

ZIMBABWE EZEKIEL GUTI UNIVERSITY



DEPARTMENT OF ACCOUNTING AND FINANCE

B. COM ACCOUNTING

COURSE: FINANCIAL REPORTING FOR COMPANIES

COURSE CODE: CAC203

DURATION: 3 HOURS

15 JUNE 2018

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

The following trial balance was extracted from the books of Silvercent Ltd on 31 July 2017.

	Note	Dr \$000	Cr \$000
Cost of sales		76.8	
Distribution costs		24.4	
Administration expenses		12.0	
Provision for warranty claim	(i)		12.0
Land and buildings at cost (including land \$24,000)	(ii)	160.0	
Accumulated depreciation 1 August 2016 – land & buildings	(ii)		8.0
Revaluation surplus 1 August 2016	(ii)		24.0
Plant and equipment at cost	(iii)	260.0	
Accumulated depreciation 1 August 2016 - plant and equip	(iii)		124.0
Revenue	(iii)		240.8
Investment property	(iv)	128.0	
Equity investments	(v)	33.6	
Trade receivables		27.6	
Inventory at 31 July 2017		24.8	
Cash and bank		35.2	
Trade payables			18.4
Corporation tax	(vi)	1.6	
Equity shares of 10c each	(viii)		80.0
Share premium account	(viii)		140.0
Equity investment reserve	(v)		5.6
6% Debenture (issued on 1 March 2017)	(vii)		80.0
Equity dividend paid		9.4	
Retained earnings reserve 1 August 2016			60.6
		<u>793.4</u>	<u>793.4</u>

The following notes are relevant to your answer:

- (i) Silvercent Ltd maintains a provision for warranty claims expected to arise in the future on goods sold. At the reporting date this provision was carried at \$12,000. It has been agreed that this provision should be increased to □\$17,500.
- (ii) Land and buildings are carried under the revaluation model, as permitted by IAS 16. The most recent valuation took place on 31 July 2015, resulting in the values included in the trial balance above. The revaluation surplus of \$24,000 resulted solely from these land and buildings. The buildings were estimated to have a useful economic life of 17 years as at that date and zero residual value. On 31 July 2017, the land was revalued to \$20,000 and the buildings to \$90,000. There was no change to the useful life estimates of the buildings. Depreciation is

recognised on a straight-line basis through cost of sales, and no depreciation has yet been charged for the year ended 31 July 2017.

- (iii) Plant & equipment is being depreciated through cost of sales at 20% per annum reducing balance. On 31 July 2017, a piece of plant which cost \$40,000 on 1 August 2015 was sold for \$22,000. The only entries made to record this transaction were to debit cash and credit sales revenue with \$22,000.
- (iv) Investment properties are accounted for under the fair value model of IAS 40. The figure included in the trial balance above represents the fair value of these properties at 1 August 2016. The fair value of these properties at 31 July 2017 was \$140,000.
- (v) The figure for equity investments represents the fair value of equities held at 1 August 2016 plus the cost of equities purchased during the year. As permitted by IFRS 9, an election was made at the date of purchase to account for any fair value gains and losses on all these equity investments through 'other comprehensive income'. Silvercent Ltd takes such gains and losses to a separate component of equity. The fair value of the equity investments at 31 July 2017 was \$25,000.
- (vi) Corporation tax for the year was estimated at \$22,000. The balance in the trial balance is a residual amount following the payment of corporation tax for year ended 31 July 2016 and its offset against the provision made that year.
- (vii) The debentures were issued during the year. Interest is payable annually in arrears. No interest has been provided for or paid as at 31 July 2017.
- (viii) \$40,000 was raised on 31 July 2017 through the issue of equity shares. This was correctly accounted for by crediting \$16,000 to equity share capital and \$24,000 to share premium.

REQUIREMENT:

Prepare, in a form suitable for publication to the shareholders of Silvercent Ltd:

- (a) Statement of Profit or Loss and Other Comprehensive Income of Silvercent Ltd for the year to 31 July 2017; (16 marks)
- (b) Statement of Changes in Equity for year ended 31 July 2017; (6 marks)
- (c) Statement of Financial Position as at 31 July 2017. (14 marks)
- (d) Calculate basic earnings per share for the year. (4 marks)

[Total: 40 Marks]

Note: Notes to the financial statements are not required but all workings should be shown.

Question 2

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* sets out the accounting treatment and disclosures for these transactions and events. The standard discusses general principles of recognition, measurement and presentation as well as specific application guidance for certain issues. This guidance aims to assist preparers of financial statements in applying IAS 37.

The following situations have arisen during the preparation of the draft financial statements of Hosmade Ltd for year ended 31 July 2017:

- i) On 1 August 2016, Hosmade Ltd acquired a nuclear power plant at a cost of \$200 million. Part of the arrangement was that the plant be dismantled and the site restored after its useful economic life of 20 years had passed. The cost of restoration was estimated on 1 August 2016, after discounting to present value, to be \$40 million. This amount reflected an appropriate discount rate of 6%, (75% of this estimate related to the dismantling of the plant, and 25% to the removal of waste fuel). At 31 July 2017, due to regulatory and other obstacles, no power had yet been produced; hence no waste fuel had been generated.
- ii) During the year ended 31 July 2017, Hosmade Ltd decided to close both its coal burning power-generating plants in October 2017. This decision has been announced publicly, and a detailed formal plan prepared. The plan proposes to make 75 employees redundant, retrain 25 other staff to work in the nuclear plant, and sell the coal-fired plants in their current condition. It is anticipated that the redundancy costs will amount to \$7.5 million, and the retraining will cost \$1 million. The coal plants will be disposed of for zero consideration as the new owner will be expected to dismantle the plants and clean up the sites. The carrying value of these plants is \$12 million at 31 July 2017.

REQUIREMENT:

- (a) Discuss the accounting treatment in relation to provisions, contingent liabilities and contingent assets required by IAS 37. (8 marks)
- (b) In the case of (i) and (ii) above, set out the appropriate accounting treatment as at 31 July 2017, applying IAS 37 and other relevant standards. (12 marks)

[Total: 20 Marks]

Question 3

You are employed as the financial accountant for Moonrise Ltd, an Irish manufacturing company located in Donegal. The financial controller, Paul Clancy, has asked you to advise him on matters relating to the reporting and disclosure of lease transactions in the financial statements for the year ending 31 March 2013. You have recently returned from a one-day training course on IAS 17 *Leases*, and are keen to show Paul how much you have learned. Moonrise Ltd has entered into the following lease contracts:

- i) Moonrise Ltd leased a new piece of equipment from Sinnott Ltd for three years commencing on 30 September 2012. The fair value of the equipment is \$70,000. A deposit of \$4,000 was payable on 30 September 2012 followed by six half-yearly payments of \$13,500, payable in arrears, and commencing on 31 March 2013. Moonrise Ltd allocates finance charges on a sum of the digits basis.
- ii) On 30 September 2012, Moonrise Ltd entered into a two-year agreement to lease a new high-performance machine for a lease payment of \$1,500 per month in arrears. A non-refundable deposit of \$5,000 must be paid on order. The machine has an expected useful life of five years, and the lessor remains liable for maintenance.
- iii) Moonrise Ltd entered into a 50-year lease for land and buildings on 30 September 2012. Moonrise Ltd will have to make lease payments of \$60,000 per annum in advance. The fair value of the land and buildings is \$800,000 of which \$80,000 relates to land. The building has a 50-year useful economic life.

REQUIREMENT:

- a) Prepare a memorandum for the financial controller in which you:
 - i) Describe how IAS 17 defines a finance lease and list the main characteristics, which would normally lead to a lease being classified as a finance lease. (4 marks)
 - ii) Prepare the financial statement extracts and supporting disclosure notes that show how the lease transaction in (i) above should be presented in the financial statements of Moonrise Ltd for the year ended 31 December 2012. (10 Marks)
 - iii) Advise, with reasons, how leases (ii) and (iii) above should be dealt with in the financial statements for the year ended 31 December 2012. Disclosure notes are not required. (6 marks)

[Total: 20 MARKS]

Question 4

The IASB's *Conceptual Framework for Financial Reporting* attempts to set out the concepts that underlie the preparation and presentation of financial statements for external users. The most recent version was issued in September 2010.

REQUIREMENT:

- a) Discuss the purpose and status of the Conceptual Framework. In particular, you should cover the aims of the framework and its status in the event of a conflict between it and a particular standard. (10 marks)
- b) Outline the advantages and disadvantages of having a statement such as the Conceptual Framework. (10 marks)

[Total: 20 MARKS]

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