



ZIMBABWE EZEKIEL GUTI UNIVERSITY

**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTING**

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE	:	CAC 106
COURSE TITLE	:	INTRODUCTION TO FINANCIAL REPORTING
SPECIAL REQUIREMENTS	:	Non-programmable Calculator
DURATION	:	3 Hours
LEVEL	:	1.2
DATE	:	20 JAN 2020

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **ALL** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

Section A: Multiple choice (Each question carries 2 marks: Total 30 Marks)

A1: The following figures appear in the inventory records of Lemon Pvt Ltd on 31 March 2019.

Item	Quantity	Cost per unit (\$)	Net Realisable Value per unit (\$)
B456	50 units	30	42
X923	75 units	40	35

Applying the provisions of IAS 2, Inventories, what figure should be reported as inventory in current assets in the statement of financial position as at 31 March 2019?

- A. \$4,500
- B. \$4,725
- C. \$4,125
- D. \$5,100

A2: Which of the following items may appear in a company's statement of changes in equity, according to IAS 1- Presentation of Financial Statements?

- (i) Revaluation reserve
 - (ii) Dividends paid
 - (iii) Accumulated depreciation
 - (iv) Profit for the year
- A. (i) and (iii)
 - B. (ii), (iii) and (iv)
 - C. (i), (iii) and (iv)
 - D. (i), (ii) and (iv)

A3: The Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position are two of the components of financial statements prepared by companies. With reference to these two financial statements, determine whether the following statements are correct:

- (i) An asset is a resource controlled by an entity.
- (ii) The statement of financial position is a snapshot of assets, liabilities and equity claims of the enterprise at a particular moment.
- (iii) Equity is the residual amount that the business owes to its owners.

(iv) The statement of profit or loss and other comprehensive income is a record of the income and expenditure of a business over a period of time.

- A. All of the above.
- B. Only (iii)
- C. (i), (ii) and (iv)
- D. (ii) and (iv)

A4: The following information is provided for Shamwari Ltd

	\$'000
Cost of goods sold	12,000
Average inventory	4,000
Net sales	16,000
Average receivables	6,000
Net income	2,000

Calculate the inventory turnover rate

- A. 4.00 times
- B. 2.67 times
- C. 3.50 times
- D. 3.00 times

A5: H Ltd has a current ratio of 3:1. Which of the following would result in a decrease to this ratio?

- A. A trade receivable, previously provided for, is written off as bad
- B. A trade payable balance is settled in cash
- C. Short term investment in a liquid asset
- D. Receiving cash on a current loan

A6: Which of the following is an objective of general-purpose financial reporting as outlined by the IASB Framework?

- A. Record transactions as they occur
- B. Provide useful information to stakeholders
- C. Monitor adherence of managers to laid down codes of conduct
- D. Compare budgets with actual performance

A7: From the following which item is not property plant and equipment according to the definition provided by IAS16?

- A. Land and Buildings
- B. Inventory held for resale
- C. Furniture
- D. Office equipment

A8: Property, Plant and Equipment must initially be measured at cost according to the provisions of IAS 16, which costs from the following should not be included in the cost of PPE?

- A. Purchase price, including import duties and non-refundable purchase taxes
- B. Trade discounts and rebates
- C. Cost of transporting the asset to the location it is going to be used.
- D. Cost of financing the acquisition of the asset.

A9: Which of the following is not a cause of depreciation?

- A. Absoluteness
- B. Inadequacy
- C. Wear and tear during use
- D. Passage of time

A10: Benin (Pvt) Limited, prepares its financial statements to 31 March each year. It purchased a tangible non-current asset for \$200,000 on 1 April 2014. Depreciation is charged at 10%, straight line basis. On 31 March 2016 the asset is revalued to show a valuation of \$130,000. The asset was further revalued to \$120,000 on 31 March 2018.

Required:

What amount of depreciation must be charged on the asset for the year ended 31 March 2017?

- A. \$20,000
- B. \$13,000
- C. \$16,250
- D. \$16,000

A11: Using the information in the question above, what are the necessary journal entries to record the revaluation done on 31 March 2018?

- A. Debit Non-current asset with \$22,500 and credit Revaluation Reserve with \$22,500
- B. Debit Profit and Loss with \$10,000 and Credit Non-current asset with \$10,000
- C. Debit Non-current asset with \$22,500 and credit Profit and Loss with \$22,500
- D. None of the above

A12: Which of the following is a correct combination of elements of financial statements as given by the conceptual framework?

- A. Assets, Liabilities, Revenue, Equity and Losses
- B. Assets, Income, Expenses, Equity, and Liabilities
- C. Statement of financial position, statement of changes in equity, statement of cashflows, Notes and statement of profit or loss and other comprehensive income.
- D. Relevance, faithful representation, comparability, verifiability, understandability and timeliness.

A13: Which of the following cost formula is not permissible in the estimation of the cost of inventories by IAS 2?

- A. Net realisable value
- B. Selling costs
- C. Standard cost
- D. Last-in first out

A14: Which one from the following is a non-adjusting event?

- A. Subsequent determination of the purchase price or sale proceeds of assets purchased or sold before the end of the reporting period.
- B. Discovery of errors or frauds which show the financial statements were incorrect
- C. Acquisition/disposal of subsidiary after the end of the reporting period
- D. Bankruptcy of a debtor after the end of the reporting period that confirms that a loss existed at the end of the reporting period on trade receivables

A15: Which one from the following is not part of the five-step framework for the recognition of revenue as presented in IFRS 15?

- A. Identify the contract(s) with the customer
- B. Locate the transaction price
- C. Determine the transaction price
- D. Identify the performance obligations in the contract

Section B

Answer all questions from this section

Question B1

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
5% Investments	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. (13 marks)
- b) A statement of financial position (12 marks)
- c) A statement of changes in equity (5 marks)

[Total: 30 Marks]

Question B2

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
Total	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 B3

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)
Non-Current Assets		
Property, Plant & equipment	3,660	2,922
Total Non-Current Assets	3,660	2,922
Current Assets		
Inventories	524	289
Trade receivables	322	146
Cash & Cash equivalents	196	162
Total Current Assets	1,042	1,032
Total Assets	4,702	3,954
Equity & Liabilities		
Equity		
Share Capital	600	400
Share Premium	100	40
Retained Earnings	2,902	2,554
Revaluation Surplus	148	240
Total Equity	3,750	3,234
Non-Current Liabilities		
Long-Term loan	560	400
Total Non-Current Liabilities	560	400
Current Liabilities		
Trade Payables	296	232
Bank overdraft	20	36
Current Tax Payable	76	52
Total Current Liabilities	392	320
Total Equity & Liabilities	4,702	3,954

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). **[Total: 20 Marks]**

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