



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 207
COURSE TITLE : **GENERAL FINANCIAL REPORTING**
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 2.2
DATE :

07 FEB 2022

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 Answer all questions in this section. Each question carries 2 marks.

Select the most appropriate answer

1. Revenues should be recognised when then are actually realised. This is according to
 - A. The consistency concept
 - B. The going concern concept
 - C. The accruals concept
 - D. The prudence concept
2. Entity J operates in a country in which a state-owned entity (entity K) has a legally protected monopoly over the supply of electricity in that country. Accordingly, entity J depends on entity K to provide the energy needed to operate its plant.

Recently, the demand has exceeded the supply of electricity in that country. In response to the shortfall, entity K has rationed the supply of electricity in the jurisdiction that it supplies. The shortage of power has caused entity J to operate at suboptimal levels. Which of the following statements is true about entity K

- A. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) does not become a related party of entity J.
- B. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) becomes a related party of Entity J
- C. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) becomes a partial related party of Entity J
- D. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) does not become a partial related party of Entity J

3. The following information is available

SEGMENTS	i	ii	iii	iv
	000	000	000	000
Consolidated Revenue				
Sales to customers	10	40	20	4

SECTION A Answer all questions in this section. Each question carries 2 marks.

Select the most appropriate answer

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- A. The consistency concept
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2. Entity J operates in a country in which a state-owned entity (entity K) has a legally protected monopoly over the supply of electricity in that country. Accordingly, entity J depends on entity K to provide the energy needed to operate its plant.

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3. The following information is available

SEGMENTS	i	ii	iii	iv
	000	000	000	000
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B. 6

C. 9

D. 10

5) Using the information in question 6 above, the minority interest is

A. 4

B. 5

C. 9

D. 10

6) The following items are excluded in the calculation of segment result

(i) extraordinary items

(ii) interest or dividend income, including interest earned on advances or loans to other segments

(iii) Interest paid, including interest incurred on advance or loans from other segments the difference between segment revenue and expenses.

(iv) Segment expenses

A. i, ii and iii

B. i, iii and iv

C. i, ii and iv

D. all of the above

7) The requirements for IFRS 8-Segmental reporting apply to

A. Listed companies only

B. Listed and unlisted companies

C. Unlisted Companies only

D. Small and medium enterprises

8) The conceptual framework of financial reporting, shows the qualitative characteristics of financial statements as follows

(i) Comparability

(ii) Faithful presentation

(iii) Understandability

(v) Relevance

Which of these characteristics are **fundamental**

A. (i) and (iii)

B. (ii) and (iv)

C. (ii) and (iii)

D. (i) and (iv)

9) With reference to question 12 above, which of these characteristics are **enhancing**

A. (i) and (iii)

B. (ii) and (iv)

C. (ii) and (iii)

D. (i) and (iv)

10) A business or geographical segment shall be treated as a reportable segment, if a majority of its sales revenue is earned from sales to external customers and if it satisfies one of the following criteria:

- A. its sales revenue makes up at least 10% of the total sales revenue of the entity (group of entities), including revenue from sales to other segments;
- B. segment results make up at most 10% of the total operating profit (loss) of the entity (group of entities);
- C. segment assets make up at less than 10% of the total assets of the entity (group of entities).
- D. its sales revenue makes up more than 10% of the total sales revenue of the entity (group of entities), including revenue from sales to other segments

[Total 20marks]

- (a) The segments which should be included in the segment. **(10 marks)**
- (b) The information relating to each segment which should be disclosed in the segment report. **(10 marks)**

(b) The following related party transaction occurred between Bubble Bath Ltd and its parent company. Soap suds Ltd, for the financial year ended 31 December 2017.

Bubble bath ltd borrowed an amount of \$275000 as a medium term loan from clean bank on 31 December 2017. The bank was not willing to grant the loan unless Soap Suds Ltd signed as guarantor i.r.o the loan. The loan is repayable in 24 monthly instalments, the first on 31 January 2018. The interest rate on this loan is 20 percent loan compounded monthly. Soapsuds does not make use of debt in financing its operations.

Required

- (a) Discuss whether or not the following related party transactions requires disclosure in the consolidated financial statements of the group, according to IAS 24 **[5marks]**
- (b) Discuss whether or not the above related party transactions require disclosure in the financial statements of the parent company, Soap Suds Ltd, according to IAS 24.

[5marks]

[Total 30marks]

Question Three

Draw up a consolidated statement of financial position from the following statement of financial position, which was drawn up as soon as Papai Ltd had acquired control of Sonny Jim Ltd.

Papai Statement of financial position

	\$
Investment in Sonny Jim Ltd: 100,000 Ordinary \$1 shares	100 000
Fixed assets	74 000
Stock	45 000
Debtors	26 000
Bank	5 000
	<u>250 000</u>
Share capital – Ordinary \$1 shares	250 000
	<u>250 000</u>

Sonny Jim Statement of financial position

	\$
Fixed assets	69 000
Stock	24 000
Debtors	4 000
Bank	3 000
	<u>100 000</u>

Share capital – Ordinary \$1 shares	100,000
	<u>100,000</u>

[10 marks)

(b) Explain clearly the “principle of cancellation” in consolidated accounts [5marks]

5. Bruno plc: Statement of Profit or Loss and Other Comprehensive Income for year ended 31 December 2019

	€m
Revenue	800
Cost of sales & expenses	(560)
Profit before tax	240
Tax	(115)
Profit after tax	125

The division being disposed of was a component of Hatter plc, and was a major line of business which is now ceasing permanently and in its entirety. The division contributed revenue of €200m, costs of €275m and a tax refund of €15m in the year ended 31 December 2019 (net loss 60). These amounts are included in the above figures. The assets to be sold have a combined fair value less costs to sell of €39m below their carrying value. This has not yet been recognised.

Required: Redraft the above Statement of profit or loss and other comprehensive income to comply with IFRS 5. [10marks]

- (c) Briefly explain the implications of the following risks to the operation of an enterprise
- (i) Currency risk; [3marks]
- (ii) Interest rate risk [2marks]

[Total 30marks]

END OF EXAMINATION QUESTION PAPER