



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 Hours
LEVEL : 1.2
DATE : 12 APR 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: (Each question carries 2 marks]

Answer **all** questions in this section

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

	\$
Purchase price of the shop	700 000
Legal fees incurred in the purchase of the shop	8 200
Cost of initial stock	14 500
Cost of installing air conditioning	48 300
Cost of repainting of shop	30000

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

- A. \$786 500
- B. \$708 200
- C. \$756 500
- D. \$771 000

2: The current ratio of a company increases from 1.2 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

3: 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

4: According to IAS 7, under which heading in the Statement of Cash flows should proceeds from disposal of equipment included?

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

5: A business has the following current assets and liabilities:

The only other item in the working capital is stock.

	\$
Debtors	6000
Bank Overdraft	1500
Cash in hand	50
Creditors	5050
Debentures	10000
Equipment	6000

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

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

6: 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 decreased by \$2.2million
- (vi) Debentures were redeemed for \$2.8million
- (vii) New shares were issued for \$2.9million

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

- A \$33.6 million
 B \$42.8 million
 C \$40.6 million
 D \$38.4 million

7: 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	70units	30	42
A92310	80units	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 \$2660
- B \$5740
- C \$3600
- D \$5,300

8: Which of the following items may not appear in a company's statement of changes in equity, according to IAS 1-Presentation of Financial statements?

- (i) Revaluation Reserve
- (ii) Loan capital
- (iii) Ordinary capital
- (iv) Profit for the year

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

9. IASB identified accounting concepts, the following are some of the concepts **except**

- A. Matching
- B. Consistency
- C. Materiality
- D. Comparability

10. IAS 40, Investment property identified a depreciation method that spreads evenly the cost of the asset over its useful life. This method is called:

- A. Reducing balance method
- B. Straight line method
- C. Depletion Unit
- D. Sum of digits

11. The consistency concept requires that the nature of and justification for a change in the accounting principle and its effect on the profit be disclosed in the financial statements of the period in which the change is made.

An example of a change that is **not** a change in accounting principle is change in

- A. depreciation method for previously recorded plant assets.
- B. method of accounting for a club's subscriptions in arrears.

- C. method of stock pricing.
- D. method of reporting cents in the financial statements.

12. A company's financial statements do not report cents amounts.

This is an example of an application of which of the following concepts?

- A. Business entity
- B. Consistency
- C. Going concern
- D. Materiality

13. 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

14. Amounts extracted from the Ledger of B. Ncube are:

	\$
Cash purchases	80 000
Credit purchases	135 000
Returns: Cash purchases	5 000
Credit purchases	7 250
Trade creditors	10 500

What is the average number of days' credit taken?

- A. 18 days
- B. 26 days
- C. 28 days
- D. 30 days

15. According to IFRS 15, when should revenue be recognised in the books of accounts?

- A. When a payment has been done
- B. When a performance obligation has been done

C. When a contract is finalised

D. When a the cost has been allocated to the obligations

SECTION B:

Answer **all** questions in this section

Question One

The Following trial balance has been extracted from the books of Aruna Dinaday ltd as at 31 March 2017

	\$000	\$000
Administration Expenses	250	
Distribution costs	295	
Share capital(all ordinary shares of \$1 each)		270
Share Premium		80
Revaluation surplus		20
Dividend paid	27	
Cash at Bank and in hand	3	
Receivables	233	
Interest paid	25	
Dividends Received		15
Interest Received		1
Land and Buildings at cost(Land 380, buildings 100)	480	
Land and Buildings :accumulated depreciation		30
Plant and Machinery at cost	400	
Plant and machinery : accumulated depreciation		170
Retained earnings account(at 1 April 2016)		235
Purchases	1260	
Sales		2165
Inventory at 1 April 2016	140	
Trade Payables		27
Bank loan		100
TOTAL	3113	3113

Additional Information

- (i) Inventory at 31 March 2017 was valued at a cost of \$95 000. Included in this balance were goods that had cost \$15000, which had become damaged during the year and it is considered that the following remedial work the goods could be sold for \$5000.
- (ii) Depreciation for the year to 31 March 2017 is to be charged against cost of sales as follows:

Buildings 5% on cost (Straight line Method)

Plant and Machinery 30% on carrying amount (reducing balance method)

- (i) Income tax of \$165000 is to be provided for the year to 31 March 2017
- (ii) Land is to be revalued upwards by \$100 000

Required

Draw the following financial statements of Aruna Dinaday Ltd for the year ended 31 March 2017 in accordance with IAS 1:

- (a) A statement of Profit or Loss and Other Comprehensive Income. [12 Marks]
- (b) Statement of Changes in Equity. [5marks]
- (c) A Statement of financial position [13 marks]

[Total 30marks]

Question Two

The financial controller of Melfort 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]

(iii) Advise how a good or service can be defined as "distinct" [2marks]

b) Kure Kure 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]

[Total 20marks]

Question three

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.

[Total 20marks]

END OF EXAMINATION QUESTION PAPER

15/22 AM