



ZIMBABWE EZEKIEL GUTI UNIVERSITY

**FACULTY OF LAW BUSINESS INTELLIGENCE AND
ECONOMICS**

**DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL
MANAGEMENT**

EXAMINATION PAPER

COURSE CODE : CAC 415
COURSE TITLE : PUBLIC SECTOR ACCOUNTING
SPECIAL REQUIREMENTS : Calculator
DURATION : 3 Hours
LEVEL : 4.1
DATE : 09 OCT 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 only
4. The number of marks for each question or part question is shown in brackets []

SECTION A: COMPULSORY

QUESTION 1

1. a. Define the following terms as used in Public Sector Accounting and give two (2) example of each classification.

i. Financial Asset **(2 marks)**

ii. Non – Financial Liabilities **(2 marks)**

iii. Mandatory disclosure requirements for presentation of financial statements

(Cash Basis IPSAS) (3 marks)

b. The following records have been taken from the trial balance of the Rural Electrification Agency for the year ended 31 December 2022.

	\$'000	\$'000
Buildings	18,500	
Buildings accumulated depreciation		6,300
Equipment	4,150	
Equipment accumulated depreciation		1,590
Insurance	300	
General reserves	100	
Revenue from charges to service users		1,100
Training grant		220
Donations and fundraising income		350
Other revenue		175
General grant for operating activities		3,520
Capital contributed by government		8,785
Inventories at 1 January 2017	540	

Receivables	120	
Short term investments	380	
Cash	120	
Payables		880
Long term loans (5%)		400
Staff costs	1,650	
General expenses	935	
Bank interest charges	15	
Loan interest paid	10	
Accumulated surpluses	_____	<u>3,300</u>
	26,720	26,720

Further information:

1. The agency depreciates its buildings over 45 years using the straight line basis, and its equipment using the reducing balance basis at a rate of 25% per year. The depreciation for 2022 has still to be accounted for.
2. The insurance expenditure includes a prepayment of \$15,000 for the period up to 28 February 2023.
3. A pay increase was announced in January 2023 and is to be applied from 1 December 2022. The cost of the increase for 2022 is \$20,000.
4. Inventories at 31 December 2022 were \$340,000. On 10 January 2018, a storm destroyed \$150,000 of the inventories. The Agency charges inventory used during the year to general expenses.
5. On 15 December 2022 a company that owed the Agency \$25,000 went bankrupt. It is unlikely that the amount owing will be recovered.
6. At the end of 2022, there was an outstanding instalment of the general grant of \$250,000 that had not yet been received by the Agency.

Required

Prepare a Financial Statements for the Essential Services Agency for the year ended 31 December 2022. (18 marks) [Total 25marks]

SECTION B[75 MARKS]

ANSWER ANY THREE QUESTIONS FROM THIS SECTION

Question 2

- a. Outline any four disclosure requirements in financial statements under *IPSAS 5 Borrowing costs* (4 marks)
- b. Explain the difference between a general loan and a specific loan (4 marks)
- c. Define a qualifying asset (2 marks)
- d. State and explain the two alternative treatment of borrowing costs allowed by this standard. (4 marks)
- e. State any five costs that can be classified as borrowing costs. (5 marks).
- f. On 1 January 2022 Bindura Municipality borrowed \$1.5 million to finance the production of two assets, both of which were expected to take a year to build. Production started during 2022. The loan facility was drawn down on 1 January 2022 and was utilised as follows, with the remaining funds invested temporarily

	Asset A (\$000)	Asset B (\$000)
1 January 2016	250	500
1 July 2016	250	500

The loan rate was 9% and the agency can invest surplus funds at 7%.

The agency's policy is to capitalise all borrowing costs that meet the IPSAS 5 requirements.

Required

Ignoring compound interest, calculate the borrowing costs which may be capitalised for each of the assets and consequently the cost of each asset as at 31 December 2022. (6 marks)

QUESTION 3 [25 marks]

- a) With reference to *IPSAS 3:Accounting policies, Changes in Accounting Estimates and Errors*, giving two examples of each, explain the difference between accounting policies,

Changes in Accounting Estimates and Errors.

[12 marks]

- b) The following are the mostly widely used terms under public sector accounting
- i. Define Cash basis (1 mark)
 - ii. Define accruals basis (1 mark)
 - iii. Define commitment basis (1 mark)
 - iv. Modified cash basis (1 mark).
 - v. Modified accrual basis (1 mark)
 - vi. Define and State the difference between an asset under IAS and IPSAS and give one example of each. (4 marks)
 - vii. Define an liability under IPSAS and give an example (2 marks)
 - viii. Define an expense under IPSAS and give an example (2 marks)

QUESTION 4 [25marks]

- a) Two sources of finance for public sector organisations are taxes and grants. With reference to IPSAS 9: *Revenue from Exchange Transactions* and IPSAS 23: *Revenue from Non-Exchange Transactions (Taxes & Transfers)*, explain how each of these two sources of finance should be treated in the financial statements of public sector organisations. [12 marks] .
- b) Outline the disclosure requirements by a public sector entity under IPSAS 9: Revenue from Exchange Transactions [6 marks].
- c) Specify the components that make up a complete set of IPSAS compliant financial statements [7 marks]

QUESTION 5 [25marks]

- a) Describe the benefits of Cash Flow Information to:
 - i. Internal users of financial statements [5 marks]
 - ii. External users of financial statements [5 marks]
- b) Prepare the cash flows from investing activities for the school's cash flow statement (to the nearest \$000). Show all your workings.

A school's statement of financial position had a total net book value of property, plant and equipment

(PPE) of \$7,600,000 at the beginning of the financial year and \$8,600,000 at the end of the

financial year.

During the year, the following transactions occurred:

- 1) A new science block was built. At the end of the year, \$16,000 payments to the builders were outstanding. There were no capital payables at the start of the year.
- 2) A new minibus was acquired on the first day of the year by finance lease and is included in the closing PPE balance at its fair value of \$20,000 less one year's depreciation. The lease term requires five annual payments of \$4,500.
- 3) The total depreciation charge for the year was \$700,000.
- 4) A part of the school's sports fields was sold to a property developer during the year. The land was held in the books at \$160,000 and was sold at a profit of \$18,000. By the end of the year, half of the disposal proceeds had been received and half were received shortly after the year-end.

Required

Prepare the cash flows from investing activities for the school's cash flow statement (to the nearest \$000). [15 marks]

END OF EXAMINATION QUESTION PAPER

B/2 (am)