



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 121
COURSE TITLE : FINANCIAL ACCOUNTING 1B
SPECIAL REQUIREMENTS :
DURATION : 3 H
LEVEL :
DATE :

04 OCT. 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: [30MARKS]

Each question carries 2 marks

Answer **all** questions in this Section

Select the **most** suitable answer

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)

4. 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)

5. 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

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: IAS 1, Presentation of financial statements framework, identified the elements of the financial statements. Which of the following items are not part of the elements of the financial statements?

- (i) Income
- (ii) Expenses
- (iii) Assets
- (iv) Drawings

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

10: Which of the following is the definition of a business as a going concern?

- A. The assets owned by the business exceed its liabilities.
- B. The business has accumulated revenue reserves.
- C. The business is currently liquid and able to pay its creditors.
- D. The business will continue in operational existence for the foreseeable future

11: When a businessman introduces capital into his business, the transaction is debited in the Cash Book and credited to his Capital account.

Of which accounting principle is this an example?

- A. entity
- B. going concern
- C. matching
- D. prudence

12: According to IAS 2. Inventories, inventory is valued at;

- A. The lower of the selling cost and the net realisable value
- B. The lower of cost and net realisable value
- C. The lower of the storage cost and net realisable value
- D. The lower of administrative cost and net realisable value

13: IAS 1, Presentation of financial statements, identifies the financial statements that are presented by companies at the end of the financial year. Which of the following financial statements are included in the standard;

- (i) Statement of profit or loss and other comprehensive income
 - (ii) Statement of financial position
 - (iii) Statement of cash-flows
 - (iv) Statement of changes in equity
- A (i) and (iii) only
 - B (ii), (iii) and (iv) only
 - C (i) (ii) and (iii) only
 - D all of the above

14: Bloko (Pvt) Ltd has a current ratio of 2,3:1, and an acid test (quick ratio) of 1,5:1. Which of the following statements must be true regarding the financial position of Bloko (Pvt) Ltd?

- A. There is sufficient cash in the bank to meet short-term needs
- B. Inventory is 0.8 times current liabilities
- C. The company is carrying too much inventory
- D. Inventory is 0.8 times current assets

15: A company wants to increase its return on capital employed in the short term. Which course of action will achieve this?

- A. invest in new plant and machinery

- C. reduce the level of overhead expenses
- D. revalue freehold land and buildings upwards

SECTION B. (70marks)

[30 MARKS]

Answer **all** questions in this section

Question One

Anashe's Ltd, a motor dealer, sold a vehicle to a customer on 14 November 2020. The contract showed an agreed price of \$80,000 and a delivery date of 3 January 2021. The customer paid a 20% non-refundable deposit on 14 November 2020. The vehicle was delivered on 10 January 2021 and the balance due of \$64,000 was paid by the customer on that date.

Required:

Advise, clearly according to IFRS 15 Revenue from contracts and customers, showing relevant journal entries, how the above transaction should be recognized in Anashe's financial statements for the year ended 31 December 2020 and 2021?

[15marks]

(b) Explain, with the aid of an example, the term "performance obligation" within a contract.

[5marks]

[Total 20marks]

Question Two

Mudekwe Limited incurred (and paid) the following expenditures in acquiring an administration building and the land on which it is built in 2016:

- 1 January 2016 \$200,000,000, 20 per cent of the price is attributable to the land
- 1 January 2016 \$20,000,000 Non-refundable transfer taxes (not included in the \$200,000,000 purchase price)
- 1 January 2016 \$1,000,000 Legal costs directly attributable to the acquisition
- 1 January 2016 \$10,000 Reimbursing the previous owner for prepaying the non-refundable local government property taxes for the six-month period ending 30 June 2016
- 30 June 2016 \$20,000 Non-refundable annual local government property taxes for the year ending 30 June 2017
- Throughout 2016 \$120,000, day-to-day repairs and maintenance, including the salary and other costs of the administration and maintenance staff. These costs are attributable equally to each of the 10 units.

At 31 December 2016 Mudekwe Limited made the following assessments:

- Useful life of the building: 50 years from the date of acquisition
- Residual value of the building: \$20,000,000

- The entity will consume the building's future economic benefits evenly over 50 years from the date of acquisition
- Fair value less costs to sell of the land and building: \$250,000,000

Required

Prepare accounting entries to record the effects of the property, plant and equipment in the accounting records of Mudekwe Limited for the year ended 31 December 2016. [15 MARKS]

(b) P Ltd has a bank balance of 2million united states dollars in the statement of financial position, however, the profitability balance in the statement of comprehensive income is 6million dollars. How do you explain the difference between the two balances. Justify your answer

[10marks]

[Total 25marks]

Question 3

The following are financial statements of Kunashe Ltd for the year ended 31 December 2021

Statement of Comprehensive Income for the Year Ended 31 December 2021

	2021	2020
Revenue		900000
Cost of sales		(475000)
Gross Profit		425000
Less operating expenses	22000	
interest	13000	
Loss on sale of equipment	2000	(235000)
		199000
Net profit before tax		190000
taxation		(65000)
Net profit after tax		125000

Statement of Financial Position as at 31 December 2021

	2021	2020
Non-current assets		
Land	200000	200000
Depreciation	20000	100000
		180000
Equipment	183000	58000
Less depreciation	28000	10000
		155000

Current Assets				
Stock	50000		0	
Prepayments	3000		5000	
Debtors	67000		25000	
Cash	55000		38000	
		175000		68000
		565000		386000
Equity and Liabilities				
Ordinary share capital		230000		70000
Retained Income		196000		126000
		426000		196000
Non-current liabilities				
Debentures		106000		150000
Current liabilities				
Creditors		33000		40000
		565000		386000

You are given the following additional information:

1. Depreciation amounting to \$33 000 and amortisation of prepaid expenses of \$2 000 are included in operating expenses.
2. Equipment that cost \$41 000, with a book value of \$36000 was sold for \$34 000
3. Dividends of \$55 000 were declared and paid during the year.

Required: Prepare the statement of cash flows for Kunashe Ltd for the year ended 31 December 2021 using

- | | | |
|------|---------------------|-----------|
| (i) | The Direct Method | [10marks] |
| (ii) | The Indirect Method | [15marks] |
| | TOTAL | [25marks] |

END OF EXAMINATION QUESTION PAPER

11/5 PM