



**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** : CAC211  
**COURSE TITLE** : FINANCIAL ACCOUNTING IIA  
**DURATION** : 3 Hours  
**LEVEL** : 2.1  
**DATE** : 11 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. Which of the following items below could potentially be classified as intangible assets?**

- (i) market knowledge e.g. customer lists, relationships and loyalty
- (ii) scientific/technical knowledge
- (iii) investment properties
- (iv) licences and quotas
- (v) plant and equipment

**A** (i), (ii) and (iii)    **B** (i), (ii) and (v)    **C** (ii), (iii) and (iv)    **D** (i), (ii) and (iv)

**2. Samaz, a limited liability company, has provided the following information as at 31 December 2019:**

- i. Project A – \$50,000 has been spent on the research phase of this project during the year.
- ii. Project B-\$80,000 had been spent on this project in the previous year and \$20,000 this year. The project was capitalised in the previous year however, it has been decided to abandon this project at the end of the year.
- iii. Project C - \$100,000 was spent on this project this year. The project meets the criteria of IAS38 and thus is to be capitalised.

**Which of the following adjustments will be made in the financial statements as at 31 December 2019?**

- A.** Reduce profit by \$70,000 and increase non-current assets by \$100,000
- B.** Reduce profit by \$150,000 and increase non-current assets by \$20,000
- C.** Reduce profit by \$130,000 and increase non-current assets by \$180,000
- D.** Reduce profit by \$130,000 and increase non-current assets by \$100,000

**3. In accordance with IAS 36 Impairment of Assets which of the following statements are true?**

- i. An impairment review must be carried out annually on all intangible assets.
- ii. If the fair value less costs to sell of an asset exceed the carrying amount there is no need to calculate a value in use.
- iii. Impairment is charged to the statement of profit or loss unless it reverses a gain that has been recognised in equity in which case it is offset against the revaluation reserve.

**A** All 3.    **B** i & ii only.    **C** i & iii only.    **D** ii & iii only.

4. Farai Ltd has a cash generating unit (CGU) that suffers a large drop in income due to reduced demand for its products. An impairment review was carried out and the recoverable amount of the cash generating unit was determined at \$100m. The assets of the CGU had the following carrying amounts immediately prior to the impairment:

|                               | \$m |
|-------------------------------|-----|
| Goodwill                      | 25  |
| Intangibles                   | 60  |
| Property, plant and equipment | 30  |
| Inventory                     | 15  |
| Trade receivables             | 10  |
|                               | 140 |

The inventory and receivables are considered to be included at their recoverable amounts.

**What is the carrying amount of the intangibles once the impairment loss has been allocated?**

- A \$45m                      B \$50m                      C \$55m                      D \$60m

5. **Which of the following costs may not be eligible for capitalization as borrowing costs under IAS 23?**
- Interest on bonds issued to finance the construction of a qualifying asset.
  - Amortization of discounts or premiums relating to borrowings that qualify for capitalization.
  - Imputed cost of equity.
  - Exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs pertaining to a qualifying asset.
6. IAS 24 requires disclosure of compensation of key management personnel. **Which of the following would not be considered "compensation" for this purpose?**
- Short-term benefits.
  - Share-based payments.
  - Termination benefits.
  - Reimbursement of out-of-pocket expenses.
7. **Which is the correct accounting treatment for an operating lease payment in the accounts of the lessor?**
- Dr Cash  
    Cr Operating lease rentals/income statement
  - Dr Operating lease rentals/income statement  
    Cr Cash
  - Dr Asset account  
    Cr Cash

D. Dr Cash  
Cr Asset account

8. Earnings per share is calculated before accounting for which of the following items?
- A. Preference dividend for the period.
  - B. Ordinary dividend.
  - C. Taxation.
  - D. Non-controlling interest.
9. **When can a "provision" be recognized in accordance with IAS 37?**
- A. When there is a legal obligation arising from a past (obligating) event, the probability of the outflow of resources is more than remote (but less than probable), and a reliable estimate can be made of the amount of the obligation.
  - B. When there is a constructive obligation as a result of a past (obligating) event, the outflow of resources is probable, and a reliable estimate can be made of the amount of the obligation.
  - C. When there is a possible obligation arising from a past event, the outflow of resources is probable, and an approximate amount can be set aside toward the obligation.
  - D. When management decides that it is essential that a provision be made for unforeseen circumstances and keeping in mind this year the profits were enough but next year there may be losses.
10. Mazond Inc. has been served a legal notice on December 15, 2018, by the local environmental management agency (EMA) to fit smoke detectors in its factory on or before June 30, 2019 (before June 30 of the following year). The cost of fitting smoke detectors in its factory is estimated at \$250,000. How should Mazond Inc. treat this in its financial statements for the year ended December 31, 2018?
- A. Recognize a provision for \$250,000 in the financial statements for the year ended December 31, 2018.
  - B. Recognize a provision for \$125,000 in the financial statements for the year ended December 31, 2018, because the other 50% of the estimated amount will be recognized next year in the financial statement for the year ended December 31, 2019.
  - C. Because Mazond Inc. can avoid the future expenditure by changing the method of operations and thus there is no present obligation for the future expenditure, no provision is required at December 31, 2018, but as there is a possible obligation, this warrants disclosure in footnotes to the financial statements for the year ended December 31, 2018.
  - D. Ignore this for the purposes of the financial statements for the year ended December 31, 2018, and neither disclose nor provide the estimated amount of \$250,000.

[Total 20marks]

**SECTION B [80 Marks]**

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

**SELECT THE MOST APPROPRIATE ANSWER**

**Question 1**

- a) Dexterity Ltd profit after tax for the year ended 31 December 2018 was \$2,200,000. The comparative profit figure for the year ended 31 December 2017 was \$2,000,000. The company's issued share capital at 1 January 2017 consisted of 1,000,000 Ordinary shares. On 1 April 2018, Dexterity issued 200,000 shares at market value, followed by a 1 for 5 bonus issue on 1 August, with a further \$400,000 issued at market value on 1 October.

Calculate the basic earnings per share (EPS) and the comparative EPS for 2017.  
**(8marks)]**

| Date            | Actual shares | Bonus Fraction | Yr Fraction       | WANS             |
|-----------------|---------------|----------------|-------------------|------------------|
| 1-Jan-18        | 1,000,000     | 6/5            | 3/12              | 300,000          |
| 1-Apr-18        | 1,200,000     | 6/5            | 4/12              | 480,000          |
| 1/8/2018 (wk1)  | 1,440,000     | 1              | 2/12              | 240,000          |
| 1/10/2018 (wk1) | 1,840,000     | 1              | 3/12              | 460,000          |
|                 |               |                | <b>Total WANS</b> | <b>1,480,000</b> |

$$\text{EPS} = \frac{\text{Earnings}}{\text{Shares}}$$

$$2018: \text{EPS} = \frac{2,200,000}{1,480,000} = 148.7c$$

$$2017: \text{EPS} = \frac{1,000,000}{1,480,000} \text{ shares} \times \frac{2,000,000}{1,000,000} = 135.1c$$

Wk1 shares outstanding

|                                 |           |
|---------------------------------|-----------|
| 1 April (1,000,000 + 200,000)   | 1,200,000 |
| 1 Aug (1,200,000 x 6/5)         | 1,440,000 |
| 1 October (1,440,000 + 400,000) | 1,840,000 |

- b) On 31 December 2017, the issued share capital of Mara Ltd consisted of 8,000,000 Ordinary shares of 50c each. On 30 June 2018, the company made a rights issue in the proportion of 1 for 4 at \$1 per share and the shares were

quoted immediately before the issue at \$3. The trading results for the last years were as follows:

| Year ending 31 December | 2017      | 2018      |
|-------------------------|-----------|-----------|
| Profit after tax        | \$420,000 | \$525,000 |

Compute the basic earnings per share (EPS) to be presented in the financial statements for the year ended 31 December 2018 and the comparative figure for 2017. **(10marks)**

$$\text{EPS} = \frac{\text{Earnings}}{\text{Shares}}$$

Step1: Calculation of TERP

|                     |      |
|---------------------|------|
| 4 shares @ \$3 each | \$12 |
| 1 Share @ \$1 each  | \$ 1 |
| 5                   | \$13 |

$$\text{TERP} = \frac{13}{5} = 2.6$$

Step 2 Bonus fraction (P / TERP)

$$\text{Bonus fraction} = \frac{\text{Price}}{\text{Terp}} = \frac{3}{2.6}$$

Step 3 WANS

|                                       |         |
|---------------------------------------|---------|
| 1 Jan 2018 (800,000 x 3/2.6 x 6/12) = | 461,538 |
| 30 June 2018 (1,000,000 x 1 x 6/12) = | 500,000 |
| Total WANS                            | 961,530 |

Step 4 EPS

$$\text{EPS 2018} = \frac{525,000}{961,530} = 54.6\text{c}$$

$$\text{EPS 2017} = \frac{420,000}{800,000} \times \frac{2.6}{3} = 45.5\text{c}$$

**c) Discuss the importance of diluted earnings per share (DEPS). (7marks)**

- The basic EPS figure calculated as above could be misleading to users if at some future time the number of shares in issue will increase without a proportionate increase in resources.
- For example an issue of convertible bonds into ordinary shares, resulting in number of ordinary shares rising, with no fresh capital.
- Earnings will rise by the savings in no longer having to pay the post-tax amount of the interest on the bonds.
- Often the earnings increase is less, proportionate to the increase in the shares in issue.
- This effect is referred to as 'dilution' and the shares to be issued are called 'dilutive potential ordinary shares'.
- IAS33 therefore requires an entity to disclose the DEPS, as well as the basic EPS.
- Existing shareholders can look at the DEPS to see the effect on current profitability of commitments already entered into to issue ordinary shares in the future.

**[Total 25marks]**

**Question 2**

a) Aruna Co had the following borrowings outstanding for the year ended 31 December 2017:

|                                    | <b>1 Jan 2017</b> | <b>31 Dec 2017</b> |
|------------------------------------|-------------------|--------------------|
| 10% Jewel Bank loan repayable 2020 | \$140,000,000     | \$140,000,000      |
| 9.5% NSSA loan repayable 2021      | \$100,000,000     | \$100,000,000      |
| 8.9% Debenture repayable 2019      | -                 | \$150,000,000      |

The 8.9% debenture was issued to fund the construction of a qualifying asset (a piece of mining equipment), construction of which commenced on 1 July 2017.

On 1 January 2017, Aruna Co began construction of a qualifying asset, a piece of machinery for a hydroelectric plant, using existing borrowings. Expenditure drawn down for the construction was: \$30million on 1 January 2017, \$20million on 1 October 2017.

**Required:**

Calculate the borrowing costs that can be capitalised. **(10marks)**

Calculation of capitalisation rate

|                                 |   |               |
|---------------------------------|---|---------------|
| 10% Jewel Bank (140/240 x 10%)  | = | 0.0583        |
| 9.5% NSSA Loan (100/240 x 9.5%) | = | 0.0396        |
|                                 |   | -----         |
| Capitalisation rate             |   | 0.0979 = 9.8% |
|                                 |   | -----         |

|   |                   |
|---|-------------------|
| Borrowing cost capitalised                                    | \$                |
| Construction of mining equipment (150,000,000 x 8.9% x 6/12)  | 6,675,000         |
| 1 Jan 2017 Hydroelectric plant (30,000,000 x 9.8% x 12/12)    | 2,940,000         |
| 1 October 2017 Hydroelectric plant (20,000,000 x 9.8% x 3/12) | 490,000           |
|   | -----             |
|   | <u>10,105,000</u> |

b) Dhadza Engineering has three sources of borrowings:

|                          | Average Loan | Interest Expense |
|--------------------------|--------------|------------------|
| 7 Year Loan from Nedbank | \$ 8,000,000 | \$800,000        |
| 10 Years Loan from NMB   | \$10,000,000 | \$900,000        |
| Bank Overdraft           | \$10,000,000 | \$900,000        |

The 7 year loan has been specifically raised to fund the building of a qualifying assets.

The company has incurred the following expenditure on a project funded from general borrowings for the year to 31<sup>st</sup> December 2019:

| Date Incurred | Amount      |
|---------------|-------------|
| 1 April       | \$1,200,000 |
| 30 June       | \$5,500,000 |
| 1 August      | \$2,250,000 |
| 30 September  | \$1,800,000 |

**Calculate:**

i. the interest rate for each borrowing **(6marks)**

|  |     |
|--|-----|
| 7 year loan from Nedbank (800,000/8,000,000) | 10% |
| 10 year loan from NMB (900,000/10,000,000)   | 9%  |
| Bank overdraft (900,000/10,000,000)          | 9%  |

ii. the capitalisation rate **(3marks)**

|  |       |
|--|-------|
| 10 year loan from NMB (10,000,000/20,000,000 x 9%) | 4.5%  |
| Bank overdraft (10,000,000/20,000,000 x 9%)        | 4.5%  |
|  | ----- |
|  | 9%    |
|  | ----- |

iii. Total cost capitalised. (8marks)

|   | \$                |
|---|-------------------|
| Qualifying asset from specific loan                               | 800,000           |
| 1 April general loan (1,200,000 x 9% x 9/12)                      | 81,000            |
| 30 June general loan (5,500,000 x 9% x 6/12)                      | 247,500           |
| 1 Aug general loan (2,250,000 x 9% x 5/12)                        | 84,375            |
| 30 Sep general loan (1,800,000 x 9% x 3/12)                       | 40,500            |
|   | -----             |
| Interest capitalised  | 1,253,375         |
| Cost of qualifying asset (specific loan)                          | 8,000,000         |
| Project qualifying asset (general loan) (1,200+5,500+2,250+1,800) | 10,750,000        |
|   | -----             |
| Total cost capitalised  | <u>20,003,375</u> |

[Total 27marks]

**Question 3**

- a) During the year ended June 30, 2008, Border Timbers Limited (BTL) has carried out several transactions with the following individuals and entities:
- i. Acord Associates provides information technology services to BTL. One of the directors of BTL is also the partner in Acord Associates.
  - ii. Sande Shield Bank Limited is the main lender. By virtue of an agreement it has appointed a nominee director on the Board of BTL.
  - iii. Mr. Zunza who supplies raw materials to BTL, is the brother of the Chief Executive Officer of the company.
  - iv. Jabaz Limited is the distributor of BTL's products and have exclusive distribution rights for the Province of Manicaland.
  - v. Mr Tanganda is the General Manager –Marketing of BTL and is responsible for all major decisions made in respect of sales prices and discounts.
  - vi. BTL's gratuity fund is administered by the Trustees appointed by the Company.

**Required:** Comment as to whether the above individuals and entities are 'related parties' (*IAS24 Related Party Disclosures*) of Border Timbers Limited or not. Support your argument with reference to relevant international accounting standards. [12]

Under International Accounting Standard (IAS) 24, "Related Party Disclosures," related parties are entities or individuals that have the ability to control or significantly influence the reporting entity or are subject to common control or significant influence.

- 1) **Acord Associates:** One of the directors of BTL is also a partner in Accord Associates, which provides information technology services to BTL. According to IAS 24, directors and their close connections to businesses they control or have significant influence over are considered related parties. In this case, the director's involvement in Accord Associates makes this entity

a related party of BTL due to significant influence through the director's dual role. Therefore, AcordAssociates is a related party.

- 2) **Sande Shield Bank Limited:** The bank has appointed a nominee director on the board of BTL. IAS 24 specifies that entities with control or significant influence over the company, such as lenders who can appoint directors, qualify as related parties. Sande Shield Bank Limited's ability to place a director on the board demonstrates significant influence, making it a related party.
  - 3) **Mr. Zunza:** He is the brother of the CEO and supplies raw materials to BTL. Close family members of key management personnel, such as the CEO, are considered related parties under IAS 24. Therefore, Mr. Zunza is a related party due to his familial relationship with the CEO and his business dealings with the company.
  - 4) **Jabaz Limited:** This entity holds exclusive distribution rights for a province but there is no direct mention of control or significant influence over BTL. Under IAS 24, exclusive business arrangements alone do not necessarily constitute a related party relationship unless accompanied by control or significant influence. Since no such relationship is indicated, Jabaz Limited is not necessarily a related party based on the provided information.
  - 5) **Mr. Tanganda:** As the General Manager-Marketing, Mr. Tanganda is involved in major decisions regarding sales prices and discounts. IAS 24 defines key management personnel, including individuals responsible for planning, directing, and controlling the entity's activities, as related parties. Therefore, Mr. Tanganda qualifies as a related party due to his role in the company's key decision-making.
  - 6) **BTL's gratuity fund:** The fund is administered by trustees appointed by the company. However, the Trustees are acting on behalf of the fund. The fund was only going to be considered a related party if the trustee were key management personnel in ML or when they have significant influence or control in BTL. According to IAS 24, when a relation does not pose significant influence, joint control and control is not a related party transaction. Thus, BTL's gratuity fund is not a related party.
- b) **Cavoice Timber Ltd,** an entity engaged in the business of manufacturing timber products leased a Fingerjointer machine from Nostro (Ltd). The agreement was crafted in such a manner that Cavoice Timber assumed control of the machine for the next five years. The contract was entered into on 31 December 2014. Cavoice also agreed to the terms and conditions that, it will pay an additional \$30,000 at the end of the fifth year so that the ownership of the machine will ultimately be transferred to it. Furthermore, Cavoice Timber incurred additional indirect costs amounting to \$15,000. The implicit interest rate of the lease was 12%.

Below are the lease cash flows to be paid by Cavoice Timbers for the use of the Fingerjointer machine in the next five years.

| Year | Lease cashflow (\$) |
|------|---------------------|
| 2015 | 70,000              |
| 2016 | 100,000             |
| 2017 | 65,000              |
| 2018 | 60,000              |
| 2019 | 61,000              |

**Required:**

- i. Journalise the initial recognition of the right-of-use asset and the lease liability. (4marks)

|                             |         |         |
|-----------------------------|---------|---------|
| Dr Right-of-use-asset (wk1) | 293,252 |         |
| Cr Lease Liability          |         | 278,252 |
| Cr Bank-indirect costs      |         | 15,000  |

Wk1- PV Right-of-use-asset and Lease Liability

$$PV = \frac{FCt}{(1+r)^n}$$

$$PV \text{ of cash flows } \left( \frac{70,000}{(1.12)^1} + \frac{100,000}{(1.12)^2} + \frac{65,000}{(1.12)^3} + \frac{60,000}{(1.12)^4} + \frac{61,000}{(1.12)^5} \right) = 261,229.23$$

$$\text{Last payment for ownership } \left( \frac{30,000}{(1.12)^5} \right) = 17,022.81$$

|                           |                |
|---------------------------|----------------|
| Lease liability           | 278,252        |
| Additional indirect costs | 15,000         |
| Right of use asset        | <u>293,252</u> |

- ii. Journalise year 2017 lease payments of the lease liability and depreciation expense of the-right-of-use asset. (5marks)

|                          |        |        |
|--------------------------|--------|--------|
| Dr Finance cost (wk2)    | 20,477 |        |
| Dr Lease liability (wk2) | 44,523 |        |
| Cr Bank                  |        | 65,000 |

|                                     |        |        |
|-------------------------------------|--------|--------|
| Dr Depreciation expense (293,252/5) | 58,650 |        |
| Cr Right-of-use asset               |        | 58,650 |

Wk2; Amortisation schedule

| Year | Balance | Interest | Principal | Balance |
|------|---------|----------|-----------|---------|
| 2015 | 278,252 | 33,390   | 36,610    | 241,642 |
| 2016 | 241,642 | 28,997   | 71,003    | 170,639 |
| 2017 | 170,639 | 20,477   | 44,523    | 126,116 |
| 2018 | 126,116 | 15,134   | 44,866    | 81,250  |
| 2019 | 81,250  | 9,750    | 81,250    | -       |
|      |         | 107,748  | 278,252   |         |

- iii. Prepare the statement of profit or loss and statement of financial position extracts for the next five years. **(7marks)**

| Statement of profit or loss for the year ended |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
|  | 2,015  | 2,016  | 2,017  | 2,018  | 2,019  |
| Depreciation expense                           | 58,650 | 58,650 | 58,650 | 58,650 | 58,650 |
| Finance cost                                   | 33,390 | 28,997 | 20477  | 15,134 | 9,750  |

| Statement of financial position as at: |          |           |         |         |         |
|--|----------|-----------|---------|---------|---------|
|  | 2,015    | 2,016     | 2,017   | 2,018   | 2,019   |
| <b>Non-current assets:</b>             |          |           |         |         |         |
| Right of use asset                     | 293,252  | 293,252   | 293,252 | 293,252 | 293,252 |
| Less Accum depr                        | - 58,650 | - 117,300 | -175950 | -234600 | -293252 |
|  | 234,602  | 175,952   | 117,302 | 58,652  | -       |
| <b>Non-current liabilities:</b>        |          |           |         |         |         |
| Lease liability                        | 170,639  | 126,116   | 81250   | 0       | 0       |
| <b>Current liability:</b>              |          |           |         |         |         |
| Lease liability                        | 71,003   | 44,523    | 44866   | 81,250  | -       |

[Total 28marks]

0/16Pm