



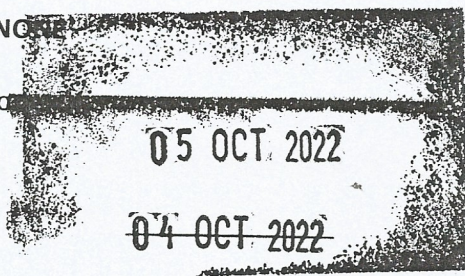
ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 221
COURSE TITLE : FINANCIAL ACCOUNTING 1B
SPECIAL REQUIREMENTS : NONE
DURATION : 3 Hours
LEVEL : 2.2
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]

Instructions

Answer **all** questions in this section

Each question carries **2marks**

Select the **most** appropriate answer

- 1) According to **IFRS 8**, Segmental reporting, a segment result can be defined as
- A. the excess of segment expenses over segment revenue
 - B. the excess of segment revenue over segment expenses
 - C. the excess of segment assets over segment liabilities
 - D. the excess of segment liabilities over segment assets
- 2) **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) Depreciation
 - (ii) Liabilities
 - (iii) Assets
 - (iv) Drawings
- A. (iii) only
 - B. (ii) only
 - C. (i) and (iv)
 - D. (ii) and (iii)
- 3) With reference to **IAS 24**, a joint venture can be defined as
- A. the contractually agreed sharing of control over an economic activity
 - B. the contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.
 - C. an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest

in a joint venture

D. individual ownership of an entity

4). Only a single depreciation method should be used by a firm for a certain financial period

This is according to

- A. The consistency concept
- B. The going concern concept
- C. The accruals concept
- D. The prudence concept

5). The following information is available

SEGMENTS	i	ii	iii	iv
	\$000	\$000	\$000	\$000
Consolidated Revenue				
Sales to customers	20	40	15	6
Inter-segment sales	5	-	12	6

The company includes all sales from internal accounting purposes. Which of the above segments should not be disclosed in accordance with IFRS 8

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

6). P Statement of financial position

Investment in subsidiary: 7 shares	16
Stock	20

Bank	14
	50
Share capital	40
Reserves	10
	50

S Statement of financial position

Stock	7
Bank	3
	10
Share capital	10

The goodwill to be included in the consolidated statement of financial position for P and S ltd is

- A. 4
- B. 6
- C. 9
- D. 10

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

- A. 3
- B. 5
- C. 9
- D. 10

8). 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

9) The owner of an entity used his personal funds to settle an obligation of the entity directly with a creditor of the entity. According to IAS 24, related party disclosures, the owner of the company a related party because

A. There is transfer of economic resources from the owner to the entity as a contribution of equity to the entity

B. The owner is also a director of the entity

C. The owner contributed money from his personal savings

D. There is no full transfer of economic resources from the owner to the entity as a contribution of equity to the entity

10) According to IAS 9, cash equivalents are

A. an issued single financial instrument that contains both liability and equity (e.g. a convertible loan).

B. short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

C. an issued single financial instrument that contains equity

D. cash on hand and demand deposits with banks or other financial institutions.

11) 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

12) 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)

13) 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)

14) 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

15) A person or a close member of that person's family is a related party to a reporting entity if that person:

(i). is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

(ii). has control over the reporting entity

(iii).do not have joint control or significant influence over the reporting entity or has significant voting power in it.

(iv). is not a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

The following are the definitions of a related party except

A. (i) only

B. (ii) only

C. (i) and (ii)

D. (iii) and (iv)

SECTION (70marks)

Answer all questions

Question one

The following consolidated segment information is available:

Segments	A	B	C
	\$000	\$000	\$000
Segment Revenue	800	600	400
Segment Wages	200	250	100
Segment General Expenses	300	100	100
Segment Rates	100	50	100

The following items must be accounted for:

	\$000
--	-------

Interest received	40
Interest paid	60
Income tax expense	400
Minority interest	60
Income from associate	300

Required

Which of the above segments should be disclosed in accordance with Statements of Generally Accepted Accounting Practice, IFRS 8, Justify your answer? **[15marks]**

(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 requires disclosure in the financial statements of the parent company, Soap Suds Ltd, according to IAS 24 **[5marks]**
- [Total 25 marks]**

Question Two

- (a) P Ltd bought 40,000 shares in S1 Ltd and 27,000 shares in S2 Ltd on 31 December 2016. The following statement of financial position were drafted as at 31 December 2017. You are to draw up a consolidated Statement of financial position as at 31 December 2017. **[15marks]**

P Statement of financial position as at 31 December 2017

	£	£
Investments in subsidiaries		
S1 Ltd 40,000 shares		49,000
S2 Ltd 27,000 shares		30,500
Fixed assets		90,000
Current assets		80,500
		<u>250,000</u>
Share capital		200,000

Profit and loss account:		
As at 31.12.2016	11,000	
Add Profit for 2017	16,000	27,000
General reserve		23,000
		<u>250,000</u>

S1 Statement of financial position as at 31 December 2017

	£	£
Fixed assets		38,200
Current assets		19,200
		<u>57,400</u>
Share capital		50,000
Profit and loss account:		
As at 31.12.2016	3,000	1,400
Less Loss for 2017	(1,600)	6,000
General reserve (as at 31.12.2016)		<u>57,400</u>

S2 Statement of financial position as at 31 December 2017

	£	£
Fixed assets		31,400
Current assets		14,600
		<u>46,000</u>
Share capital		36,000
Profit and loss account:		
As at 31.12.2016	4,800	8,200
Add Profit for 2017	3,400	1,800
General reserve (as at 31.12.2016)		<u>46,000</u>

- (b) Clearly show the difference between a subsidiary and an associate [5marks]
[Total 20 marks]

Question Three

The following are the condensed statements of financial position of P Ltd and its wholly owned subsidiary S Ltd at 1 January 2010, the date when P Ltd acquired all the shares in S Ltd.

The position can be analysed as follows:

Analysis of the Shareholders Equity of S Ltd

	P Ltd	S Ltd
Assets	\$	\$
Non-current assets	91 000	65 000

Investment in S Ltd – 80 000 ordinary shares at cost	89 000	
Current assets	28 000	24 000
	208 000	89 000
Equity		
Authorised and issued capital		
Ordinary shares of \$1 each	200 000	80 000
Retained income	8 000	9 000
	208 000	89 000

Required

Prepare the Analysis of shareholders equity in S ltd and the consolidated Statement of financial position of P ltd **[15marks]**

- (b) Distinguish clearly between a grant related to assets and a grant related to income and explain how the two grants are disclosed in the financial statements according to IAS 20. **[10 Marks]**

[Total 25 Marks]

END OF EXAMINATION QUESTION PAPER

H / S PAM
13 / 10 AM