



ZIMBABWE EZEKIEL GUTI UNIVERSITY

**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTING**

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 106

COURSE TITLE : INTRODUCTION TO FINANCIAL REPORTING

SPECIAL REQUIREMENTS :

DURATION : 3 Hours

LEVEL : 1.2

DATE :

INSTRUCTIONS TO CANDIDATES:

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

SECTION A: (Each question carries 2 marks]

Answer **all** questions in this section

1. The IASB's revised conceptual framework, issued in 2018, provides the qualitative characteristics of useful financial information as separated into fundamental and enhancing. The following is a list of some qualitative characteristics identified by the framework.

- (i) Relevance
- (ii) Comparability
- (iii) Understandability
- (iv) Timeliness
- (v) Faithfull representation
- (vi) Verifiability

Which of the above are not identified by the conceptual framework as “enhancing”?

- A. (ii) and (iii)
- B. (ii) and (iv)
- C. (iv) and (iv)
- D. (i) and (v)

2. The financial statements of Poto Ltd were approved by the Board of Directors on 1 February 2019. As per IAS 10 Events after the Reporting Period, which of the following would be non-adjusting items in the financial statements at 31 December 2018

- (i) Identification of a material error in the valuation of inventory
- (ii) An increase in the market value of investments
- (iii) The disposal of equipment , which was surplus to the business's requirements
- (iv) Receipt of notification of bankruptcy of a customer with a balance outstanding at year end

- A. (ii) and (iii)
- B. (i) and (iii)
- C. (i) and (iv)
- D. All of the above

3; According to IAS 1, Presentation of Financial Statements, which of the following items may appear in an entity's statement of changes in equity?

- (i) Revaluation Reserve
- (ii) Dividends paid
- (iii) Liabilities
- (iv) Profit for the period

- A. (i) and (iii)
- B. (ii), (iii) and (iv)
- C. (i), (iii) and (iv)
- D. (i), (ii) and (iv)

5. The statement of profit or loss and other comprehensive income and the Statement of financial position are the two principal financial statements prepared by entities. With reference to these two financial statements, determine whether the following statements are correct

- (i) An asset is a resource controlled by an entity
- (ii) The statement of financial position is a snapshot of resources assets, liabilities and equity held by the business at a particular moment
- (iii) Capital is the amount that business owes to its shareholders/owners
- (iv) The statement of profit or loss and other comprehensive income is a record of the income and expenditure of a business over a period of time

- A. (i) (ii) (iii) and (iv)
- B. only (i)
- C. (ii), (iii) and (iv)
- D. (ii) and (iv)

6. Which of the following is a fundamental qualitative characteristic of useful financial accounting information?

- A. Accrual basis
- B. Comparability
- C. Going concern
- D. Relevance

7. IAS 40, Investment properties sets out the accounting treatment required for properties that meet the definition of investment projects. The reporting entity may choose the Cost Model or the Fair Model under IAS 40. Which of the following is correct when using the

Fair Value Model under IAS 40. Which of the following is correct when using the Fair Value Model?

- (i) Depreciation is not charged on investment properties
- (ii) Gains and losses on annual revaluations are taken to other comprehensive income

- A. (i) only
- B. (ii) only
- C. Both (i) and (ii)
- D. Neither (i) nor (ii)

8. IAS 9, Presentation of financial Statements sets out the components for a complete set of financial statements .Which one of the following is not one of these requirements

- A. Statements of Profit or Loss and Other Comprehensive Income
- B. Statement of Changes in Equity
- C. Notes to the financial statements
- D. The directors' report

9. How many elements of financial statements are identified in the IASB's Conceptual framework?

- A. Two
- B. Three
- C. Four
- D. Five

10. IASB identified accounting concepts, the following are some of the concepts **except**

- A. Matching
- B. Consistency
- C. Materiality
- D. Comparability

11. IAS 40, Investment property identified a depreciation method that spreads evenly the cost of the asset over its useful life. This method is called:

- A. Reducing balance method
- B. Straight line method
- C. Depletion Unit
- D. Sum of digits

12. The consistency concept requires that the nature of and justification for a change in the accounting principle and its effect on the profit be disclosed in the financial statements of the period in which the change is made.

An example of a change that is **not** a change in accounting principle is change in

- A. depreciation method for previously recorded plant assets.
- B. method of accounting for a club's subscriptions in arrears.
- C. method of stock pricing.
- D. method of reporting cents in the financial statements.

13. A company's financial statements do not report cents amounts.

This is an example of an application of which of the following concepts?

- A. Business entity
- B. Consistency
- C. Going concern
- D. Materiality

14. The following information is extracted from the final accounts of a business.

	\$
Opening stock	6 000
Purchases (all on credit)	220 000
Closing stock	28 000
Creditors at the end of year	21 096

What is the period taken to pay creditors?

- A. 31 days
- B. 32 days
- C. 34 days
- D. 35 days

15. Amounts extracted from the Ledger of B. Ncube are:

	\$
Cash purchases	80 000
Credit purchases	135 000
Returns: Cash purchases	5 000
Credit purchases	7 250
Trade creditors	10 500

What is the average number of days' credit taken?

- A 18 days
- B 26 days
- C 28 days
- D 30 days

SECTION B:

Answer **all** questions in this section

Question One

The Following trial balance has been extracted from the books of Aruna Dinaday ltd as at 31 March 2017

	\$000	\$000
Administration Expenses	250	
Distribution costs	295	
Share capital(all ordinary shares of \$1 each)		270
Share Premium		80
Revaluation surplus		20
Dividend paid	27	
Cash at Bank and in hand	3	
Receivables	233	
Interest paid	25	
Dividends Received		15
Interest Received		1
Land and Buildings at cost(Land 380, buildings 100)	480	
Land and Buildings :accumulated depreciation		30
Plant and Machinery at cost	400	

Plant and machinery : accumulated depreciation		170
Retained earnings account(at 1 April 2016)		235
Purchases	1260	
Sales		2165
Inventory at 1 April 2016	140	
Trade Payables		27
Bank loan		100
TOTAL	3113	3113

Additional Information

- (i) Inventory at 31 March 2017 was valued at a cost of \$95 000. Included in this balance were goods that had cost \$15000, which had become damaged during the year and it is considered that the following remedial work the goods could be sold for \$5000.
- (ii) Depreciation for the year to 31 March 2017 is to be charged against cost of sales as follows:

Buildings 5% on cost (Straight line Method)

Plant and Machinery 30% on carrying amount (reducing balance method)

- (i) Income tax of \$165000 is to be provided for the year top 31 March 2017
- (ii) Land is to be revalued upwards by \$100 000

Required

Draw the following financial statements of Aruna Dinaday ltd for the year ended 31 March 2017 in accordance with IAS 1:

- (a) A statement of Profit or Loss and Other Comprehensive Income. **[12 Marks]**
- (b) Statement of Changes in Equity. **[5marks]**
- (c) A Statement of financial position **[13 marks]**

Question Two

The financial controller of Brezhnet Ltd has asked you, a trainee accountant studying for a B.com Accounting at ZEGU, to conduct a research on the implications for the company arising

from the implication of the new international financial reporting standard on Revenue, IFRS 15-Revenue from contracts with customers.

The core principle of IFRS 15 is that entity recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This core principle is delivered in a Five- Step model Framework.

Required

(a) Prepare a memorandum for the financial controller in which you:

(i) Identify and briefly explain each of the 5 steps for revenue recognition [5marks]

(ii) Explain what is meant by the term 'performance obligations' in a contract? [3 marks]

(iii) Advise how a good or service can be defined as "distinct" [2marks]

b) Kure Kure Ltd diversified into manufacturing and commissioned the building of a new factory. The costs associated are as follows:

Site selection	\$60,000
Site purchase	\$1,500,000
Architectural fees	\$50,000
Eng. fees	\$150,000
Legal fees	\$50,000
Construction costs	\$1,500,000
Testing (<i>Note 1</i>)	\$250,000
Administration costs	\$500,000
Selling expenses	\$40, 000
General overheads	\$60,000

The plant was available for use on 31 March 2016 and reached normal production levels by 31 October 2016.

Note 1: This includes \$60,000 in connection with a six-monthly diagnostic check of machinery.

Requirement

Calculate the cost to be recorded as an asset in the statement of financial position.

[10 marks]

Question three

Zegu Ltd is a producer and distributor of tea. The company's year ended is 31 December. The directors of Bunny are due to sign the company's financial statements for the year ended 31 December 2017 on 5 March 2018. The following information is available.

Scenario A

Flavoured tea is included in year-end inventory at its original cost of \$150,000. Audit work carried out in February 2018 indicated that the tea was sold for \$120,000 in January 2018 due to a fall in demand for such products during 2017.

Scenario B

During 2017 there had been industrial unrest amongst Bunny's production workers following automation of one of the manufacturing processes. Management had sought to make 20% of the workforce redundant. In February 2018, following protracted negotiations it was agreed that 15% of the workforce would be made redundant at a cost of \$500,000.

Scenario C

On 31 January 2018, \$300,000 was paid to Ben as compensation for his removal of Managing Director. Ben has been dismissed by the Chairman at the December 2017 Board Meeting as a result of a serious disagreement over marketing strategy for 2018.

Scenario D

It was discovered in January 2018 that a long serving employee had systematically stolen \$500,000 over the previous four years. Material errors had thus been made in the financial statements over those years and there is now no chance of recovery.

Requirement

Explain briefly how each of the above transactions should be treated in the financial statements of Bunny for the year ended 31 December 2017 and clearly state whether it is an adjusting or non-adjusting event according to IAS 10-Events after the reporting period.

[20 Marks]

THE END