

# ZIMBABWE EZEKIEL GUTI UNIVERSITY



## DEPARTMENT OF ACCOUNTING AND FINANCE

**B. Com (Hons) Accounting**

**COURSE: INTRODUCTION TO FINANCIAL REPORTING**

**COURSE CODE: CAC106**

**DURATION: 3 HOURS**

**29 NOVEMBER 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) Classify the qualitative characteristics of useful financial information into fundamental and enhancing qualitative characteristics. [2 marks]
- (b) Describe any four qualitative characteristics of useful financial information. [8 marks]
- (c) The following trial balance was extracted from the books of Kanyi Ltd as at 31 December 2017:

	\$	\$
Administration expenses	260 000	
Distribution costs	295 000	
Ordinary share capital of 50c per share		200 000
Share premium		80 000
Revaluation Reserve		20 000
15% Long term borrowings		70 000
Dividend paid	27 000	
Cash at bank and in hand	3 000	
Trade receivables	233 000	
Interest paid on Long term borrowing	4 000	
Interest paid on Bank Loan	1 000	
Dividends received		15 000
Interest received		1 000
Land and buildings at cost:		
Land	380 000	
Buildings	100 000	
	480 000	
Accumulated depreciation land and buildings		30 000
Plant and machinery at cost	400 000	
Accumulated depreciation plant and machinery		170 000
Retained earnings account (1 Jan 2017)		235 000
Purchases	1 260 000	
Sales		2 165 000
Inventory at (1 Jan 2017)	150 000	
Trade payables		27 000
Bank loan		100 000
	3 113 000	3 113 000

Additional information:

- (i) Inventory at 31 Dec 2017 was valued at a cost of \$95 000. Included in this balance were goods that had cost \$15 000. These goods has been damaged during the year and it is considered that following remedial work the goods could be sold for \$5 000.
- (ii) Depreciation for the year to 31 Dec 2017 is to be charged against cost of sales as follows:
  - Buildings 5% on cost straight line method
  - Plant and machinery 30% on carrying amount (reduced balance method).
- (iii) Income tax of \$65 000 is to be provided for the year to 31 December 2017.
- (iv) Land is to be revalued upwards by \$100 000
- (v) Allowance for doubtful debts is to be maintained at 5% of trade receivables.
- (vi) Accrued administration staff salaries at year end were \$10 000

**Required is to prepare for the year ended 31 December 2017:**

- (i) Statement of profit and loss and other comprehensive income [15 marks]
- (ii) Statement of changes in equity. [5 marks]
- (iii) Statement of financial position. [10 marks]

## Question 2

The following financial statements were taken from Border Ltd:

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2016	
	\$
Revenue	2 553 000
Cost of sales	(1 814 000)
<b>Gross profit</b>	<b>739 000</b>
Other income: interest received	25 000
Distribution costs	(125 000)
Administrative expenses	(264 000)
Finance costs	-(75 000)

<b>Profit before tax</b>	<b>300 000</b>
Income tax expense	(140 000)
<b>Profit for the year</b>	<b>160 000</b>

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
Non-current assets		
Property, plant and equipment	380 000	305 000
Intangible assets	210 000	200 000
Investments	—	25 000
<b>Current assets</b>		
Inventories	150 000	102 000
Receivables	390 000	315 000
Short-term investments	50 000	—
Cash in hand	2 000	1 000
<b>Total assets</b>	<b>1 182 000</b>	<b>948 000</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital (\$1 ordinary shares)	200 000	150 000
Share premium account	160 000	150 000
Revaluation surplus	100 000	91 000
Retained earnings	260 000	180 000
<b>Non-current liabilities</b>		
Long-term loan	130 000	50 000
<b>Current liabilities</b>		
Trade payables	127 000	119 000
Bank overdraft	85 000	98 000
Taxation	120 000	110 000
<b>Total equity and liabilities</b>	<b>1 182 000</b>	<b>948 000</b>

The following information is available:

- (i) The proceeds of the sale of non-current asset investments amounted to \$30,000.
- (ii) Fixtures and fittings, with an original cost of \$85,000 and carrying amount of \$45,000 were sold for \$32,000 during the year.

(iii) The following information relates to property, plant and equipment.

	31.12.2016	31.12.2015
	\$	\$
Cost	720 000	595 000
Accumulated depreciation	340 290	
Carrying amount	380 305	

(iv) 50 000 \$1 ordinary shares were issued during the year at a premium of 20c per share.

(v) Dividends of \$80,000 were paid during the year.

**Required:**

Prepare a statement of cash flows for the year to 31 December 2016 using the format laid out in IAS7: (Statement of Cashflows). [20 marks]

**Question 3**

(a) Marimba limited started construction on a building for its own use on 1 April 2013 and incurred the following costs:

	\$
Purchase price of land	250 000
Stamp duty	5 000
Legal fees	10 000
Site preparation and clearance	18 000
Materials	100 000
Labour (1 April 2013 to 1 July 2014)	150 000
Architect's fees	20 000
General overheads	<u>30 000</u>
	<u>583 000</u>

**The following information is also relevant:**

(i) Material costs were greater than anticipated. On investigation it was found that materials costing \$10 000 had been spoiled and therefore wasted and a further \$15 000 was incurred as a result of fault design work.

(ii) As a result of these problems, work on the building ceased for a fortnight during October 2013 and it is estimated that approximately \$9 000 of the labour cost relate to this period.

(iii) The building was completed on 1 July 2014, and occupied on 1 September 2014.

**Required:**

Calculate the cost of the building included in Property, plant and equipment (PPE) asset additions. [10 marks]

(b) Define the following terms according to IAS16 (Property, plant & equipment):

(i) Depreciable amount. [2 marks]

(ii) Depreciation. [2 marks]

(c) Transnet Logistics Ltd is preparing its financial statements for the year ended 31 December 2016. A van, which had cost \$5 000 and had a carrying amount of \$2 813 at 1 January 2016, was traded in on 1 March 2016 as part exchange for the procurement of a new van, which cost \$7800.

A cheque for \$5 800 was paid by the company to complete the purchase. Depreciation is charged on vans at 25% per annum on a straight line basis. A full year's depreciation is to be charged in the year of purchase and none in the year of sale.

**Requirement**

Prepare the journal entries necessary to record the above in the Transnet Logistics' financial statements for the year ended 31 December 2016. [6 marks]

**Question 4**

(a) The following terms are used in the standard IAS10 (Events after the reporting period), briefly define these terms:

(i) Events after the reporting period [3 marks]

(ii) Non-adjusting event. [2 marks]

(b) Simblex Ltd prepares financial statements to 31 December each year. The following events occurred after 31 December 2017, but before the financial statements for the year to 31 December 2017 were authorised for issue:

(i) Inventory held at 31 December 2017 was sold to a customer. [2 marks]

- (ii) The company made a major investment in plant and equipment. [2 marks]
- (iii) The company made a takeover bid for another company [2 marks ]
- (iv) A customer who owed an amount of money to the company on 31 December 2017 was declared bankrupt. [3 marks]
- (v) It was discovered that an item of equipment shown as an asset in the statement of financial position at 31 December 2017 was stolen on 28 December 2017. [2 marks]
- (vi) It was discovered that cash shown as an asset in the statement of financial position at 31 December 2017 had been stolen on 12 January 2018. [2 marks]
- (vii) The government announced a change in tax rates that will have a significant effect on the company's tax liability. [2 marks]

Classify each of these events as either an adjusting event or non-adjusting event and explain how each event should be dealt with in Simblex ltd financial statements for the year to 31 December 2017. It may be assumed that all of the events are **material**.

**END OF PAPER**