



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 : 09 APR 2024

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 []

SECTION A. [30 marks]

Answer all questions in this Section

Each question carries **2 marks**

Select the most appropriate answer

- 1) The following should be disclosed according to IFRS 8, Segmental reporting, **except**
- A. Segment expenses
 - B. Minority interest
 - C. Depreciation of a segment vehicle
 - D. Segment Revenue.
- 2). 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. none of the above
 - D. all of the above
- 3). Revenues should be matched with expenses incurred in generating that revenue in the period in which it relates. This is according to
- A. The consistency concept
 - B. The going concern concept
 - C. The accruals concept
 - D. The prudence concept

4). Entity J operates in a country in which a state-owned entity (entity K) has a legally protected monopoly over the supply of electricity in that country. Accordingly, entity J depends on entity K to provide the energy needed to operate its plant.

Recently, the demand has exceeded the supply of electricity in that country. In response to the shortfall, entity K has rationed the supply of electricity in the jurisdiction that it supplies. The shortage of power has caused entity J to operate at suboptimal levels.

Which of the following statements is true about entity K

- A. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) does not become a related party of entity J.
- B. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) becomes a related party of Entity J
- C. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) becomes a partial related party of Entity J
- D. Simply by virtue of its normal dealings with entity J, the electricity supplier (entity K) does not become a partial related party of Entity J

5). IAS 32, defines a financial instrument as

A. a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

B. any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

C. the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction.

D. any contract which gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

6). The cost of a separately acquired intangible asset comprises:

A. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates

- B. Any directly attributable cost of preparing the tangible asset for its intended use.
- C. Its purchase price, excluding import duties and non-refundable purchase taxes, after deducting trade discounts and rebates
- D. Any indirectly attributable cost of preparing the tangible asset for its intended use.

7) P Statement of financial position

Investment in subsidiary: 6 shares	12
Stock	20
Bank	8
	40
Share capital	30
Reserves	10
	40

S Statement of financial position

Stock	7
Bank	3
	10
Share capital	10

The goodwill to be included in the consolidated statement of financial position for P and S ltd is

- A. 4
- B. 6
- C. 9
- D. 10

8) Using the information in question 6 above, the minority interest is

- A. 4
- B. 5
- C. 9
- D. 10

9). The following items are excluded in the calculation of segment result

- (i) extraordinary items
- (ii) interest or dividend income, including interest earned on advances or loans to other segments

- (iii) Interest paid, including interest incurred on advance or loans from other segments the difference between segment revenue and expenses.
- (iv) Segment expenses

- A. i, ii and iii
- B. i, iii and iv
- C. I, ii and iv
- D. all of the above

10). According to IAS 7 cash equivalents are

- A. an issued single financial instrument that contains both liability and equity (e.g. a convertible loan). Under IAS 32 principles, such instruments are split accounted
- B. short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.
- C. an issued single financial instrument that contains both liability and equity (e.g. a convertible loan).
- D. cash on hand and demand deposits with banks or other financial institutions.

11). The requirements for IFRS 8-Segmental reporting apply to

- A. Listed companies only
- B. Listed and unlisted companies
- C. Unlisted Companies only
- D. Small and medium enterprises

12). The conceptual framework of financial reporting, shows the qualitative characteristics of financial statements as follows

- (i) Comparability
- (ii) Faithful presentation
- (iii) Understandability
- (v) Relevance

Which of these characteristics are **fundamental**

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

13) With reference to question 12 above, which of these characteristics are **enhancing**

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

14). A business or geographical segment shall be treated as a reportable segment, if a majority of its sales revenue is earned from sales to external customers and if it satisfies one of the following criteria:

- A. its sales revenue makes up at least 10% of the total sales revenue of the entity (group of entities), including revenue from sales to other segments;
- B. segment results make up at most 10% of the total operating profit (loss) of the entity (group of entities);
- C. segment assets make up at less than 10% of the total assets of the entity (group of entities).
- D. its sales revenue makes up more than 10% of the total sales revenue of the entity (group of entities), including revenue from sales to other segments

15). A person or a close member of that person's family is not a related party to a reporting entity if that person:

- A. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
- B. has control over the reporting entity
- C. has joint control or significant influence over the reporting entity or has significant voting power in it.
- D. is not a member of the key management personnel of the reporting entity or of a parent of the reporting entity;

SECTION B [70 MARKS]

Answer **all questions** in this Section

Question One

House Ltd erected a number of buildings at a cost of \$800 000, which was settled on 1 January 2018 in cash. These buildings have a useful life of 10 years and were completed and put into use on 1 January 2018.

House Ltd received a government grant of \$180 000 on 1 January 2018, since it is important for the national government to provide houses for all its citizens.

Assume a profit before tax prior to the above transactions of \$500 000 for the year ended 31 December 2018 to 31 December 2020

Required

- (a) Prepare the journal entries for the years ended 31 December 2018 to 31 December 2020 in respect of the above transactions if it is assumed that the government grant is presented as deferred income in the statement of financial position. **[10marks]**
- (b) Prepare the journal entries for the years ended 31 December 2018 to 31 December 2020 in respect of the above transactions if it is assumed that the government grant is presented by deducting the grant from the carrying amount of the asset. **[10marks]**
- (c) Explain the disclosure of both grants related to assets and grants related to income, according to IAS 21. **[5marks]**

[Total 25marks]

Question Two

(a) With reference to IFRS 9 and IAS 32, define the following terms

- (i) Currency Risk **[3 marks]**
- (ii) Credit Risk **[3 marks]**
- (iii) Cash-flow Risk **[3 marks]**

(b) Mr Aerodrome holds 11% of the issued share capital and of the voting rights of Develop Ltd. His five year_ holds 40% of these voting as he has inherited shares from his late uncle who was a shareholder of Develop Ltd

- (i) Explain the meaning of the term 'dilution of equity' **[4marks]**
- (ii) Determine whether Mr Aerodrome is a related party of Develop Ltd, justify your answer? **[6marks]**

(iii) How would your answer in a change if Mr Aerodrome's son was 25 year old?

[6marks]

[TOTAL 25marks]

Question Three

(a) P Ltd bought 40,000 shares in S1 Ltd and 27,000 shares in S2 Ltd on 31 December 2016. The following statement of financial position were drafted as at 31 December 2017. You are to draw up a consolidated Statement of financial position as at 31 December 2017.

P Statement of financial position as at 31 December 2017

	\$	\$
Investments in subsidiaries		
S1 Ltd 40,000 shares		49,000
S2 Ltd 27,000 shares		30,500
Fixed assets		90,000
Current assets		80,500
		<u>250,000</u>
Share capital		200,000
Profit and loss account:		
As at 31.12.2016	11,000	
Add Profit for 2017	16,000	
		27,000
General reserve		23,000
		<u>250,000</u>

S1 Statement of financial position as at 31 December 2017

	\$	\$
Fixed assets		38,200
Current assets		19,200
		<u>57,400</u>
Share capital		50,000
Profit and loss account:		
As at 31.12.2016	3,000	
Less Loss for 2017	(1,600)	
		1,400
General reserve (as at 31.12.2016)		6,000
		<u>57,400</u>

S2 Statement of financial position as at 31 December 2017

	\$	\$
Fixed assets		31,400
Current assets		14,600
		<u>46,000</u>
Share capital		36,000
Profit and loss account:		

As at 31.12.2016	4,800
Add Profit for 2017	3,400
	8,200
	1,800
General reserve (as at 31.12.2016)	<u>46,000</u>

(b) Clearly show the difference between a subsidiary and an associate

[15 Marks]
[5marks]
[Total 20marks]

END OF EXAMINATION QUESTION PAPER

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