



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

### FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

#### DEPARTMENT OF ACCOUNTING AND FINANCE

#### EXAMINATION PAPER

**COURSE CODE** : CAC 410  
**COURSE TITLE** : PUBLIC SECTOR ACCOUNTING 2  
**SPECIAL REQUIREMENTS** : NONE  
**DURATION** : 3 Hours  
**LEVEL** : 4.2  
**DATE** :

05 JUL 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 [ ]
5. Non programmable calculators may be used

### Question One

Victoria Falls local authority owns 60% of the equity share of Mandara Leisure

The individual statements of financial performance of each entity for the year ended 31 December 2018 are shown below:

#### Statements of financial performance

	Victoria Falls Authority	Mhandara Leisure
	\$m	\$m
Revenue	910	145
Direct operating expenses	(360)	(75)
Distribution costs	(138)	(29)
Admin expenses	(245)	(25)
Gain on disposal of non-current asset	-	4
Dividend from Mandara Leisure	18	-
Finance costs	(28)	(1)
<b>Surplus before tax</b>	<b>157</b>	<b>19</b>
Tax	(24)	-
<b>Surplus for the year</b>	<b>133</b>	<b>19</b>
<b>Surplus brought forward</b>	<b>67</b>	<b>6</b>
<b>Retained surplus</b>	<b>200</b>	<b>25</b>

#### Additional information

During the year ended 31 December 2018, Mandara Leisure sold property, plant and equipment with a net book value of \$2m to Victoria Falls Local Authority for \$6m. The group charges depreciation on the reducing balance basis at 25% with a full year charge made in the year of acquisition but none in the year of disposal.

During the year Victoria Falls Local Authority sold goods to Mandara Leisure for \$15m. These goods had cost Victoria Falls Local Authority \$10m. At the year end Mandara Leisure still had 40% of these goods in inventory.

#### Required

- Prepare the group's consolidated statement of financial performance for the year ended 31 December 2014. [10 Marks]
- Explain five potential benefits of preparing whole-of-government accounts. [10 Marks].

[Total 20 Marks]

### Question Two

Explain the responsibilities of the following players in financial management according to the Public Sector Financial Management Act (2003) and the associated Treasury Instructions:

- (a) Minister of Finance [5 Marks]
- (b) Secretary to Treasury [5 Marks]
- (c) Other Ministers [5 Marks]
- (d) Controlling Officers [5 Marks]

[Total 20 Marks]

**Question Three**

- a) With reference to IPSAS 26, Impairment of cash generating units, explain the meaning of
  - i. Value in use [2 Marks]
  - ii. Recoverable amount [2 Marks]
- b) On 1 January 2015, Ministry of Education purchased a printing machine at a cost of ZWL 40 000 000. The Ministry estimated that the useful life of the machine should be 10 years. On 31 December 2019, it was reported that an automated feature of the machine's function did not operate as expected resulting in 25% reduction in machine annual output over the remaining 5 years of its useful life. The cost of the printing machine as at 31 December 2019 was ZWL 45 000 000.

**Required**

- a) Calculate the impairment loss as at 31 December 2019. Use the service units approach. [12 Marks]
  - b) Show the journal entries for the accounting of impairment loss. [4 Marks]
- [Total 20 Marks]

**Question Four**

- a) Air Zimbabwe raised a \$30 million loan having interest rate of 8.5% on 1 January 2018. The loan was specifically raised for the construction of an office building which meets the definition of a qualifying asset under IPSAS 5. The construction of the office building started on 1 February 2018 and the construction was completed on 30 November 2018. However, the construction of the office building was suspended for three months period because of the shortage of material and labour strikes from June to August 2018. The loan was temporarily invested for the month of January 2018 and earned interest of \$50,000.

**Required**

Calculate the eligible borrowing cost that will be capitalized as part of the cost of the office building and the finance cost that should be reported in profit or loss for the year ended 31 December 2018.

[14 Marks]

- b) What conditions must prevail for borrowing costs to meet criteria for alternative treatment.

[6 Marks]

[Total 20 Marks]

**Question Five**

A public sector entity intends to prepare a statement of comparison of budget and actual amounts for the year ended 31 December 2020. The entity prepares the budget and financial statements on the same basis.

The following budget information has been provided:

	Original budget	Adjustments	Final budget
	2020	2020	2020
	\$'000	\$'000	\$'000
Revenue			
Property taxes	2,969,889	0	2,969,889
Public contributions and donations	45,000	-11,000	34,000
Fines, penalties and levies	912,150	-7,025	905,125
Licences and permits	15,100		15,100
Government grants and subsidies	2,157,450		2,157,450
Rendering of services	1,764,300	-623,400	1,140,900
Sale of goods	5,111,955		5,111,955
Finance income	208,400		208,400
Gains on disposal, rental income and agency fees	381,523		381,523
Total income	13,565,767	-641,425	12,924,342
Expenses			
Compensation of employees	6,156,950		6,156,950
Goods and services	4,092,334	-928,136	3,164,198
Finance cost	400,000	-16,752	383,248
Rent paid	17,000	-5,106	11,894
Taxation paid	1,050	1,250	2,300
Other payments	1,770,996		1,770,996
Grants and subsidies	51,751		51,751
Total expenditure	12,490,081	-948,744	11,541,337
Surplus for the period	1,075,686	307,319	1,383,005

The following information relates to actual results for the period:

	2020
	\$'000
Revenue	
Property taxes	2,693,949
Public contributions and donations	31,831
Fines, penalties and levies	890,835
Licenses and permits	20,736
Government grants and subsidies	2,157,454
Rendering of services	721,199
Sale of goods	4,628,596
Finance income	227,092
Gains on disposals, rental income and agency fees	157,641
Total income	11,529,333
Expenses	
Compensation of employees	5,457,164
Goods and services	2,967,449
Finance cost	331,697
Rent paid	11,895
Taxation paid	2,332
Other payments	78,147
Grants and subsidies	51,751
Total expenditure	8,900,435
Surplus for the period	2,628,898

**Required :**

Prepare a statement of comparison of budget and actual amounts for the year ended 31 December 2020 in accordance with IPSAS 24 *Presentation of Budget Information in Financial Statements*.

[20 Marks]

[Total 20marks]

**END OF EXAMINATION QUESTION PAPER**