



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF LAW BUSINESS INTELLIGENCE AND ECONOMICS

DEPARTMENT OF ACCOUNTING FINANCE AND HUMAN CAPITAL MANAGEMENT

EXAMINATION PAPER

COURSE CODE : CAC 221
COURSE TITLE : FINANCIAL ACCOUNTING 2B
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 2.2
DATE : 11 APR 2023

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue
2. Use of silent, non-programmable calculators is allowed
3. Answer ALL questions in both Section A and Section B.
4. Begin each question on a new page in section B.
5. The number of marks for each question or part question is shown in brackets []

Multiple Choice [20 marks]

Answer all questions in this section

Each question carries 2 marks

1) The elements of financial statements include

- A. Revenue, Fixed Assets, Debentures and Inventory
- B. Revenue, Expenses, Assets and Equity
- C. Expenses, Revenue, Drawings and Equity
- D. Revenue, Expenses, Assets and Accruals

2) IAS 20 requires the entity not to disclose the following matters

- (i) The presentation method adopted by the entity for the government grants in the financial statements
- (ii) The nature of government grants recognized in the financial statements
- (iii) Other forms of the government assistance received by the entity, from which entity has obtained benefits
- (iv) Any fulfilled conditions related to the grant which has been recognized.

- A. 1, II AND III
- B. 1, II AND IV
- C. I, AND II
- D. 1 AND III

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

- (i) is not 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; or
- (iii) Has joint control or significant influence over the reporting entity or has significant voting power in it.

- A. (II) AND (III)
- B. (II) ONLY
- C. (I) ONLY
- D. (I) AND (II)

4) Ms B is the financial director of entity K. She is also a non-executive director of entity L. She does not own any shares in entities K and L.

Which statement is true from the following

- A. K and L are related parties
- B. K and L are not related parties
- C. Ms B is not a related party of K
- D. Ms B is not a related party of L

5) The risk that an entity may encounter difficulty in meeting obligations associated with financial liabilities is called

- A. Market Risk
- B. The Exchange rate risk
- C. Liquidity Risk
- D.) The credit risk

6) The risk that a loss may occur from the failure of one party to a financial instrument to discharge an obligation according to the terms of a contract is called:

- A. Exchange Rate risk
- B. Credit Risk
- C. Liquidity Risk
- D. Market Risk

7) A segment should be identified as reportable if a majority of its revenue is earned from sales to external customers and

(I). its revenue from sales to external customers and from transactions with other segments is greater than or equal to 10% of the total revenue, external and internal of all segments

(II). its segment result (whether profit or loss) is greater than or equal to 10% of the combined result of all segments in profit or in loss, whichever is greater in absolute amount or

(III). Its assets are greater than or equal to 10% of the total assets of all segments identifying reportable segments

- A. (I), (II) AND (III)

B. (I) ONLY

C. (II) ONLY

D. (III) ONLY

7) The following is excluded from calculating segment result

A. Segment Expenses

B. Segment Revenue

C. Segment Assets

D. Segment Wages

8) P Statement of financial position as at 31 December 2020

	£
Investment in subsidiary: 6 shares	8
Stock	11
Bank	1
	20
Share capital	20
	20

S Statement of financial position as at 31 December 2020

	£
Stock	7
Bank	3
	10
Share capital	10
	10

Calculate goodwill

A. 2

B. 4

C. 10

D. 8

9) Using the information above, calculate the minority interest

A. 10

B. 8

C. 4

D. 2

10) P Statement of financial position for the year ended 31 December 2021

	£
Investment in subsidiary: 10 shares (N)	23
Stock	7
Bank	5
	35
Share capital	20
Profit and loss	9
General reserve	6
	35

S Statement of financial position for the year ended 31 December 2021

	£
Stock	15
Bank	2
	17
Share capital	10
Profit and loss	4
General reserve	3
	17

Calculate the goodwill

A.10

B.7

C.6

D. 13

Section B. [80 MARKS]

Answer **all** questions in this section

Question One

1(a) Parent Company Ltd buys shares in Subsidiary 1 and Subsidiary 2 on 31 December 20X7.

You are to draft the consolidated Statement of financial position as at 31 December 20X8 from the following:

Parent Company Statement of financial position as at 31 December 20X8

	£	£
Investment: Subsidiary 1: 80,000 shares		125,000
Subsidiary 2: 30,000 shares		49,000
Fixed assets		230,000
Current assets		74,000
		478,000
Share capital		350,000
Profit and loss account: As at 31.12.20X7	41,000	
Add Profit for 20X8	37,000	78,000
General reserve		50,000
		478,000

Subsidiary 1 Statement of financial position as at 31 December 20X8

	£	£
Fixed assets		147,000

Current assets		39,000
		186,000
Share capital		100,000
Profit and loss account: As at 31.12.20X7	22,000	
Add Profit for 20X8	34,000	56,000
General reserve (same as 31.12.20X7)		30,000
		186,000

Subsidiary 2 Statement of financial position as at 31 December 20X8

	£	£
Fixed assets		38,000
Current assets		6,000
		44,000
Share capital		30,000
Profit and loss account:		
As at 31.12.20X7	6,000	
Less Loss for 20X8	(2,000)	
		4,000
General reserve (same as 31.12.20X7)		10,000
		44,000
		[10marks]

(b) With the aid of examples, discuss the concept 'principle of cancellation" **[5 marks]**

[15marks]

Question two

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 [6marks]
- (c) Explain with the aid of an example the concept “not a related party” [4marks]
- (d) Explain the following terms:
 - (i) Business Risk [2marks]
 - (ii) Related Party [3marks]

[20marks]

Question three

Immediately after P.M. and Family Ltd had acquired control of Son One Ltd and Son Two Ltd the following balance sheets were drawn up. You are to draw up a consolidated Statement of financial position.

P.M. and Family Statement of financial position

	\$
Investments in subsidiaries:	
Son One Ltd (10,000 Ordinary \$1 shares)	16,000
Son Two Ltd (12,000 Ordinary \$1 shares)	18,000
Fixed assets	73,000
Current assets	33,000
	<u>140,000</u>
Share capital – Ordinary \$1 shares	110,000
Profit and loss account	30,000
	<u>140,000</u>

Son One Statement of financial position

	\$
Fixed assets	11,000
Current assets	4,000
	<u>15,000</u>
Share capital – Ordinary \$1 shares	10,000
Profit and loss account	2,000
General reserve	3,000
	<u>15,000</u>

Son Two Statement of financial position

	\$
Fixed assets	19,000
Current assets	6,000
	<u>25,000</u>

Share capital – Ordinary \$1 shares	15,000
Profit and loss account	6,000
General reserve	4,000
	<u>25,000</u> [10marks]

(b) Explain the importance of a conceptual framework in financial reporting [5marks]

[15marks]

Question Four

(b) AB Ltd received a grant of \$1000 000 from provincial government for creating job vacancies, for the individuals in the nearby area, and maintaining them for a period of 3 years. The entity has prepared an expense forecast in respect of this project which is as follows:

	\$'000
Recruitment cost in Y1	500,000
Expected Salary Expense:	
Year 1	300,000
Year 2	400,000
Year 3	500,000

Required:

How the receipt of government grant will be accounted for in the financial statements of AB Ltd? (10 marks)

(c) Brockdale Ltd erected a number of buildings at a cost of \$3 500 000, which was settled on 1 January 2017 in cash .These buildings have an economic life of 10 years and were completed and put into use on 1 January 2017.

Brockdale Ltd received a government grant of \$350 000 on 1 January 2017, since it is important for the national government to provide houses for the whole population.

This government grant complies with the definition of gross income and no exemption applies to this government grant. An income tax allowance of 10% per annum on the straight-line method is allowed on the total cost of all houses.

Assume a profit before tax prior to the above transactions of \$600 000.

Assume a tax rate of 30%

Required

(a) Prepare the journals for the year ended 31 December 2017, in respect of the above transactions if it is assumed that the government grant is presented in the statement of financial position as deferred income (IAS 20) [10marks]

(b) Prepare the journals for the year ended 31 December 2017, in respect of the above transactions if it is assumed that the government grant is presented in the statement of financial position by deducting the government grant from the carrying amount of the asset. [10marks]

[30marks]