



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE : INTRODUCTION TO FINANCIAL REPORTING
COURSE CODE : CAC106
DURATION : 3 HOURS
DATE : 18 NOV 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

You are the newly appointed financial accountant to Lloyd Pvt Ltd, a manufacturing company. You have extracted the following trial balance below, as at 31 December 2018:

	Debit (\$)	Credit (\$)
Accumulated Depreciation - Buildings at 31.12.17		275,220
Accumulated Depreciation - Motor Vehicles at 31.12.17		51,600
Administrative Expenses	293,766	
Allowance for Bad and Doubtful Debts		11,160
Bank	312,870	
Buildings	974,400	
Current Tax Payable		30,000
Distribution Costs	274,692	
Income Tax	28,000	
Inventory at 31.12.17	141,480	
Investment Income		6,250
Investments - 5%	250,000	
Long Term Loan		210,000
Motor Vehicles	144,000	
Purchases	875,300	
Retained Earnings at 31.12.17		1,236,763
Revenue		1,480,200
Share Capital - 120,000 at \$0.50 each		60,000
Trade Payables		188,715
Trade Receivables	255,400	
	3,549,908	3,549,908

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

- i) Lloyd Pvt Ltd's inventory was counted on 31 December 2018 and amounted to \$286,400 at cost. On that date one of the counting team forgot to count one bay of a warehouse. This bay was counted on 2 January 2019 and the inventory counted was valued at \$12,600 on that date. However, inventory was sold from that bay on 1 January 2019 at a selling price of \$1,600. Lloyd Pvt Ltd makes a 20% margin on its sales.
- ii) Investment income has only been received for the first six months of 2018.
- iii) A credit sale of \$4,800 was debited to bank and credited to trade payables by mistake.
- iv) Lloyd Pvt Ltd recovered a bad debt of \$3,100 in December 2018. This amount was lodged to its bank account but has not been recorded in its financial statements. It has also decided to change the rate for the allowance of bad and doubtful debts to 4%.

- v) Lloyd Pvt Ltd made a tax payment on 20 December 2018 of \$46,000.
- vi) Lloyd Pvt Ltd purchased and paid for a building amounting to \$200,000 on 1 July 2018.
- vii) Lloyd Pvt Ltd sold a motor vehicle on 1 September 2018 for \$6,000 and lodged the money to the bank. It purchased this motor vehicle on 1 April 2014 for \$25,000.
- viii) Depreciation is to be charged as follows:
- | | |
|----------------|---------------------------|
| Buildings | 2% Straight Line on Cost |
| Motor Vehicles | 15% Straight Line on Cost |
- No depreciation is charged in the year of sale and a full year's depreciation is charged in the year of purchase.
- Revaluation losses are split evenly between Administrative Expenses and Distribution Costs. On 31 December 2018, the buildings were revalued by a professional valuer at \$850,000.
- ix) All relevant expenses in the trial balance are to be split evenly between Administrative Expenses and Distribution Costs.

Required

Prepare the following statements for the year to 31 December 2018:

- | | |
|--|-------------------|
| a) A statement of profit or loss and other comprehensive income. | (15 marks) |
| b) A statement of financial position | (12 marks) |
| c) A statement of changes in equity | (5 marks) |
| d) Explain the concept of capital maintenance which is discussed in the IASB's Conceptual Framework. | (8 marks) |

[Total: 40 Marks]

Question 2

The following information was extracted from the books of Dembare Pvt Ltd for the year up to 31 May 2016.

Statement of profit and loss and other comprehensive income for the year ended 31 May 2016.

	\$
Profit before tax	205 600
Tax expense	<u>(46 980)</u>
Profit for the year	<u>158 620</u>

Statement of financial position as at 31 May 2016

	2016		2015	
	\$	\$	\$	\$
Non- current assets				
Property, plant & equipment	285 000		183 000	
Less Accumulated depreciation	(151 650)	133 350	(95 160)	87 840
Investments at cost		12 000		10 000
		<u>145 350</u>		<u>97 840</u>
Current assets:				
Inventories	171 220		133 330	
Trade receivables	121 630		86 500	
Cash at bank	710			
Treasury bills	5 000	298 560		219 830
		<u>443 910</u>		<u>317 670</u>
Equity:				
Ordinary Share Capital		100 000		100 000
Preference Share Capital		50 000		50 000
Retained Earnings		128 610		39 990
		<u>278 610</u>		<u>189 990</u>
Non-current liabilities:				
11% Loan Stock		30 000		
Current liabilities:				
Trade payables and accruals	89 370		61 530	
Taxation	45 930		42 660	
Bank overdraft		135 300	23 490	127 680
		<u>443 910</u>		<u>317 670</u>

The following information is also available:

- i) The 11% Loan stock was issued on 1 December 2015. The first half year interest was paid on 31 May 2016. Bank interest paid during the year was \$1 320.
- ii) Dividends received during the year were \$930. Dividends totalling \$70 000 were paid during the year.

- iii) Plant which had cost \$22 000 was sold in March 2016 for \$7 000. The accumulated depreciation on this plant at the time of disposal was \$16 230. No investments were sold during the year.
- iv) The treasury bills rank as cash equivalents.

Required:

Prepare a statement of Cash flows for the year-ended 31 May 2016 for Dembare (Pvt) Ltd in accordance with IAS 7 (Statement of Cash Flows). **(20 marks)**

Question 3

IAS 16 (Property, Plant & Equipment) sets out the accounting treatment of tangible non-current assets whilst, IAS 40 (Investment Property) deals with properties held for their investment potential only. The distinction between investment and non-investment property is very important, as the accounting treatment required is different in some cases.

Required:

- a) Define Investment Property according to IAS 40. **(3 marks)**
- b) Discuss the main differences between the accounting treatment of investment properties and the accounting treatment of non-investment properties (PPE). **(5 marks)**
- c) In cases (i) to (iii) below, show the entries in the financial statements of MT Pvt Ltd for year ended 31 July 2018 resulting from recording the events described. Your answers should clearly identify any depreciation charges involved and how each transaction may impact the statement of profit or loss and other comprehensive income of MT Pvt Ltd for the year ended 31 July 2018, if at all. MT Pvt Ltd has several properties on its books. During the year ended 31 July 2018, the events detailed below took place. The company applies straight-line depreciation wherever depreciation is required. The fair value model is applied wherever permitted. The company does not apply the option to transfer revaluation surpluses annually to retained earnings.
 - i) Property A was acquired on 1 August 2013 for \$1.6 million for use as company offices. The buildings element of the property was estimated at 90% of the purchase price and this was assigned a 50-year useful economic life from the date of purchase (the balance consisted of land). On 1 August 2017 an independent valuation was obtained and the property was revalued to \$1.8 million including land, which was assigned a value of \$300,000. The useful economic life of the building was assessed at 50 years from that date. **(4 marks)**
 - ii) Property B was acquired in March 2017 at an auction of distressed properties. This property is a block of land in Grey City, which was bought for investment potential. The cost was

\$750,000. No revaluation took place on 31 July 2017. However, on 31 July 2018, a professional valuer placed a value of \$1,200,000 on the land. (4 marks)

- iii) Property C was a building acquired on 1 August 2010 for \$4.4 million for use as a factory. This was a leasehold property with 20 years left to run. Following a national decline in property values, a revaluation on 1 August 2012, reduced the value of the leasehold to \$1.26m. On 1 August 2017, the property was estimated by the same professional valuers to have a value of \$2.6m. (4 marks)

[Total: 20 Marks]

Question 4

- a) The financial controller of FMP Pvt Ltd has asked you, a trainee accountant, to research on the implications for the company arising from the implementation of the new international financial reporting standard on revenue i.e. IFRS 15 - Revenue from contracts with customers. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

Required:

Prepare a memorandum for the financial controller in which you:

- i) Identify and briefly explain each of the five steps for revenue recognition. (5 Marks)
 - ii) Explain what is meant by the term 'performance obligations' in a contract? (2 Marks)
 - iii) Recommend how a good or service can be defined as 'distinct'. (3 Marks)
- b) FMP Pvt Ltd enters a contract with a customer to supply a licence for a standard software product. The company will also install the software, provide updates to the software and technical support for several years. FMP Pvt Ltd sells the licence and technical support separately, the software will continue to operate without the software updates and the installation of the software may be sub-contracted to a few approved installers throughout the country.

Required:

Considering your answer to part (a) above, identify the good/services which are distinct in the above contract. (4 Marks)

- c) FMP Pvt Ltd entered into a contract with a customer to sell its product for \$200 per unit for the 2018 calendar year. If the customer was to purchase more than 1,200 units in the year, the price would decrease to \$150 per unit. FMP Pvt Ltd did not believe at the date of the contract

being initiated that the customer would purchase more than 1,200 units from it due to previous trading patterns with this customer. However, on 1 October 2018, FMP Pvt Ltd formed the view that the customer would meet or exceed the 1,200 units threshold based on its sales of 1,100 units by that date. The customer had purchased 500 units on that date and informed management of FMP Pvt Ltd that it would be placing a further order of 200 units on 1 December 2018. This customer had purchased 600 units by 30 June 2018.

Required:

Using journal entries, show how FMP Pvt Ltd accounted for its revenue from the customer in the period from 1 January to 30 June 2018 and in the period from 1 July to 31 December 2018.

(6 Marks)

[Total: 20 Marks]

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