



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ECONOMICS AND BUSINESS SCIENCES

EXAMINATION PAPER

COURSE CODE	:	CAC 401
COURSE TITLE	:	PUBLIC SECTOR ACCOUNTING 1
SPECIAL REQUIREMENTS	:	NONE
DURATION	:	3 Hours
LEVEL	:	4.1
DATE	:	

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer any **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

- a) Accrual basis of Accounting has been recommended as the best approach to ensure accountability and transparency in the management of public funds. Despite its favourable advantages, many countries are yet to implement a full accrual public sector accounting system.

Required:

Discuss **FOUR (4)** reasons why many countries have not been able to implement a full accrual public sector accounting system. **(12 marks)**

- b) The Financial Statements below were submitted on 15 February 2021, to the Finance and Administration Committee of Makambi District Assembly for consideration. Some members of the committee condemned the quality of the financial statements on two grounds:
- That, it is unacceptable to disclose the budget amounts in the financial statement for external publication.
 - That, the financial statements lack quality and therefore should be rejected outright by the Committee.

Makambi District Assembly

Statement of Financial Performance for the year ended 31 December 2020

	Actual	Budget
Revenues	ZWL'000	ZWL'000
Decentralised transfers	341,000	304,100
Internally Generated Fund	117,000	187,300
Donations and grants	<u>34,000</u>	<u>25,000</u>
	<u>492,000</u>	<u>516,400</u>
Expenses		

Compensation for employees	318,900	300,000
Use of goods and services	114,000	145,000
Consumption of fixed assets	12,000	-
Interest	9,000	9,400
Subsidies	500	800
Other expenses	<u>8,600</u>	<u>6,600</u>
	<u>463,000</u>	<u>461,800</u>
Net operating result	<u>29,000</u>	<u>54,600</u>

Statement of Financial Position as at 31 December, 2020

	ZWL'000
Non-Current Assets	
Property, plant and equipment	1,200,000
Investment	<u>300,000</u>
	1,500,000
Current Assets	
Receivable	23,000
Loans	50,000
Cash and Bank	<u>160,000</u>
	<u>233,000</u>
	<u>1,733,000</u>
Liabilities and Funds	
Loans	900,000
Payables	106,000
Accumulated fund	<u>727,000</u>
	<u>1,733,000</u>

Required:

- i) Discuss the merit or otherwise on the first ground of condemnation of the financial statements presented to the Finance and Administration Committee. (3 marks)

- ii) Using an appropriate framework of assessing the quality of a general-purpose financial statement under the Conceptual Framework, assess the quality of the financial statements presented to the Finance and Administration Committee to the extent that the information available allows **(10 marks)**

(Total: 25 marks)

QUESTION TWO

Citizen Transport Corporation (CTC) is a Public Transportation company in Ghana, which seeks to provide reliable and affordable means of transport for commuters within villages, towns, and cities as well as provide intercity movement and transport consultancy services.

The following financial information relates to CTC, as at 31 December, 2020.

	DR	CR
	ZWL'000	ZWL'000
Vehicle Valuation Service		4,575,000
Establish Post	2,940,000	
Allowance	856,670	
Luggage Fees		655,600
Legal Cost	25,059	
GoG Subvention		1,540,000
Consultancy Cost	588,500	
Non- Establish Post	1,253,600	
Seminars Cost	500,000	
Parcel Services		906,600
Investment Income		8,600

Purchase of Spare Parts	10,250,000	
Spare Parts Inventory (1/01/2020)	785,700	
Receivables	371,550	
Payables		182,840
Plant and Machinery	3,000,000	250,000
Motor Vehicle	14,755,000	852,000
Building	12,900,000	756,000
Software	995,500	150,000
Investment	1,345,000	
Other Incomes		211,430
Cash and Bank	294,818	
Training and Workshop Cost	104,000	
Salaries and Emoluments	2,372,200	
Other Expenses	71,000	
Withholding Tax		90,500
Vehicle Insurance Premium	658,700	
Workman Compensation Premium	889,800	
Utilities Bills	560,053	
Fees from Driving School		9,996,270
20% Loan		16,500,000
End of Service Benefits	298,000	
Fuel and lubricant	1,550,780	
Printing of tickets	399,160	
Car Washing Cost	58,780	
License Renewals for Drivers	78,870	
Passenger Fare and Ticketing		20,022,630
Accumulated Fund		1,205,270
	57,902,740	57,902,740

Additional information:

- 1) CTC uses accrual accounting basis in the preparation of its Financial Statements in line with Public Financial Management and the International Public Sector Accounting Standards (IPSAS).
- 2) The loan in the trial balance represents funds advanced by Government from the Consolidated Fund to CTC to procure fleet of buses in 2010. The repayment of the Loan was scheduled to end in 2015. However due to liquidity challenges facing the corporation, the Loan is still outstanding. On the basis of this, the Minister of Finance after assessing the liquidity profile of CTC, made specific provision for Bad Debt on Loans Receivable by waiving 50% of the loan outstanding. This was made in line with Section 53 of the Public Financial Management Act 2016, (Act 921).
- 3) Provision is to be made for Interest on the remaining Loan.
- 4) Salaries and other emoluments outstanding during the year amounted to ZWL12,500,000 while that of use of goods and services other than workshop and seminars amounted ZWL15,750,000
- 5) Inventories included in use of goods and services available at the end of the year were as follows:

	Spare Parts
	ZWL' 000
Historical Cost	900,000
Replacement Cost	802,000
Net Realisable Value	995,000

- 6) In 2019 CTC bought a Machinery amounting to ZWL 30,000,000. This amount was wrongly recognised in the 2019 Financial Statement as an expense instead of an Asset. However, this Machine is still in use.
- 7) CTC uses straight line basis in depreciating their Capital Assets. Assets and their useful life details are provided below:

Assets	Useful Life
Plant and Machinery	15 years
Motor Vehicle	20 years
Building	30 years
Software	10 years

- 8) CTC plans to change its accounting policy in the recognition, measurement, presentation or disclosure of inventory in the financial statements. This will be done in line with *IPSAS3: Accounting policies, Changes in Estimate and Errors*.

Required:

In compliance with IPSAS and relevant legislations, prepare for CTC:

- a) Statement of Financial Performance for the year ended 31 December 2020. **(10 marks)**
- b) PPE Schedule as required by IPSAS 17. **(7 marks)**
- c) Statement of Financial Position as at 31 December 2020. **(8 marks)**

Question Three

On January 1, 2015, ABC Local Council contracts to lease equipment for 5 years, agreeing to make a payment of ZWL 94,732 (including the executory costs of \$6,000) at the beginning of each year, starting January 1, 2015. The taxes, the insurance, and the maintenance, estimated at \$6,000 a year, are the obligations of the lessee. The leased equipment is to be capitalized at \$370,000. ABC Local Council is to depreciate the equipment over 5 years (assuming zero residual value), and the obligation is to be reduced on an effective-interest basis. The Council's incremental borrowing rate is 12%, and the implicit rate in the lease is 10%, which is known by the council. Title to the equipment transfers will only take place when the lease expires.

- a) Explain the probable relationship of the \$370,000 amount to the lease arrangement. **(3 marks)**
- b) Prepare the journal entry or entries that should be recorded on January 1, 2015, by ABC

Local Council.

(3 marks)

- c) Prepare the journal entry to record depreciation of the leased asset for the year 2008.
(3 marks)
- d) Prepare the journal entry to record the interest expense for the year 2015.
(4 marks)
- e) Prepare the journal entry to record the lease payment of January 1, 2016, assuming reversing entries are not made.
(4 marks)
- f) What amounts will appear on the council's December 31, 2015, balance sheet relative to the lease contract?
(6 marks)

(25 Marks)

Question Four

Chiremba City Council embarks on a project of constructing and renting out buildings. The City Council currently uses Mauyu Towers as its headquarters, from which it runs its operations. Mauyu Towers was purchased on 1 March 2019 for an amount of ZWL1 350 000. It was expected to have a useful life of 20 years with a residual value of ZWL150 000.

As a result of an increase in the demand for rental property, it was decided to move the headquarters of the Council to a newly constructed building, DBC Building. This move was effected on the 31 December 2019, after which Mauyu Towers was rented to a tenant. The fair value of Mauyu Towers was: ZWL1 550 000 on 31 December 2019, and ZWL1 200 000 on 28 February 2020. On 1 March 2019, Chiremba City council had ZWL 3 800 000 worth of Investment Properties. At year end, the fair value of Investment Properties was determined at ZWL 4 200 000 (this amount excludes Mauyu Towers). All of the investment properties were purchased on 1 March 2018 and have an expected useful life of 50 years. Chiremba City Council uses the following policies with respect to each asset:

- Property, Plant and Equipment is measured at Cost; and
- Investment Property is measured using the Fair Value Model.

Required

- a) Provide the journal entries to account for the above information for the year ended 28 February 2020. **(14 Marks)**
- b) Provide the Investment Property note as at 28 February 2020. Ignore comparative figures **(4 marks)**
- c) As a consultant to Chiremba City Council, explain how initial measurement of intangible assets acquired through non-exchange transactions differ from those acquired through exchange transactions. Make reference to IPSA 31. **(7 Marks)**

(Total: 25 Marks)

END OF EXAMINATION PAPER