,000
- Detailed discussions with customers & feedback in the form of questionnaires 225,000

2004

- Developing various prototypes of the methodology, as a result of which technical staff became confident of the viability of the product. 900,000

2005

- Further work carried out evenly during the year to refine the methodology 1,200,000
- August – September – further market research to confirm that the entity's sales agents are prepared to promote the methodology to their customers 210,000
- October – board decision to bring the methodology to market, subject to satisfactory financing being available 240,000
- December – satisfactory financing arranged -

2006

- Further development work undertaken in the first six months of the year to finalise the specification of the methodology, while another project develops suitable production equipment 540,000
- December – final testing of the preferred materials and the overall process 630,000
- December - initial promotion of the new methodology 1,200,000

2007

- 1 January – launch of new methodology 75,000

**Required:**

(a) State the requirements of IAS 38 to research and development expenditure **(10 marks)**

(b) State (with reasons) how the expenses given above for Taguta will be accounted.

**(15 marks)**

### **QUESTION FOUR**

(a) Name the 5 user groups and information needs of the user groups identified by the IASB Framework for the Presentation and Preparation of Financial Statements. **[10 marks]**

(a) Discuss what is meant by relevance and faithful representation of financial information and describe the qualities that enhance these characteristics. **[10 marks]**

(b) Describe how IFRS 8, segment reporting, contribute to the objective of financial reporting **(5 marks)**

*End of examination*