



## ZIMBABWE EZEKIEL GUTI UNIVERSITY

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FACULTY OF LAW, BUSINESS INTELLIGENCE AND ECONOMICS

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DEPARTMENT OF ACCOUNTING, FINANCE AND HUMAN CAPITAL  
MANAGEMENT

### EXAMINATION PAPER

COURSE CODE : CAC411  
COURSE TITLE : FINANCIAL REPORTING  
DURATION : 3 Hours  
LEVEL : 4.1  
DATE : 10 APR 2025

#### INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Non-programmable calculators are allowed in the examination.
4. Begin each question on a new page for Section B only.
5. The number of marks for each question or part question is shown in brackets [ ]

**SECTION A [20 Marks]**

**ANSWER ALL QUESTIONS (Each question carries 2 marks)**

**SELECT THE MOST APPROPRIATE ANSWER**

1. Defe, an SME resident in Zimbabwe, purchased its only item of plant on 1 October 2021 for \$200,000. Defe charges depreciation on a straight line basis over 5 years and receives a first year S.I.A (special initial allowance) of 50% with 25% Accelerated W&T available from then on a reducing balance basis. The tax rate is 25%.

Defe's deferred tax balance as at 30 September 2023, in accordance with IAS 12 Income Taxes is:

- A. \$3,750
  - B. \$11,250
  - C. \$18,750
  - D. \$45,000
2. Which of the following statements relating to IAS21 *the effects of changes in foreign exchange rates* is correct?
- A. The functional currency of a foreign subsidiary is the currency that the group financial statements are presented in.
  - B. A foreign subsidiary must present its financial statements in the presentational currency of the parent.
  - C. Consideration will be given to the currency of the costs and sales of the entity when determining its functional currency.
  - D. The more autonomous a subsidiary, the more likely its functional currency is that of the parent entity.
3. When a single entity makes purchases or sales in a foreign currency, it will be necessary to translate the transactions into its functional currency before the transactions can be included in its financial records.

In accordance with IAS21 *the Effect of Changes in Foreign Currency Exchange Rates*, which of the following foreign currency exchange rates may be used to translate the foreign currency purchases and sales?

- (i) The rate which existed on the day that the purchase or sale took place
- (ii) The rate which existed at the beginning of the accounting period
- (iii) An average rate for the year, provided there have been no significant fluctuations throughout the year
- (iv) The rate which existed at the end of the accounting period

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

4. A farmer purchased a flock of fifty, 5 year old sheep on 1 February 2022 and on 31 July 2022 purchased another flock of twenty, 5½ year old sheep.

The following fair values less estimated 'point of sale' costs were applicable:

– 5 year old sheep at 1 February 2022	\$70.
– 5½ year old sheep at 31 July 2022	\$77.
– 6 year old sheep at 31 January 2023	\$80.

**Required:**

Calculate the amount that will be taken to the statement of profit or loss for the year ended 31 January 2023.

- A. \$750.00
- B. \$570.00
- C. \$650.00
- D. \$560.00

**The following problem is used to answer question 5 and 6.**

Jimmy owns a farm with a herd of 300 goats worth \$40 each on 1 January 2023. At 31 December 2023 the goats have reproduced and he now has 345 goats

worth \$42 each. At the local market the goats are sold with a commission of 3% on each sale. In addition Jimmy sold 3,000 litres of goats' milk at an average selling price of \$1.20 per litre.

**Required:**

5. Calculate the amounts that will be taken to the statement of profit or loss for the year ended 31 December 2023.

- A. \$5,400.00
- B. \$5,655.00
- C. \$8,750.00
- D. \$6,015.00

6. Calculate the amount that will be recognised as a "Biological Asset" in the statement of financial position as at 31 December 2023.

- A. \$14,055.00
- B. \$16,550.00
- C. \$16,010.00
- D. \$24,560.00

7. An entity prepares quarterly interim financial reports in accordance with IAS34. The entity sells electrical goods, and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was \$10 million. However, in the second quarter, a design fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were \$15 million.

What would be the provision charged in the second quarter's interim financial statements?

- A. \$750,000
- B. \$1.25 million.
- C. \$1.5 million.
- D. \$2 million

8. IAS 34 states a presumption that anyone reading interim financial reports will:
- A. Understand all International Financial Reporting Standards.
  - B. Have access to the records of the entity.
  - C. Have access to the most recent annual report.
  - D. Not make decisions based on the report
9. In the case of a nonmonetary grant, which of the following accounting treatments is prescribed by IAS 20?
- A. Record the asset at replacement cost and the grant at a nominal value.
  - B. Record the grant at a value estimated by management.
  - C. Record both the grant and the asset at fair value of the nonmonetary asset.
  - D. Record only the asset at fair value; do not recognize the fair value of the grant.
10. Which of the following is not specifically excluded from the purview of IAS 20?
- A. Government participation in ownership of the entity.
  - B. Government grant covered by IAS 41.
  - C. Government assistance provided in the form of tax benefits.
  - D. Forgivable loan from the government.

**[Total 20marks]**

**SECTION B [80 Marks]**

**ANSWER ALL QUESTIONS. Begin each question on a new page.**

**Question 1**

**a) Define the following terms as prescribed by IAS41 Agriculture:**

– Agricultural activity (1mark)

– Biological transformation (2marks) [3marks]

**b) Activity 1**

Petronella Farm raises cattle, slaughters them at its abattoirs and sells the carcasses to the local meat market.

**Activity 2**

Silver Streams Ranjies grows oranges, harvests the oranges and produces orange juices.

**Discuss the extent at which the above activities meets the requirements of IAS41? (7marks)**

**c) Dandon Cattle farm has 25 heifers and 17 tollies aged 2 years on 1 January 2023. On the same date the farm also has 10 cows aged 3½ years with some at an advanced stage of gestation.**

On 30 June the following animals aged 2½ years were purchased: 12 heifers for \$200 each and 13 tollies for \$210 each. On 1 July 6 calves were born.

No animals were sold or disposed during the financial period ending 31 December 2023.

The market value less estimated point of sale costs were as follows:

<b>Animal details</b>	<b>\$</b>
<b>1 January 2023:</b>	
2 year heifer	180
2year tolly	185

3½ year cow 250

**1 July 2023:**

New born calf 70

2½ year heifer 200

2½ year tolly 210

**31 December 2023:**

New born calf 73

6 months old calf 80

2 year heifer 190

2 year tolly 188

2½ year heifer 210

2½ year tolly 215

3½ year cow 255

3 year heifer 220

3 year tolly 230

4½ year cow 340

**Required is to calculate:**

- i. The overall fair value change of the herd less estimated point of sale costs for the year ended 2019. (8marks)
  - ii. The fair value change as a result of price fluctuations (5marks)
  - iii. The fair value change as a result of physical change of the herd. (7marks)
- [20marks]

[Total 30marks]

**Question 2**

a) In relation to defined benefit plans explain each of the following terms:

— Defined benefit obligation (2marks)

— Past service costs (2marks)

– Actuarial gains or losses (2marks)

– Curtailments and settlements (2marks)

[8marks]

b) A company gives its employees an annual entitlement to paid holiday leave. If there is any unused leave at the end of the year, employees are entitled to carry forward the unused leave for up to 12 months. At the end of 2023, the company's employees carried forward in total 50 days of unused holiday leave. Employees are paid \$100 per day.

**Required:**

**State the required accounting for the unused holiday carried forward (2marks)**

c) A company makes contributions to the pension fund of employees at a rate of 5% of gross salary. The contributions made are \$10,000 per month for convenience with the balance being contributed in the first month of the following accounting year. The wages and salaries for 2023 are \$2.7m.

**Calculate and journalise the pension expense for 2023, and the accrual/prepayment at the end of the year. (3marks)**

d) Donella was employed by Thokotech Co on 1 January 2019. His salary on appointment was \$5,000 per month. The salary is reviewed once in December and the changes are effected on January of the following year. Donella's salary is expected to increase at a rate of 6% per annum over the next 5 years until the end of 2023. The employee is a member of the firm's defined benefit scheme, and is entitled to a lump sum on retirement (expected to be in 5 years) of 3% of final salary for each year of service. A discount rate of 7% is applied.

**Calculate the obligation at the end of each year until 2023. (12marks)**

**[Total 25 marks]**

### Question 3

a) Distinguish between:

- Current tax and deferred tax. (3marks)
- Permanent difference and temporary difference. (3marks) [6marks]

b) Sithole's estimated income tax liability for the year ended 31 December 2023 was \$194,000. In the previous year the income tax liability had been estimated as \$162,000.

#### Required:

Calculate and journalise the tax charge that will be shown in the statement of profit and loss for the year ended 31 December 2023 if the amount that was actually agreed and settled with Zimbabwe Revenue Authority (ZIMRA) in respect of 2022 was;

- \$170,000
- \$142,000. (4marks)

c) Cottonex profit before tax was \$300,000 for the consecutive four years starting from 2020, 2021, 2022 and 2023. This profit is stated after charging depreciation of 25% per annum straight line method, on machinery purchased for \$80,000 in 2020. The capital allowance granted for the machinery are:

Year 2020	\$26,000
Year 2021	\$23,000
Year 2022	\$17,000
Year 2023	\$14,000

Income tax is calculated at 30% of taxable profits.

Apart from the above depreciation and tax allowances there are no other differences between the accounting and taxable profits.

#### Required:

- Ignoring deferred tax, prepare statement of profit or loss extracts for each of years 2020, 2021, 2022 and 2023. (5marks)

- Accounting for deferred tax, prepare statement of profit or loss and statement of financial position extracts for each of years 2020,2021, 2022 and 2023.

(10marks)

[Total 25marks]

END OF EXAMINATION QUESTION PAPER

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