



**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 : 15 July 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

The following is a trial balance extracted from the books of EC Pvt Ltd as at 31 March 2019.

	\$'000	\$'000
Land at cost	240	
Buildings at cost	500	
Equipment at cost	392	
Vehicles at cost	568	
Goodwill	600	
Accumulated depreciation		
Buildings		180
Equipment		152
Vehicles		264
Inventories at 1 April 2018	214	
Trade Receivables and Payables	366	234
Allowance for Receivables loss		16
Bank		114
Corporate tax payable		12
Ordinary Shares of \$1 each		400
Retained Earnings at 1 April 2018		1,006
Sales		2,864
Purchases	976	
Directors' fees	300	
Wages and Salaries	552	
General Distribution expenses	202	
General Administration expenses	372	
Dividends paid	40	
Rent Received		60
Disposal of Vehicles		20
	<b>5,322</b>	<b>5,322</b>

The following information is also available:

- a) The company's non-depreciable land was valued at \$600 000 on 31 March 2019 and this valuation is to be incorporated into the accounts for the year to 31 March 2019.
- b) The company's depreciation policy is as follows:
  - Buildings 4% p.a. straight line
  - Vehicles 25% p.a. straight line.
  - Equipment 20% p.a. reducing balance method.

In all the cases, full year depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal. None of the assets had been fully depreciated by 31 March 2018.

- c) On 1 February 2019, a vehicle used entirely for administration purposes was sold for \$20,000. The sales proceeds were banked and credited to the disposal account but no other entries were made in relation to this disposal. The vehicle had cost \$88,000 in August 2015. This was the only disposal of non-current assets made during the year to 31 March 2019.
- d) Depreciation is apportioned as follows:

	Distribution	Administration
Buildings	50%	50%
Equipment	25%	75%
Vehicles	70%	30%

- e) The company's inventory at 31 March 2019 was valued at \$38,000.
- f) Trade receivables include a debt of \$16,000 which is to be written off. The allowance for receivables loss is to be adjusted to 4% of net receivables.
- g) Corporation tax for the year to 31 March 2018 was overestimated by \$12,000. The corporation tax liability for the year to 31 March 2019 is estimated to be \$60 000.
- h) One-quarter of the wages and salaries were paid to distribution staff and the remaining three-quarters were paid to administration staff.
- i) General administration expenses include bank overdraft interest of \$18,000.
- j) A dividend of 10 cents per ordinary share was paid on 31 December 2018. No further dividends are proposed for the year to 31 March 2019.

### Required

Prepare the following statements for the year to 31 March 2019:

- 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) As part of your disclosures, a reconciliation statement of PPE according to IAS 16. (5 marks)

### Question 2

SK (Pvt) Ltd manufactures concrete products and its financial statements are as follows:

SK (Pvt) Ltd Statement of Financial Position as at 31 December:

	2018	2017
	\$'000	\$'000
<b>Non-Current Assets</b>		
Property, Plant & equipment	1,830	1,461
Total Non-Current Assets	1,830	1,461
<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>

SK (Pvt) Ltd Statement of Profit or Loss & Other Comprehensive Income for the year-ended 31 December 2018

	\$'000
Revenue	4,300
Cost of sales	(3,600)
Gross Profit	700
Distribution Costs	(176)
Administration expenses	(124)
Finance Costs	(42)
Profit before Tax	358

Income Tax expense	(46)
Profit for the year	312
Other Comprehensive Income	
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 2018 for SK (Pvt) Ltd in accordance with IAS 7 (Statement of Cash Flows). **(20 marks)**

**Question 3**

**Part 1**

Mr. Jordan, the managing director of Jojo Pvt Ltd has several 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 Pvt Ltd has three items of inventories whose costs and net realisable values (NRV) are as follows:

Item	Number of units	Cost (\$)	NRV (\$)
X	120	72	80
Y	65	56	48
Z	43	92	96
	228	220	224

**Required:**

- a) Determine the value of closing inventory for Jojo Pvt Ltd at the year-end **(4 marks)**
- b) As a B. Com (hons) Accounting student at ZEGU who has studied IAS 2 (Inventories), prepare a report for Mr. Jordan which:
  - i) Outlines items that makes up inventory **(4 marks)**

ii) Explains how inventories are measured, citing three examples of costs which are specifically excluded from the costs of inventories (4 marks)

iii) Briefly discusses three circumstances in which net realisable value is likely to be less than cost. (3 marks)

**Part 2**

Davies Pvt Ltd's inventory at 31 December 2018 was valued at \$347,841. This includes \$4,640 for items accidentally destroyed on 31 December 2018 after the inventory count was completed. Also included is \$2,980 which relates to the cost of inventory damaged in October 2018, 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. (5 marks)

[Total: 20 Marks]

**Question 4**

a) 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 of the IASB. 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, and when it should be accounted for in the subsequent period.

**Required:**

i) Explain the phrase 'Events after the Reporting Period', defining clearly the period within which IAS 10 requires events to occur to be considered as such. (3 marks)

ii) Clearly differentiate adjusting events from non-adjusting events, and clarify the accounting treatment and disclosures required in each case. (4 marks)

b) Anderson Pvt Ltd is in the process of finalising its financial statements for year ended 31 March 2019. The draft statements were completed on 15 April 2019, and the audit is currently ongoing. The financial statements are expected to be approved by the board of directors on 15 May 2019, and published on 20 May 2019. The matters (i) to (iv) below came to light during the audit and you are required to explain the accounting treatment and/or disclosures necessary.

- i) The directors of Anderson Pvt Ltd wish to propose a dividend to be paid in July 2019. No decision has yet been taken on this proposal. **(3 marks)**
- ii) Some investments held by Anderson Pvt 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 April 2019. The effect of the fall in value is material to the company's financial position. **(3 marks)**
- iii) On 5 April 2019, Anderson Pvt Ltd entered into an agreement to acquire another entity. The acquisition is planned to finalise on 15 June 2019. **(3 marks)**
- iv) A trade receivable of \$5,000 at the year-end was declared bankrupt on 5 April 2019. Anderson Pvt Ltd has no prospect of recovering any money from this bankrupt customer. **(4 marks)**

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