



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 121  
**COURSE TITLE** : FINANCIAL ACCOUNTING 1B  
**SPECIAL REQUIREMENTS** :  
**DURATION** : 3 Hours  
**LEVEL** : 1.2  
**DATE** :

'16 JAN 2023

**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 current ratio of a company increases from 1.4 to 1.9.

Which of the following could explain this movement?

- A An issue of more share capital for cash
- B The giving of more generous credit terms to customers
- C The granting of cash discounts to customers
- D The purchase of some short-term investments

**2:** A company's stock turnover ratio is calculated using the cost of goods sold and the average of opening and closing stocks.

In each of the last two financial years, closing stock was valued at \$5000 more than the corresponding opening stock. In both years, the stock turnover was ten times and in the earlier year the cost of goods sold was \$125 000.

What was the cost of goods sold in the second year?

- A \$200 000
- B \$175 000
- C \$150 000
- D \$125 000

**3:** According to IAS 7-Statement of Cash flow, under which heading in the Statement of Cash flows should cash payments to acquire property, plant and equipment be included?

- A Cash Flows from operating activities
- B Cash flows from investing activities
- C Cash Flows from financing activities
- D None of the above

**4:** A business has the following current assets and current liabilities:

The only other item in the working capital is stock.

	\$
Debtors	6000
Bank Overdraft	1500
Cash in hand	50
Creditors	5050

The current ratio is 2:1. What is the value of the stock?

A \$ 2550      B \$ 4050      C \$ 5550      D \$ 7050

5: Orange Pvt Ltd provides the following information in respect of the year ended 31 March 2019

- (i) Profit before taxation was \$30million
- (ii) Depreciation charged to expenses was \$6million
- (iii) A provision for resolution of a compensation claim of \$3million made in a previous year was realised.
- (iv) Inventory decreased by \$1.6 million
- (v) Trade payables increased by \$2.2million

What is the cash generated from operations based on the above information?

- A \$33.6 million
- B \$42.8 million
- C \$36.8 million
- D \$29.2 million

6: The following figures appear in the inventory records of Lemon Pvt Ltd on 31 March 2019.

Item	Quantity	Cost per unit(\$)	Net Realisable Value per unit(\$)
A45116	50units	30	42
A92310	70units	40	35

Applying the provisions of IAS 2, Inventories, what figure should be reported as inventory in current assets in the statement of financial position as at 31 March 2019?

- A \$4,500
- B \$4,725
- C \$4,125
- D \$5,100

7: Which of the following items may appear in a company's statement of changes in equity, according to IAS 1-Presentation of Financial statements?

- (i) Revaluation Reserve
- (ii) Dividends paid
- (iii) Accumulated depreciation
- (iv) Profit for the year

- A (i) and (iii)
- B (ii), (iii) and (iv)
- C (i) (iii) and (iv)
- D (i), (ii) and (iv)

**8:** IAS 1, Presentation of financial statements framework, identified the elements of the financial statements. Which of the following items are elements of the financial statements?

- (i) Income
  - (ii) Expenses
  - (iii) Assets
  - (iv) Drawings
- A (i) (ii) and (iii)  
B (ii), (iii) and (iv)  
C (i) (iii) and (iv)  
D (i), (ii) and (iv)

**9:** A business that purchases a shop incurs the following costs.

	\$
Purchase price of the shop	680 000
Legal fees incurred in the purchase of the shop	7 200
Cost of initial stock	12 500
Cost of installing air conditioning	47 300

Which amount will be capitalised as the cost of the shop, according to IAS 12, Property, plant and equipment?

- A. \$680 000
- B. \$687 200
- C. \$734 500
- D. \$747 000

**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) (iii) and (iv) 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
- B. reduce the level of dividends paid to investors
- C. reduce the level of overhead expenses
- D. revalue freehold land and buildings upwards

**Section B [70MARKS]**

**[30 MARKS]**

Answer **all** questions from this section

**Question one**

ZZ Ltd manufactures concrete products and its financial statements are as follows:

**ZZ Ltd Statement of Financial Position as at 31 December:**

	2018 (\$'000)	2017 (\$'000)
<b>Non-Current Assets</b>		
Property, Plant & equipment	3,660	2,922
<b>Total Non-Current Assets</b>	<b>3,660</b>	<b>2,922</b>

<b>Current Assets</b>		
Inventories	524	289
Trade receivables	322	146
Cash & Cash equivalents	196	162
Total Current Assets	1,042	1,032
<b>Total Assets</b>	<b>4,702</b>	<b>3,954</b>
<b>Equity &amp; Liabilities</b>		
<b>Equity</b>		
Share Capital	600	400
Share Premium	100	40
Retained Earnings	2,902	2,554
Revaluation Surplus	148	240
Total Equity	3,750	3,234
<b>Non-Current Liabilities</b>		
Long-Term loan	560	400
Total Non-Current Liabilities	560	400
<b>Current Liabilities</b>		
Trade Payables	296	232
Bank overdraft	20	36
Current Tax Payable	76	52
Total Current Liabilities	392	320
<b>Total Equity &amp; Liabilities</b>	<b>4,702</b>	<b>3,954</b>

	\$'000
Revenue	8,600
Cost of sales	(7,200)
Distribution Costs	(252)
Administration expenses	(248)
Finance Costs	(84)
Profit before Tax	<b>716</b>
Income Tax expense	(92)
Profit for the year	<b>624</b>
Losses on Property revaluations, net of tax	(92)
Total Comprehensive Income for the year, net of tax	<b>532</b>

**Additional Information:**

- i) Property, Plant & equipment with a carrying value of \$640,000 was sold for \$560,000. This asset had originally cost \$900,000.
- ii) Depreciation of Property, Plant & equipment during the year amounted to \$712,000.
- iii) Dividends paid during the year amounted to \$276,000 and are reported in the statement of Changes in equity.

**Required:**

Prepare a Statement of Cash flows for the year-ended 31 December 2018 for S Ltd in accordance with IAS 7 (Statement of Cash Flows), show all workings. **[25 Marks]**

**Question Two**

The financial controller of Bedhill Ltd has asked you, a trainee accountant studying for a B.com Accounting at ZEGU, to conduct a research on the implications for the company arising from the implication of the new international financial reporting standard on Revenue, IFRS 15- Revenue from contracts with customers.

The core principle of IFRS 15 is that entity recognises revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. This core principle is delivered in a Five- Step model Framework.

Required

- (a) Prepare a memorandum for the financial controller in which you:
- (i) Identify and briefly explain each of the 5 steps for revenue recognition [5marks]
  - (ii) Explain what is meant by the term 'performance obligations' in a contract? [3 marks]
  - (i) Advise how a good or service can be defined as "distinct" [2marks]
- b) Posvo Ltd diversified into manufacturing and commissioned the building of a new factory. The costs associated are as follows:

Site selection	\$60,000
Site purchase	\$1,500,000
Architectural fees	\$50,000
Eng. fees	\$150,000
Legal fees	\$50,000
Construction costs	\$1,500,000
Testing ( <i>Note 1</i> )	\$250,000
Administration costs	\$500,000
Selling expenses	\$40, 000
General overheads	\$60,000

The plant was available for use on 31 March 2016 and reached normal production levels by 31 October 2016.

*Note 1:* This includes \$60,000 in connection with a six-monthly diagnostic check of machinery.

Requirement

Calculate the cost to be recorded as an asset in the statement of financial position.

[10 marks]

[20MARKS]

### Question three

(b) Discuss the extent to which a company's statement of cash flows may be more useful and reliable than its statement of comprehensive income. [10 marks]

(c) The objective of IAS 2, is to prescribe the accounting treatment for inventories.

Define the following terms as prescribed by the standard

- (i) Net Realisable Value [2marks]
- (ii) Fair Value [2marks]
- (iii) Cost of conversion [1mark]

(c) Zegu Ltd is a producer and distributor of tea. The company's year ended is 31 December. The directors of Bunny are due to sign the company's financial statements for the year ended 31 December 2017 on 5 March 2018. The following information is available.

#### **Scenario A**

Flavoured tea is included in year-end inventory at its original cost of \$150,000. Audit work carried out in February 2018 indicated that the tea was sold for \$120,000 in January 2018 due to a fall in demand for such products during 2017.

#### **Scenario B**

During 2017 there had been industrial unrest amongst Bunny's production workers following automation of one of the manufacturing processes. Management had sought to make 20% of the workforce redundant. In February 2018, following protracted negotiations it was agreed that 15% of the workforce would be made redundant at a cost of \$500,000.

#### **Scenario C**

On 31 January 2018, \$300,000 was paid to Ben as compensation for his removal of Managing Director. Ben has been dismissed by the Chairman at the December 2017 Board Meeting as a result of a serious disagreement over marketing strategy for 2018.

#### **Scenario D**

It was discovered in January 2018 that a long serving employee had systematically stolen \$500,000 over the previous four years. Material errors had thus been made in the financial statements over those years and there is now no chance of recovery.

#### **Requirement**

Explain briefly how each of the above transactions should be treated in the financial statements of Bunny for the year ended 31 December 2017 and clearly state whether it is an adjusting or non-adjusting event according to IAS 10-Events after the reporting period:

[10 Marks]

[25MARKS]

**END OF EXAMINATION PAPER**

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