

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM ACCOUNTING

COURSE: FINANCIAL REPORTING FOR COMPANIES

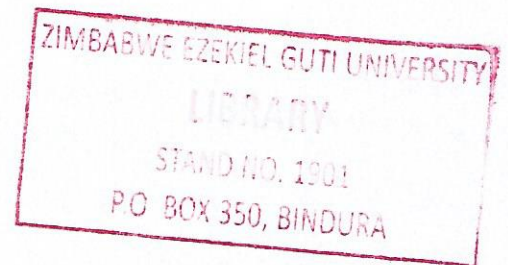
COURSE CODE: CAC203

DURATION: 3 HOURS

DATE 23 JUNE 2017

INSTRUCTIONS TO CANDIDATES

1. No cell phones are allowed in the examination venue.
2. Answer **ALL FOUR** questions
3. Begin each question on a new page.
4. The number of marks allocated to each question or part question is shown in brackets
5. All questions carry twenty five marks each.
6. Hand-held, self-powered, non-programmeable, silent calculators are allowed into the examination.



Question 1

On 1 April 2016, Fox Ltd wanted to increase the operating capacity of its plant, but due to a lack of liquid resources it was unable to buy the required plant costing \$350,000. On the recommendation of the finance director, Fox Ltd entered into an agreement to lease the plant from the manufacturer. The lease agreement required four annual payments in arrears of \$100,000 each commencing on 30 September 2016. The plant would have a useful life of four years and would be scrapped at the end of this period. The finance director, believing the lease to be an operating lease, commented that the agreement would improve the company's return on capital employed (compared to outright purchase of the plant).

Required:

- a) Discuss the validity of the finance director's comment in relation to the classification of leases regarding the requirements of IAS17 Leases (6 marks)
- b) Prepare extracts of Fox Ltd.'s Statement of profit or loss and other comprehensive income and Statement of financial position for the year ended 30 September 2016 in respect of the lease agreement assuming:
 - i) It is an operating lease (3 marks)
 - ii) It is a finance lease (using an implicit interest rate of 10% per annum) (8 marks)
- c) Define the following terms as prescribed by the relevant International Accounting Standard:
 - i) Lease term (2 marks)
 - ii) Provision (2 marks)
 - iii) Intangible asset (2 marks)
 - iv) Cash generating unit (2 marks)

[Total: 25 marks]

Question 2

Kunze Ltd issued 10,000, \$1.00 shares at \$1.60 per share. Monies due were as follows:

On Application	\$0.90 (including premium)
On Allotment	\$0.50
Call	\$0.20

Applications were received for 13,000 shares with the excess applications returned on application. At the call stage, 150 shares were forfeited. These were subsequently reissued for \$1.10 cash.

Required:

- a) Prepare the appropriate ledger accounts to record the above issue of shares. (17 Marks)
- b) Wale Ltd reported profits of \$46,000 for year ended 31 March 2016. On 1 April 2015; its capital was made up of 250,000 ordinary shares of \$1 each, and 60,000, 8% preference shares of \$1 each. The preference dividend was paid during the year and an ordinary dividend of \$6,000 was also paid during the current year. Neither dividend has been taken account of in the above profit figure. The reported basic earnings per share for the year ended 31 March 2015 was 8cents.

During the year ended 31 March 2016, the following changes took place to the issued share capital of White Ltd:

- i) 50,000 ordinary shares were issued in conjunction with the acquisition of another business. These were issued at full market price at the date of issue, 1 July 2015.
- ii) To help fund expansion of the business, 180,000 ordinary shares were issued for cash to existing shareholders on 1 September 2015. The issue price was \$1.40 per share, and the company's shares traded immediately before the issue at a price of \$2.04.
- iii) On 31 March 2016, a bonus issue was completed of one share for every two held at that date.

Required

- i) From the information above calculate the basic Earnings per Share (EPS) for White Ltd to be reported in the financial statements for year ended 31 March 2016. Also, recalculate the comparative figure for the preceding year. (15 marks)

[Total: 25 Marks]

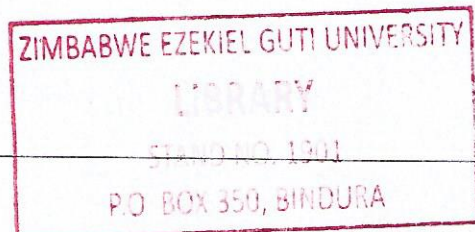
Question 3

- a) Linnet Ltd is part way through a contract to build a new football stadium at a contracted price of \$300 million. Details of the progress of this contract at 1 April 2015 are shown below:

	\$m
Cumulative sales revenue invoiced	150
Cumulative cost of sales to date	112
Profit to date	38

The following information has been extracted from the accounting records at 31 March 2016:

	\$m
Total progress payment received for work certified at 28 February 2014	180
Total costs incurred to date (excluding rectification costs below)	195



Linnet has received progress payments of 90% of the work certified at 28 February 2016. Linnet's surveyor has estimated that the sales value of the further work completed during March 2016 was \$20 million.

At 31 March 2016, the estimated remaining costs to complete the contract were \$45 million. The rectification costs are the costs incurred in widening access roads to the stadium. This was the result of an error by Linnet's architect when he made his initial drawings.

Linnet calculates the percentage of completion of its contracts as the proportion of sales value earned to date compared to the contract price.

All estimates can be taken as being reliable.

Required:

Prepare extracts of the financial statements for Linnet Ltd for the above contract for the year to 31 March 2014. **(15 marks)**

- b) Schilling acquired a non-current asset on 1 January 2016. This non-current asset is in an industrial development area and cost \$6 million. The company uses the straight-line method of depreciation and the asset is expected to last five years. An impairment review was carried out on 31 December 2016 and the projected cash flows relating to this asset were as follows:

Year to	31 December	31 December	31 December	31 December
	2017	2018	2019	2020
Cash flows (\$'000)	560	890	1,000	1,100

Schilling uses a discount rate of 5% in relation to cash flows.

Required

Determine whether the non-current asset should be impaired at the date of impairment review and provide the amounts to be reported in the financial statements. **(10 marks)**

[Total 25 Marks]

Question 4

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is an important standard regulating the recognition of liabilities and the use of provisions. It has been especially useful in controlling the abuse of provisions to manage reported earnings.

Required:

- a) Define a provision and discuss in detail the three conditions that must be satisfied for a provision to be recognised under IAS 37, reference must also be made to the recognition criteria for elements of financial statements outlined by the IASB Framework. **(11 marks)**
- b) Discuss briefly how each of the following transactions and events should be recorded by Henmark Ltd in compliance with the requirements of IAS 37.
 - i) A decision was taken by the board of Henmark Ltd shortly before the year-end to close a division. The costs of the closure are estimated to total \$30 million. The decision was announced in principle, but detailed implementation plans have not been made yet. **(3 marks)**
 - ii) Henmark Ltd has traditionally repainted its premises every five years. The next painting is due in a year's time. The entity proposes to accrue as a provision the expected cost of repainting the premises. **(3 marks)**
 - iii) Henmark Ltd has sold 5,000 units of a product to customers during the past 12 months with a year's warranty attaching. Experience has shown that 3% of goods sold require warranty repair at an average cost of \$200 per unit. **(5 marks)**
 - iv) Henmark Ltd has guaranteed the debts of its associate company up to a maximum amount of \$3 million. The associate is in excellent financial health and the directors believe it is unlikely the guarantee will ever be called in. **(3 marks)**

[Total 25 Marks]

*****END OF EXAMINATION*****

