



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE : INTRODUCTION TO FINANCIAL REPORTING**  
**COURSE CODE : CAC106**  
**DURATION : 3 HOURS**  
**DATE : 29 May 2019**

**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

### Question 1

C Ltd is a company that manufactures toys for the retail industry.

The following trial balance was extracted from its books as at 31 December 2018:

	Debit (\$)	Credit (\$)
Building at Cost at 1 January 2018	120 000	
Inventory at 1 January 2018	12 400	
Administrative expenses	24 580	
Issued share Capital		20 000
Accumulated depreciation - Trucks - 1 January 2018		12 600
Purchases / Revenue	124 860	214 630
Accumulated depreciation - fixtures & fittings - 1 January 2018		21 460
Long-Term loan		35 000
Income Tax	2 300	
Trade receivables / Trade Payables	36 200	14 520
Accumulated depreciation - building - 1 January 2018		32 000
Trucks at Cost at 1 January 2018	24 600	
Allowance for doubtful debts		1 140
Revaluation surplus		4 200
Current Tax Payable		2 300
Returns	1 000	600
Bank	8 640	
Fixtures & fittings at Cost at 1 January 2018	38 600	
Distribution Costs	24 200	
Retained earnings at 1 January 2018		58 930
	<b>417 380</b>	<b>417 380</b>

**The following information, based on your investigations, has also come to your attention:**

- i) Inventory at 31 December 2018 is \$14 600. This includes obsolete inventory costing \$424 which will be given away free to a local children's charity.
- ii) Depreciation is to be charged as follows:
  - Buildings 2% straight line on cost
  - Fixtures & Fittings 15% straight line on cost
  - Trucks 25% reducing balanceFull year's depreciation is charged in the year of acquisition and none in the year of disposal.
- iii) Fixtures & Fittings were sold for \$3,000 on 1 December 2018. These were purchased in June 2012 for \$8,000. The proceeds from the sale were included (in error) in 'revenue' on the trial balance.
- iv) The building was revalued to \$90,000 on 31 December 2018.

- v) C Ltd sells toys to one of its customers and provides 90 days' credit for the customer who has the option of returning the goods without charge up to the due date of payment. At the year-end, this customer owes \$12,000 (which is included in the revenue figure) to C Ltd, having made one purchase in November 2018. C sells toys to this customer at cost plus a mark-up of 50%.
- vi) The current tax payable amount outstanding from 2017 was paid in full in July 2018. While the transaction was correctly recorded in the firm's bank account, the Income Tax account was debited by mistake. The income tax amount for 2018 is estimated at \$2 800.
- vii) Interest of 4% on the loan should be provided for.
- viii) C Ltd wrote off additional bad debts of \$500. The Allowance for doubtful debts should be set at 5%.
- ix) C Ltd rented and paid for a storage warehouse for a year with the rental period commencing on 1 March 2018. The amount paid was \$2 400.
- x) Expenses are to be allocated evenly between Distribution Costs and Administrative expenses.

**Required:**

Prepare, in accordance with IAS 1 (Presentation of Financial Statements), clearly showing all workings, the following for C Ltd for the year-ended 31 December 2018:

- a) A Statement of Profit or loss and other Comprehensive Income; **(15 marks)**
- b) A Statement of Financial Position; **(15 marks)**
- c) A Statement of changes in equity **(5 marks)**
- d) Classify the qualitative characteristics into fundamental and enhancing as provided by the IASB Conceptual Framework **(5 marks)**

**[Total: 40 Marks]**

**Question 2**

S Ltd manufactures concrete products and its financial statements are as follows:

**S Ltd Statement of Financial Position as at 31 December:**

	2018 (\$'000)	2017 (\$'000)
<b>Non-Current Assets</b>		
Property, Plant & equipment	3,660	2,922
Total Non-Current Assets	3,660	2,922
<b>Current Assets</b>		
Inventories	524	289
Trade receivables	322	146
Cash & Cash equivalents	196	162
Total Current Assets	1,042	1,032
<b>Total Assets</b>	<b>4,702</b>	<b>3,954</b>
<b>Equity &amp; Liabilities</b>		

<b>Equity</b>		
Share Capital	600	400
Share Premium	100	40
Retained Earnings	2,902	2,554
Revaluation Surplus	148	240
Total Equity	3,750	3,234
<b>Non-Current Liabilities</b>		
Long-Term loan	560	400
Total Non-Current Liabilities	560	400
<b>Current Liabilities</b>		
Trade Payables	296	232
Bank overdraft	20	36
Current Tax Payable	76	52
Total Current Liabilities	392	320
<b>Total Equity &amp; Liabilities</b>	<b>4,702</b>	<b>3,954</b>

**S Ltd Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2018**

	\$'000
Revenue	8,600
Cost of sales	(7,200)
Distribution Costs	(252)
Administration expenses	(248)
Finance Costs	(84)
Profit before Tax	716
Income Tax expense	(92)
Profit for the year	624
Losses on Property revaluations, net of tax	(92)
Total Comprehensive Income for the year, net of tax	532

**Additional Information:**

- i) Property, Plant & equipment with a carrying value of \$640,000 was sold for \$560,000. This asset had originally cost \$900,000.
- ii) Depreciation of Property, Plant & equipment during the year amounted to \$712,000.
- iii) Dividends paid during the year amounted to \$276,000 and are reported in the statement of Changes in equity.

**Required:**

Prepare a statement of Cash flows for the year-ended 31 December 2018 for S Ltd in accordance with IAS 7 (Statement of Cash Flows). **[20 Marks]**

**Question 3**

IFRS 15 - Revenue from Contracts with Customers was issued in May 2014 and it is effective for accounting periods beginning on or after 1 January 2018. However, early adoption is permitted. The IFRS involves a 5-step approach to determining the amount of revenue to be recognised by entities.

- i) On 30 September 2018, D Pvt Ltd signed a contract to supply 600 units of product at an agreed price of \$100 per unit. 350 units were delivered at that date, with the remainder to be delivered on 1 December 2018. It was agreed that the customer would have extended credit terms of 12 months from the date of delivery. D Pvt Ltd.'s cost of capital is 10%.
- ii) During the year ended 30 September 2018, D Pvt Ltd took payment in advance for the provision of 1,000 hotel room-nights to customers at \$200 per room per night. Only 450 of these had been occupied by 30 September 2018. The amounts paid by the customers are non-refundable unless the company fails to provide the agreed accommodation.

Given that D Pvt Ltd has adopted IFRS 15 early to allow for the financial statements for year ended 30 September 2018 to be prepared in accordance to the requirements of IFRS 15.

**Required:**

- a) Outline the general principles and the 5-step approach to recognising revenue as set out by IFRS 15 – Revenue from Contracts with Customers. **(10 marks)**
- b) In each scenario above, calculate the amount of revenue to be recognised in the financial statements of D Pvt Ltd for year ended 30 September 2018. Show the journal entries required to record each transaction. Justify your answer in each case. **(10 marks)**

**[Total: 20 Marks]**

**Question 4**

- a) P Ltd is a producer and distributor of tea. The company's year ended is 31 December. The directors of P were due to sign the company's financial statements for the year ended 31 December 2018 on 5 March 2018, and discovered the following information:

- i) There was flavoured tea included in year-end inventory at its original cost of \$70,000. Audit work carried out in February 2018 revealed that the tea was sold for \$55,000 in January 2018 due to a fall in demand for such teas during 2018. **(3 marks)**
- ii) During 2018 there had been industrial unrest amongst P's production workers following automation of one of the manufacturing processes. Management had sought to make 20% of the workforce redundant. In February 2018, following protracted negotiations it was agreed that 15% of the workforce would be made redundant at a cost of \$250,000. **(3 marks)**
- iii) It was discovered in January 2018 that a long serving employee had systematically stolen \$225,000 over the previous five years. Material errors had thus been made in the financial statements over those years and there is now no chance of recovery. **(3 marks)**

**Required**

Outline how each of the above transactions should be treated in the financial statements of P for the year ended 31 December 2018.

- b) ABC Pvt Ltd bought a machine at a cost of S\$570 000 on 1 January 2018 (inclusive of VAT at 15% but before considering a trade discount of 5%). The machine was transported to ABC Pvt Ltd's premises at a cost of \$5 000, after which it was installed by an independent engineer, who charged \$500 per hour - installation took four hours to complete. After installation, the machine was tested at a cost of \$10 000. Fortunately, the samples manufactured during testing could be sold for \$3 000. Once management was satisfied that the machine was functioning properly, they spent \$50 000 on advertising the product to be manufactured by the machine and then commenced with manufacturing activities. Initially the demand for the product was very low, resulting in operating losses of \$30 000 during the first three months. Thereafter the machine was operating at a profitable level.

**Required**

- i) Outline the criteria outlined by IAS 16- Property Plant and Equipment necessary before recognising the above item as part of Property Plant and Equipment. **(4 marks)**
- ii) Determine the cost of the machine to be recorded in the books of accounts in accordance with IAS16 Property, Plant and Equipment. Show the necessary journal entries required to record the above transactions. **(7 marks)**

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