



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC401
COURSE TITLE : PUBLIC SECTOR ACCOUNTING 1
DURATION : 3 Hours
LEVEL : 4.1
DATE : 14 FEB 2022

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer all 4 questions. All questions carry equal marks
3. Start a new question on a new page.
4. Show all workings
5. The number of marks for each question or part question is shown in brackets

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Question One

- a. 1 January 2019, the building was revalued to \$1,000,000. At this date the building had a remaining useful life of 40 years. The university's policy is to carry its assets at revaluation and in so doing; it eliminates all previously recognised accumulated depreciation upon revaluation.

Required

How would the revaluation be entered into the accounts of the university? [10

Marks]

- b. Tafunga Town Council started a project of building the Mungezi Bridge five years ago and finally completed in June 2016. The bridge was commissioned on 1 July 2016. The council spent \$500 000 to construct the bridge over the past 5 years. Unfortunately, the side rails of the bridge were swept away due to excessive flooding in December 2016. Council estimates that it will cost them \$70 000 to redo the rails. Engineers expected that the bridge would be usable by the public for a period of 30 years before it will need to be replaced.

Required:

Should council recognise

1. An asset for the bridge?
2. Impair the damage?
3. Recognition of \$70,000

[10

Marks]

- c. Discuss subsequent measurement criteria for PPE in terms of IPSAS 17 [5 marks]

[Total 25marks]

Question Two

- a. Distinguish between Finance Lease and Operating lease [7 marks]
- b. A private hospital entered into a lease agreement with Mater Dei Hospital on 1 April 2013 to lease specialised equipment for a period of 3 years. The useful life of the equipment is 4 years. The yearly lease payment is \$60,000 payable in arrears beginning 1 April 2014 and the rate implicit in the lease is 5%. In addition, the private hospital has to pay a contingent rent based on 2% of its revenue.

Revenue for private hospital over the three years was as follows:

Year 1 \$200,000

Year 2 \$250,000

Year 3 \$150,000

The carrying amount of the equipment in the records of Mater Dei Hospital (lessor) on 1 April 2014 was \$170,000. The fair value of the machine is \$189,000.

Required:

Account for this transaction in terms of IPSAS 13

[18 marks]

[Total 25marks]

Question Three

Mangwe Rural District Council (MRDC) is a public sector entity. It has been considering the accounting treatment of its intangible assets and has asked for your opinion on how the matters below should be treated in its financial statements for the year to 31 March 20X4.

- (i) Mangwe has developed and patented a new drug which has been approved for clinical use. The costs of developing the drug were \$5 million. Based on early assessments of its sales success, (MRDC) has estimated its market value at \$15 million.
- (ii) Mangwe's drug manufacturing facilities have recently received a favourable inspection by government medical scientists. As a result of this the company has been granted an exclusive five-year licence to manufacture and distribute a new vaccine. Although the licence had no direct cost to Mangwe, its directors feel its granting is a reflection of the company's standing and have asked MRDC to value the licence. Accordingly, they have placed a value of \$10 million on it. As a result of this, the company has been granted an exclusive five-year licence to manufacture and 33 distribute a new vaccine.
- (iii) In the current accounting period, Mangwe has spent \$3 million sending its staff on specialist training courses. Whilst these courses have been expensive, they have led to a marked improvement in production quality and staff now need less supervision. This in turn has led to an increase in revenue and cost reductions. The directors of Manyame Council believe these benefits will continue for at least three years and wish to treat the training costs as an asset.
- (iv) In December 20X3, Mangwe paid \$5 million for a television advertising campaign for its services that will run for 6 months from 1 January 20X4 to 30 June 20X4. The directors believe that increased sales as a result of the publicity will continue for two years from the start of the advertisements.

Required:

Advise on the accounting treatments of the above items in the financial statements for the year to 31 March 20X4. The values given by MRDC can be taken as being reliable measurements. You are not required to consider depreciation aspects. [25

marks]

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[Total 25marks]

Question Four

- a. A copyright cost \$6 000 and has been amortised by \$1 000, leaving a net book value of \$5 000. It has been revalued by a 25% increase. Both cost and amortisation will be increased by 25% to \$7 500 and \$1 250 respectively. Net book value rises to \$6 250.

Required:

Account for the copyright revaluation by way of journals

[10

Marks]

- b. You have a trademark with carrying value of \$18m. You exchange it for a similar trademark with a market price of \$14 m

Required:

Account for the exchange

[5 Marks]

- c. Identify and discuss any five (5) overall considerations that you need to observe when preparing General Purpose Financial reports in terms of IPSAS 1.

[10

Marks]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER