

**ZIMBABWE EZEKIEL GUTI UNIVERSITY**



**DEPARTMENT OF ACCOUNTING AND FINANCE  
BACHELOR OF COMMERCE (HONS) ACCOUNTING**

**COURSE NAME : INTRODUCTION TO FINANCIAL REPORTING**

**COURSE CODE : CAC106**

**DURATION : 3 HOURS**

**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.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.



### Question 1

Skule limited manufactures concrete products and its financial statements are as follows:

#### Skule Limited Statement of Financial Position as at 31 December:

	2016	2015
	\$'000	\$'000
<b>Non-Current Assets</b>		
Property, Plant & equipment	1,830	1,461
<b>Total Non-Current Assets</b>	<b>1,830</b>	<b>1,461</b>
<b>Current Assets</b>		
Inventories	262	289
Trade receivables	161	146
Cash & Cash equivalents	98	81
<b>Total Current Assets</b>	<b>521</b>	<b>516</b>
<b>Total Assets</b>	<b>2,351</b>	<b>1,977</b>
<b>Equity &amp; Liabilities</b>		
<b>Equity</b>		
Share Capital	300	200
Share Premium	50	20
Retained earnings	1,451	1,277
Revaluation surplus	74	120
<b>Total Equity</b>	<b>1,875</b>	<b>1,617</b>
<b>Non-Current Liabilities</b>		
Long-term loan	280	200
<b>Total Non-Current Liabilities</b>	<b>280</b>	<b>200</b>
<b>Current Liabilities</b>		
Trade Payables	148	116
Bank overdraft	10	18
Tax Payables	38	26
<b>Total Current Liabilities</b>	<b>196</b>	<b>160</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,351</b>	<b>1,977</b>

#### Skule Limited Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2016

	\$'000
Revenue	4,300
Cost of sales	(3,600)
Gross Profit	700
Distribution Costs	(176)
Administration expenses	(124)
Finance Costs	(42)
<b>Profit before Tax</b>	<b>358</b>
Income Tax expense	(46)
<b>Profit for the year</b>	<b>312</b>
<b>Other Comprehensive Income</b>	
Losses on Property revaluations, net of tax	(46)

**Total Comprehensive Income for the year, net of tax**

266

**Notes:**

- i) Property, Plant & equipment with a carrying value of \$320,000 was sold for \$280,000. This asset had originally cost \$450,000.
- ii) Depreciation of Property, Plant & equipment during the year amounted to \$356,000.
- iii) Dividends paid during the year amounted to \$138,000 and are reported in the statement of changes in equity.

**Required:**

Prepare a statement of Cash flows for the year-ended 31 December 2016 for Skule limited in accordance with IAS 7 (Statement of Cash Flows). (25 Marks)

**Question 2**

**Part 1**

Mr. Jordan, the managing director of Jojo Ltd has a number of specific queries in relation to inventory and has asked you for advice in relation to IAS 2 (Inventories). As part of its overall inventory, Jojo Ltd has three items of inventories whose costs and net realisable values are as follows:

Item	Cost - \$	NRV - \$
1	72	80
2	56	48
3	92	96
	220	224

**Required:**

- a) Determine the value of closing inventory for Jojo Ltd at the year-end (5 marks)
- b) Based on your knowledge of IAS 2 (Inventories), prepare a report for Mr. Jordan which:
  - i) Outlines the items that comprise inventory (3 marks)
  - ii) Explains how inventories are measured (3 marks)
  - iii) Provides three examples of costs which are specifically excluded from the costs of inventories and instead are recognised as expenses in the period in which they are incurred (3 marks)
  - iv) Briefly discusses three circumstances in which net realisable value is likely to be less than cost. (3 marks)

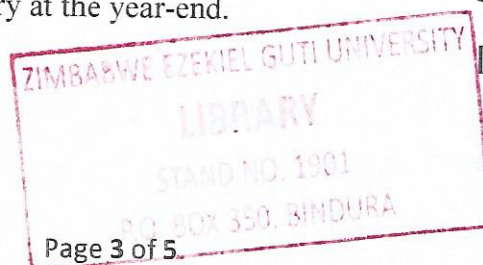
**Part 2**

Davis Limited's closing inventory at 31 December 2015 was \$347,841. This includes \$4,640 for items accidentally destroyed on 31 December 2015 after the inventory count was completed. Also included is \$2,980 which relates to the cost of inventory damaged in October 2015, which can be reworked at a cost of \$680 and which can then be sold for \$2,410.

**Required:**

Calculate the closing value of inventory at the year-end. (8 marks)

**[Total: 25 Marks]**



### Question 3

IAS 10 (Events After the Reporting Period) sets out guidance for dealing with events which occur after the reporting date but which may have implications for the financial statements up to the reporting date. Its provisions are consistent with the Conceptual Framework for Financial Reporting and with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). It sets out some clear principles to assist preparers to determine when an event needs to be accounted for in the period ending on the reporting date (adjusting event), and when it should be accounted for in the subsequent period (non-adjusting event).

#### Required:

- a) Explain the term '*Events after the Reporting Period*', defining clearly the period of time within which IAS 10 requires events to occur in order to be considered as such. (3 marks)
- b) Clearly differentiate adjusting events from non-adjusting events, and clarify the accounting treatment and disclosures required in each case. (4 marks)
- c) Anderson Ltd. is in the process of finalising its financial statements for year ended 31 July 2016. The draft statements were completed on 15 August 2016, and the audit is currently ongoing. The financial statements are expected to be approved by the board of directors on 15 September 2016, and published on 20 September 2016.

The matters (i) to (iii) below came to light during the audit and you are required to explain the accounting treatment and/or disclosures required as a result of the events after the reporting date.

- i) The directors of Anderson Ltd wish to propose a dividend to be paid in November 2016. No decision has yet been taken on this proposal. (3 marks)
  - ii) Some investments held by Anderson Ltd at the reporting date have fallen significantly in value since the reporting date due to a shock increase in interest rates by the Central Bank on 10 August 2016. The effect of the fall in value is material to the company's financial position. (3 marks)
  - iii) On 5 August 2016, Anderson Ltd entered into an agreement to acquire another entity. The acquisition is planned to finalise on 15 October 2016. (3 marks)
- d) According to IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors):
    - i) Outline the difference between accounting policies and accounting estimates. (4 marks)
    - ii) Briefly explain the accounting treatment required to record; a change in accounting policy, a change in accounting estimate and the correction of an error. (5 marks)

**[Total: 25 Marks]**

### Question 4

IAS 16 (Property, Plant & Equipment) sets out the accounting treatment of tangible non-current assets whilst, IAS 40 (Investment Property) deals with properties held for their investment potential only. The distinction between investment and non-investment property is very important, as the accounting treatment required is significantly different in some cases.

#### Required:

- a) Define Investment Property according to IAS 40. (3 marks)

- b) Discuss the main differences between the accounting treatment of investment properties and the accounting treatment of non-investment properties (PPE). (5 marks)
- c) In cases (i) to (iii) below, show the entries in the financial statements of Mutty Ltd for year ended 31 July 2016 resulting from recording the events described. Your answer should clearly identify any depreciation charges involved and how each transaction may impact upon the statement of profit or loss and other comprehensive income of Mutty Ltd for the year ended 31 July 2016, if at all. Mutty Ltd has several properties on its books. During the year ended 31 July 2016, the events detailed below took place. The company applies straight-line depreciation wherever depreciation is required. The fair value model is applied wherever permitted. The company does not apply the option to transfer revaluation surpluses annually to retained earnings.
- i) Property A was acquired on 1 August 2011 for \$1.6 million for use as company offices. The buildings element of the property was estimated at 90% of the purchase price and this was assigned a 50-year useful economic life from the date of purchase (the balance consisted of land). On 1 August 2015 an independent valuation was obtained and the property was revalued to \$1.8 million including land, this being assigned a value of \$300,000. The useful economic life of the building was assessed at 50 years from that date. (4 marks)
- ii) Property B was acquired in March 2015 at an auction of distressed properties. This property is a block of land in Green city, which was bought for investment potential. The cost was \$750,000. No revaluation took place on 31 July 2015. However, on 31 July 2016, a professional valuer placed a value of \$1,200,000 on the land. (4 marks)
- iii) Property C was a building acquired on 1 August 2008 for \$4.4 million for use as a factory. This was a leasehold property with 20 years left to run. Following a national decline in property values, a revaluation on 1 August 2010, reduced the value of the leasehold to \$1.26m. On 1 August 2015, the property was estimated by the same professional valuers to have a value of \$2.6m. (4 marks)
- d) During the financial year ended 31 March 2016, Gerry Ltd delivered goods at an invoice value of \$300,000 to a potential customer on a 'sale or return' basis. These goods cost Gerry Ltd \$240,000. No payment was received, and there was no indication at the reporting date or since as to whether the goods will be returned or not. Applying the provisions of IAS 18 (Revenue), determine the amounts to be reported by Gerry Ltd as: Revenue, Trade Receivables and/or Inventory in respect of the above transaction. (5 marks)

[Total: 25 Marks]

\*\*\* END OF PAPER\*\*\*

