



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 203
COURSE TITLE : FINANCIAL REPORTING FOR COMPANIES
DURATION : 3 Hours
DATE : 3 June 2019

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.

SECTION A: MULTIPLE CHOICE

NB: For each question in this section, write the letter that corresponds with the correct answer.

Question One

- i. Ordinary shares issued as part of a business combination are included in the EPS calculation in the case of the “purchase” method from * **(2 Marks)**
- A. The beginning of the accounting period.
 - B. The date of acquisition.
 - C. The end of the accounting period.
 - D. The midpoint of the accounting year.
- ii. When an enterprise makes a bonus issue/stock split/stock dividend or a rights issue, then * **(2 Marks)**
- A. The previous year’s EPS is not adjusted for the issue.
 - B. The previous year’s EPS is adjusted for the issue.
 - C. Only a note of the effect on the previous year’s EPS is made.
 - D. Only the diluted EPS for the previous year is adjusted.
- iii. Which of the following are underlying assumptions of financial statements? * **(2 Marks)**
- A. Relevance and reliability.
 - B. Financial capital maintenance and physical capital maintenance.
 - C. Accrual basis and going concern.
 - D. Prudence and conservatism.
- iv. What are qualitative characteristics of financial statements according to the Framework? * **(2 Marks)**
- A. Qualitative characteristics are the attributes that make the information provided in financial statements useful to users.
 - B. Qualitative characteristics are broad classes of financial effects of transactions and other events.
 - C. Qualitative characteristics are non-quantitative aspects of an entity’s position and performance and changes in financial position.
 - D. Qualitative characteristics measure the extent to which an entity has complied with all relevant Standards and Interpretations

- v. In the case of grants related to income, which of these accounting treatments is prescribed by IAS 20? * **(2 Marks)**
- A. Credit the grant to “general reserve” under shareholders’ equity.
 - B. Present the grant in the income statement as “other income” or as a separate line item, or deduct it from the related expense.
 - C. Credit the grant to “retained earnings” on the balance sheet.
 - D. Credit the grant to sales or other revenue from operations in the income statement.
- vi. Which of these disclosures is not required by IAS 20? * **(2 Marks)**
- A. The accounting policy adopted for government grants, including methods of presentation adopted in the financial statements.
 - B. Unfulfilled conditions and other contingencies attaching to government assistance.
 - C. The names of the government agencies that gave the grants along with the dates of sanction of the grants by these government agencies and the dates when cash was received in case of monetary grants.
 - D. The nature and extent of government grants recognized in the financial statements and an
 - E. indication of other forms of government assistance from which the entity has directly benefited.
- vii. To enable financial statement users to form a view about the effects of the related-party transactions, IAS 24 requires certain disclosures to be made. Which of the following disclosures is not a mandated disclosure under IAS 24? * **(2 Marks)**
- A. Relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties.
 - B. Names of all the “associates” that an entity has dealt with during the year.
 - C. Name of the entity’s parent and, if different, the ultimate controlling party.
 - D. If neither the entity’s parent nor its ultimate controlling entity produces financial statements available for public use, then the name of the next most senior parent that does so.
- viii. If there have been related-party transactions during the year, an entity needs to make, at a minimum, certain disclosures. Which of the following is not a required minimum disclosure under IAS 24? * **(2 Marks)**

- A. The amount of the related-party transactions.
- B. The amount of the outstanding related-party balances and their terms and conditions along with details of guarantees given and received.
- C. The amounts of similar transactions with unrelated (third) parties to establish that comparable related-party transactions have been entered at arm's length.
- D. Provisions for doubtful debts related to the amount of outstanding related-party balances and expense recognized during the year in respect of bad or doubtful debts due from related parties.

ix. If the fair value less costs to sell cannot be determined * **(2 Marks)**

- A. The asset is not impaired.
- B. The recoverable amount is the value-in-use.
- C. The net realizable value is used.
- D. The carrying value of the asset remains the same.

x. If assets are to be disposed of * **(2 Marks)**

- A. The recoverable amount is the fair value less costs to sell.
- B. The recoverable amount is the value-in-use.
- C. The asset is not impaired.
- D. The recoverable amount is the carrying value.

xi. Which of the following is not specifically excluded from the purview of IAS 20? *

(2 Marks)

- A. Government participation in ownership of the entity.
- B. Government grant covered by IAS 41.
- C. Government assistance provided in the form of tax benefits.
- D. Forgivable loan from the government.

xii. The minimum disclosures prescribed under IAS 24 are to be made separately for certain categories of related parties. Which of the following is not among the list of categories specified under the Standard for the purposes of separate disclosure? * **(2 Marks)**

- A. Entities with joint control or significant influence over the entity.
- B. The parent company of the entity.
- C. An entity that has a common director with the entity.
- D. Joint ventures in which the entity is a venture

xiii. Estimates of future cash flows normally would cover projections over a maximum of *

(1 Mark)

- A. Five years.
- B. Ten years.
- C. Fifteen years.
- D. Twenty years.

[Total: 25 Marks]

SECTION B

Question Two

The following related party transactions were carried out by GRIDLINE LTD (G L) during the first year of its operation i.e. year ended December 31, 2018.

- (i) Inventory costing \$ 15 million was sold for \$ 18 million to Platinum Limited (PL) which owns 60% shares in GRIDLINE LTD. It is GRIDLINE LTD's policy to add 30% margin on cost. Outstanding liability at year end, in respect of these purchases was \$ 6.5 million.
- (ii) PLATINUM LIMITED provided administrative services to GRIDLINE LTD. The cost of these services, if billed in the open market, would have amounted to \$ 350,000. No entries were made to record these transactions, as it was agreed that the services would be provided free of charge.
- (iii) A property was sold to Silver Limited (SL), an associated company, at its fair market value of \$ 10 million. 50% of the amount was settled prior to year- end. GRIDLINE

LTD reimbursed \$500,000 to SL on account of transfer and other incidental charges related to this property.

- (iv) An interest free loan of \$ 2 million was granted to an executive director of the company under the terms of employment. During the year, \$ 200,000 were repaid by the executive director.
- (v) On July 1, 2018 GRIDLINE LTD obtained a short- term loan of \$ 25 million from one of its major shareholder, at the prevailing annual interest rate of 12%. The principal as well as the accrued mark-up were outstanding at the close of the year.

Required:

Prepare a note on related party transactions for inclusion in GRIDLINE LTD's financial statements for the year ended December 31, 2018 showing disclosures as required under IAS-24 (Related Party Disclosures).

[Total: 25 Marks]

Question Three

The issued share capital of Clutomic Limited at December 31, 2017 and 2018 comprises 2,000,000 ordinary shares of \$ 10 each. The company granted options over 100,000 ordinary shares in 2006. The options can be exercised between 2009 and 2011 at \$ 60 per share. The average market price of Clutomic Limited shares during the year was \$75.

In addition, Clutomic Limited has 800,000 \$10 convertible cumulative preference shares (treated as an equity instrument under IAS-32) and \$ 1,000,000, 5% convertible bonds in issue throughout 2018. Each convertible bond and preference share is convertible into two ordinary shares.

The company's results for the year ended December 31, 2018 comprised operating profit from continuing operations of \$ 300,000 and operating profit from discontinued operations of \$ 100,000. Interest and tax at 30% amounted to \$ 100,000 and \$ 90,000 respectively. The profit for the year was \$ 210,000.

Required:

Calculate Basic and Diluted Earnings Per Share for Clutomic Limited.

[Total: 25 Marks]

Question Four

- a. A government gives a parcel of land to a company at no charge. The company builds a factory on the land and employs people at the factory to produce jam that is sold in local and interstate markets. Considering the definition of income in the conceptual framework, do you think the receipt of the land is income to the company? Would your answer depend on how the land is measured? **(15 Marks)**
- b. Considering the definition of an asset in the conceptual framework, would you call your house that you are living in (using all the rooms) an asset? Consider that the house would make you incur costs of maintaining it, water bills, electricity bills and even renovations. To me its more of a liability. Give me your opinion that is supported by what is in the conceptual framework. **(10 Marks)**

[Total: 25 Marks]

END OF PAPER