



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

Main paper printed

COURSE CODE : CAC 106
COURSE TITLE : INTRODUCTION TO FINANCIAL REPORTING
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 1.2
DATE :

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: [30MARKS]

Each question carries 2 marks

Answer **all** questions in this Section

Select the **most** suitable answer

1: A business that purchases a shop incurs the following costs.

	\$
Purchase price of the shop	700 000
Legal fees incurred in the purchase of the shop	8 200
Cost of initial stock	14 500
Cost of installing air conditioning	48 300

Which amount will be capitalised as the cost of the shop, according to IAS 12, Property, plant and equipment?

- A. \$700 000
- B. \$708 200
- C. \$756 500
- D. \$771 000

2: The current ratio of a company increases from 1.4 to 1.9.

Which of the following could explain this movement?

- A An issue of more share capital for cash
- B The giving of more generous credit terms to customers
- C The granting of cash discounts to customers
- D The purchase of some short-term investments

3: A company's stock turnover ratio is calculated using the cost of goods sold and the average of opening and closing stocks.

In each of the last two financial years, closing stock was valued at \$5000 more than the Corresponding opening stock. In both years, the stock turnover was ten times and in the earlier year the cost of goods sold was \$125 000.

What was the cost of goods sold in the second year?

- A \$200 000
- B \$175 000
- C \$150 000
- D \$125 000

4: According to IAS 7-Statement of Cash flow, under which heading in the Statement of Cash flows should cash receipts from customers included?

- A Cash Flows from operating activities
- B Cash flows from investing activities
- C Cash Flows from financing activities
- D None of the above

5: A business has the following current assets and current liabilities:

The only other item in the working capital is stock.

	\$
Debtors	6000
Bank Overdraft	1500
Cash in hand	50
Creditors	5050

The current ratio is 2:1. What is the value of the stock?

- A \$ 2550 B \$ 4050 C \$ 5550 D \$ 7050

6: Orange Pvt Ltd provides the following information in respect of the year ended 31 March 2019

- (i) Profit before taxation was \$30million
- (ii) Depreciation charged to expenses was \$6million
- (iii) A provision for resolution of a compensation claim of \$3million made in a previous year was realised.
- (iv) Inventory decreased by \$1.6 million
- (v) Trade payables decreased by \$2.2million

What is the cash generated from operations based on the above information?

- A \$33.6 million
 B \$42.8 million
 C \$40.6 million
 D \$38.4 million

7: 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(\$)
A45116	50units	30	42
A92310	70units	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 \$4,300
 B \$4,550
 C \$3600
 D \$5,100

8: Which of the following items may not appear in a company's statement of changes in equity, according to IAS 1-Presentation of Financial statements?

- (i) Revaluation Reserve
- (ii) Loan capital
- (iii) Ordinary capital
- (iv) Profit for the year

- A (i) only
- B (ii) only
- C (i) and (iii)
- D (i), (ii) and (iv)

9: IAS 1, Presentation of financial statements framework, identified the elements of the financial statements. Which of the following items are not part of the elements of the financial statements?

- (i) Income
- (ii) Expenses
- (iii) Assets
- (iv) Drawings

- A (i) only
- B (ii) only
- C (iii) only
- D (iv) only

10: Which of the following is the definition of a business as a going concern?

- A. The assets owned by the business exceed its liabilities.
- B. The business has accumulated revenue reserves.
- C. The business is currently liquid and able to pay its creditors.
- D. The business will continue in operational existence for the foreseeable future

11: When a businessman introduces capital into his business, the transaction is debited in the Cash Book and credited to his Capital account.

Of which accounting principle is this an example?

- A. entity
- B. going concern
- C. matching
- D. prudence

12: According to IAS 2. Inventories, inventory is valued at;

- A. The lower of the selling cost and the net realisable value
- B. The lower of cost and net realisable value
- C. The lower of the storage cost and net realisable value
- D. The lower of administrative cost and net realisable value

13: IAS 1, Presentation of financial statements, identifies the financial statements that are presented by companies at the end of the financial year. Which of the following financial statements are included in the standard;

- (i) Statement of profit or loss and other comprehensive income
- (ii) Statement of financial position
- (iii) Statement of cash-flows
- (iv) Statement of changes in equity

A (i) and (iii) only

B (ii), (iii) and (iv) only

C (i) (ii) and (iii) only

D all of the above

14: Bloko (Pvt) Ltd has a current ratio of 2,3:1, and an acid test (quick ratio) of 1,5:1. Which of the following statements must be true regarding the financial position of Bloko (Pvt) Ltd?

A. There is sufficient cash in the bank to meet short-term needs

B. Inventory is 0.8 times current liabilities

C. The company is carrying too much inventory

D. Inventory is 0.8 times current assets

15: A company wants to increase its return on capital employed in the short term. Which course of action will achieve this?

A. invest in new plant and machinery

B. reduce the level of dividends paid to investors

C. reduce the level of overhead expenses

D. revalue freehold land and buildings upwards

[30 MARKS]

SECTION B

Answer **all** questions in this section

Question One

Matinha's Ltd, a motor dealer, sold a vehicle to a customer on 14 November 2017. The contract showed an agreed price of \$30,000 and a delivery date of 3 January 2018. The customer paid a 20% non-refundable deposit on 14 November 2017. The vehicle was delivered on 10 January 2018 and the balance due of \$24,000 was paid by the customer on that date.

Required:

Advise, making reference to the 5 Step approach according to IFRS 15 Revenue from contracts and customers, showing relevant journal entries, how the above transaction should be recognized in Matinha's financial statements for the year ended 31 December 2017 and 2018?

[15marks]

(b) Explain, with the aid of an example, the term “performance obligation” within a contract [5marks]

Question Two

Mudekwe Limited incurred (and paid) the following expenditures in acquiring an administration building and the land on which it is built in 2016:

1 January 2016 \$200,000,000, 20 per cent of the price is attributable to the land

1 January 2016 \$20,000,000 Non-refundable transfer taxes (not included in the \$200,000,000 purchase price)

1 January 2016 \$1,000,000 Legal costs directly attributable to the acquisition

1 January 2016 \$10,000 Reimbursing the previous owner for prepaying the non-refundable local government property taxes for the six-month period ending 30 June 2016

30 June 2016 \$20,000 Non-refundable annual local government property taxes for the year ending 30 June 2017

Throughout 2016 \$120,000, day-to-day repairs and maintenance, including the salary and other costs of the administration and maintenance staff. These costs are attributable equally to each of the 10 units.

At 31 December 2016 Mudekwe Limited made the following assessments:

- Useful life of the building: 50 years from the date of acquisition
- Residual value of the building: \$20,000,000
- The entity will consume the building’s future economic benefits evenly over 50 years from the date of acquisition
- Fair value less costs to sell of the land and building: \$250,000,000

Required

Prepare accounting entries to record the effects of the property, plant and equipment in the accounting records of Mudekwe Limited for the year ended 31 December 2016. [15 MARKS]

(b) Analyse the usefulness of the following financial statements to a shoe manufacturer

(i) Cash-flow statement [5MARKS]

(ii) Statement of profit or loss and other comprehensive income [5MARKS]

(iii) Statement of financial position [5MARKS]

Question 3

The following are annual financial statements of ABC Ltd:

Statement of Financial Position as at 31 December 2010

	2010	2009
	\$	\$
Land at cost	45 000	70 000
Buildings at cost	200 000	200 000
Less accumulated depreciation	<u>(21 000)</u>	(11 000)
	179 000	189 000
Equipment	193 000	68 000
Less accumulated depreciation	<u>(28 000)</u>	(10 000)
	<u>165 000</u>	<u>58 000</u>
Current assets	309 000	17 000
Stock	54 000	0
Pre-paid expenses	4 000	6 000
Debtors	68 000	26 000
Cash	54 000	37 000
	569 000	386 000
Ordinary share capital	<u>220 000</u>	<u>60 000</u>
Retained earnings	<u>206 000</u>	<u>136 000</u>
	426 000	196 000
Debentures	110 000	150 000
Creditors	<u>33 000</u>	<u>40 000</u>

Statement of Comprehensive Income

Sales		890 000
Cost of sales		465 000
Gross profit		425 000
	Operating expenses	221 000
	Interest	12 000
	Loss on sale of equipment	<u>2 000</u>
		<u>235 000</u>
Profit		190 000
Tax		65 000
Profit after tax		<u>125 000</u>

The following additional information is provided:

Operating expenses on the statement of comprehensive income include depreciation expense of \$33 000 and amortisation of prepaid expenses of \$2 000. ABC Ltd sold the land at its book value and \$55 000 in cash dividends were paid. Interest expense of \$12 000 was paid in cash and additional equipment was purchased for \$166 000. Equipment that cost \$41 000, having a book value of \$36 000, was sold for \$34 000. The debentures were redeemed at their book value for cash and ordinary share capital (\$1) was issued.

Required

Prepare the statement of cash flows using a) The direct method **[8MARKS]**

b) The indirect method **[12 MARKS]**

END OF EXAMINATION PAPER