

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. Com (Hons) Accounting

COURSE: INTRODUCTION TO FINANCIAL REPORTING

COURSE CODE: CAC106

DURATION: 3 HOURS
12 JUNE 2018

INSTRUCTIONS TO CANDIDATES

1. Answer **ALL** questions.
2. Begin each question on a new page.
3. The number of marks allocated to each question or part question is shown in brackets.
4. Hand-held, self-powered, non-programmeable, silent calculators are allowed into the examination.
5. Show all workings and presentation must be in accordance with the requirements of International Financial Reporting Standards and International Accounting Standards.

Question 1

a) Although it may come as a surprise to many non-accountants, the accounting profession internationally has encountered a great deal of problems in arriving at robust definitions for the 'elements' of financial statements. Defining assets, liabilities, and gains and losses (income and expenditure) has been particularly problematical. These definitions form the core of any conceptual framework that is to be used as a basis for preparing financial statements. It is also in this area that the International Accounting Standards Board's 'Framework for Financial Reporting (Framework)' has come in for some criticism. It seems that the accounting treatment of certain items does not (fully) agree with definitions in the Framework. A major objective of the Framework is to exclude from the Statement of Financial Position items that are neither assets nor liabilities.

Required:

- i) Critically discuss the definition of assets and liabilities contained in the Framework. You should explain the importance of the definitions and the relevance of each component of the definitions. (8 marks)
 - ii) How does the Framework describe the concept of "capital maintenance"? (2 marks)
- b) The following trial balance was extracted from the books of Cantelaw (Pvt) Ltd, a manufacturing company, as at 31 December 2017:

	Dr (\$)	Cr (\$)
Trade Receivables	425,600	
Trade Payables		314,526
Share Capital - 100,000 at \$1.00 each		100,000
Revenue		2,458,752
Revaluation Surplus		10,000
Retained Earnings at 31.12.16		1,716,925
Purchases	1,457,823	
Premises	1,624,000	
Office Equipment	186,000	
Motor Vehicles	240,000	
Long Term Loan		350,000
Inventory at 31.12.16	235,800	
Distribution Costs	457,820	
Bank	521,450	
Allowance for Bad Debts		18,600
Administrative Expenses	489,610	
Accumulated Depreciation - Premises at 31.12.16		458,700

Accumulated Depreciation- Motor Vehicles at 31.12.16		86,000
Accumulated Depreciation - Office Equipment at 31.12.16		124,600
	5,638,103	5,638,103

The following information, has also come to light, after your investigations;

- i) Cantelaw (Pvt) Ltd's inventory was counted on 29 December 2017 and amounted to \$246,200 at cost. On 31 December 2017, there were credit sales of \$40,000 that still needed to be accounted for in its financial statements. Cantelaw (Pvt) Ltd typically makes a profit margin of 25% on its sales.
- ii) Cantelaw (Pvt) Ltd sold a motor vehicle on 1 April 2017 for \$10,000. It purchased the motor vehicle on 1 January 2015 for \$24,000.
- iii) During the year Cantelaw (Pvt) Ltd wrote off a bad debt of \$3,600. This is yet to be included in its financial statements. In addition, the closing balance for the Allowance for Bad Debts should be at 5% of Trade Receivables.
- iv) There were accruals to Administrative Expenses and Distribution Costs of \$2,400 and \$1,600 respectively at the year end.
- v) All the relevant expenses in the trial balance are to be split evenly between Administrative Expenses and Distribution Costs. Losses on disposal of Property, Plant & Equipment are to be included as a separate line items on the face of the Statement of Profit or Loss and Other Comprehensive Income.
- vi) It is company policy to charge depreciation from the date of purchase to the date of sale of the assets and depreciation is to be charged as follows:

Premises	2%	Straight Line on Cost
Office Equipment	25%	Reducing Balance
Motor Vehicles	20%	Straight Line on Cost

Required

Prepare for Cantelaw (Pvt) Ltd for the year ended 30 April 2018, in accordance with IAS 1 (Presentation of Financial Statements):

- i) A statement of profit or loss and other comprehensive income **(15 marks)**
- ii) A statement of financial position **(10 marks)**
- iii) A statement of changes in equity **(5 marks)**

[Total: 40 marks]

Question 2

Fugistu (Pvt) Ltd is a manufacturer of agricultural products and its financial statements are as follows:

Fugistu (Pvt) Ltd Statement of Financial Position as at 31 December 2017

	2017	2016
Non-Current Assets	\$'000	\$'000
Property, Plant & Equipment (PPE)	5,120	3,940
Total Non-Current Assets	5,120	3,940
Current Assets		
Inventories	1,380	1,220
Trade Receivables	780	680
Cash & Cash Equivalents	50	112
Total Current Assets	2,210	2,012
Total Assets	7,330	5,952
Equity & Liabilities		
Equity		
Share Capital	240	200
Share Premium	60	50
Retained Earnings	3,798	2,402
Revaluation Surplus	120	80
Total Equity	4,218	2,732
Non-Current Liabilities		
Long-term Loan	1,500	1,600
Total Non-Current Liabilities	1,500	1,600
Current Liabilities		
Trade Payables	1,470	1,500
Bank Overdraft	32	60
Current Tax Payable	110	60
Total Current Liabilities	1,612	1,620
Total Equity & Liabilities	7,330	5,952

Additional information:

- a) The company's profit for the year before tax amounted to \$1,476,000.

- b) The company's income tax expense for the year was \$80,000.
- c) The cost of Property, Plant & Equipment (PPE) at 1 January 2017 amounted to \$4,860,000. The company's depreciation policy is to depreciate all assets at 20% straight line on cost from the date of purchase to the date of sale. The additions to PPE occurred on 31 December 2017. On 1 July 2017, the company sold PPE which originally had cost \$1,000,000. On the date this PPE was sold, its carrying value was \$600,000 and the firm made a loss on the sale of the PPE of \$40,000. The revaluation was performed on 31 December 2017.
- d) The company's finance cost for the year equals its cash payment of \$92,000.

Required:

Prepare a Statement of Cash Flows for the year-ended 31 December 2017 for Fugistu (Pvt) Ltd in accordance with IAS 7 Statement of Cash Flows. **[Total: 20 Marks]**

Question 3

IAS 16 (Property Plant and Equipment) sets out the accounting requirements for initial recognition and measurement, subsequent measurement and derecognition of items of property, plant and equipment. IAS 16 expands on and applies the definition of an asset outlined in the Conceptual Framework, as well as the recognition criteria set out in the Conceptual Framework.

On 31 December 2017, Stanley (Pvt) Ltd finished the construction of a new headquarters building. Some costs associated with this were as follows:

	\$'000
Purchase of site	200
Legal costs and stamp duty on site purchase	16
Demolition of existing dilapidated building on site	18
Design and planning costs	49
Redesign costs due to conditions of planning permission	15
Redesign costs due to errors in the original design	12
Tendering and procurement costs	5
Management time spent on the project, estimated apportionment	22
Construction contractor's fee to builder's finish	754
Rectification costs due to contractor error, not covered by the contractor	13
Completion, painting and furnishing costs	113
Cost of moving in staff, files and equipment	37
Cancellation costs of operating lease on previous headquarters building	31

The new building was brought into use on 1 January 2018. It was estimated to have a useful economic life of 50 years from that date, and a residual value of \$140,000 at the end of its life (excluding the land).

All the above costs were debited to a suspense account and credited to cash. No other entries were made. All items were paid as incurred.

Required:

- a) Outline how a newly constructed building should be recorded in the financial records applying the principles of IAS 16 Property Plant and Equipment. (4 marks)
- b) Recommend how further expenditure on an existing building should be treated under IAS 16 Property Plant and Equipment? (3 marks)
- c) Prepare the journal entries and supporting calculations necessary to show how the principles of IAS 16 (Property Plant and Equipment) should be applied in accounting for the transactions described above for year ended 31 March 2017. (10 marks)
- d) Determine the cost of the newly constructed building applying the principles outlined by IAS 16 (Property Plant and Equipment). (3 Marks)

[Total: 20 Marks]

Question 4

- a) The following issues have arisen in October (Pvt) Ltd during the financial year ended 31 December 2017
 - i) The company had an investment valued at \$200,000 in its financial statements for the year ended 31 December 2017. Due to the recent political transition, the investment reduced in value to \$180,000 by 10 January 2018.
 - ii) The company purchased a motor vehicle on 30 December 2017 and paid a non-refundable deposit of \$5,000 on that date. It also wrote a cheque on that date for the balance of \$20,000 which it posted to the seller. The seller received and cashed the cheque on 3 January 2018.
 - iii) One of October (Pvt) Ltd's customers was declared bankrupt on 5 January 2018, owing \$4,000 to October (Pvt) Ltd.
 - iv) October (Pvt) Ltd was sued by a customer who was unhappy with the quality of product delivered to it in June 2017. The court case was heard in late October 2017 but it was not until 8 January 2018 that the judge ruled in favour of October (Pvt) Ltd and awarded it legal costs of \$20,000 to cover its lawyer's fees. The legal costs were paid by its customer to October (Pvt) Ltd on 12 January 2018. October (Pvt) Ltd was unsure of

winning the case and it had previously included a provision in its financial statements for the year ended 31 December 2017 for compensation and legal costs as follows:

	\$	\$
Dr Legal Fees – Administrative Expenses	25,000	
Dr Cost of Sales	35,000	
Cr Provisions – Current Liabilities		60,000

Required:

Prepare a report advising the management of October (Pvt) Ltd on the proper accounting treatment of each of the above issues to ensure that the financial statements are prepared in accordance with the relevant accounting standards. (10 marks)

b) On 1 April 2018 a X (Pvt) Ltd held 400 units of finished goods valued at \$21 each. During the month of April, the following transactions took place:

Date	Units Purchased	Cost per Unit
10/04/18	300	\$23
20/04/18	400	\$24
25/04/18	500	\$25

Date	Units Sold	Sales Price per Unit
14/08/18	600	\$30.00
21/04/18	400	\$31.00
28/04/18	100	\$32.00

Required:

Calculate the value of closing inventories using the following cost formulas:

- i) First In First Out (FIFO) (5 marks)
- ii) Weighted Average Cost (5 marks)

[Total: 20 Marks]

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