



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

*printed*

COURSE CODE : CAC203  
COURSE TITLE : FINANCIAL REPORTING FOR COMPANIES  
DURATION : 3 Hours  
LEVEL : 2.1  
DATE :

**INSTRUCTIONS TO CANDIDATES:**

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

**How should this item be treated in the financial statements of Blacksmith Ltd?**

- A. Item should not be included in the financial statements.
- B. The item should be disclosed by note in the financial statements.
- C. The financial statements should show an asset of \$30,000.
- D. The financial statements should show an asset of \$30,000 and a note should be included explaining the item.

7. In the year ended 31 December 2017, there were 12 million ordinary shares in issue. In the year ended 31 December 2017 the earnings available for ordinary shareholders amounted to \$5 million.

There are 1 million 10% convertible loan notes in issue, convertible at the rate of 3 ordinary shares for every \$4 of notes in the year ended 31/12/2017 and the rate of company tax is 30%.

**What is the fully diluted EPS for the year ended 31 December 2017?**

- A. 41.7c                      B. 39.8c                      C. 39.5c                      D. 37.2c

8. In the year ended 1 January 2019, there were 12 million ordinary shares in issue. In the year ended 31 December 2019 the earnings available for ordinary shareholders amounted to \$5 million. There are 1 million options available. The fair value and the exercise price is \$2.00 and \$1.50 respectively.

**What is the fully diluted EPS for the year ended 31 December 2019?**

- A. 41.7c                      B. 40.8c                      C. 39.5c                      D. 37.2c

9. 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?**

- 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 venturer.

10. On 1 January 2016 Baccos Co, wine merchants, buys a bottling and labelling machine from Sai Co under a lease which allowed Baccos to take control of the machine. The cash price of the machine was \$77,100 while the amount to be paid was \$100,000. The agreement required the immediate payment of a \$20,000 deposit with the balance being settled in four equal annual instalments commencing 31 December 2016. The implicit interest rate is 15% p.a. applicable on the lease calculated on the remaining balance of the liability during each accounting period. Baccos incurred additional indirect costs of \$26,000, which included \$3,100 relocation costs refunded by Sai Co.

Depreciation on the plant is to be provided for at the rate of 20% per annum on a straight line basis assuming a residual value of nil.

**How much is the depreciation charge to be recognised in the profit or loss each year?**

- A. \$15,420                      B. \$11,400                      C. \$25,000                      D. \$20,000

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**SECTION B: ANSWER ALL QUESTIONS. Begin each question on a new page.**

**Question 1**

a) Define the following terms:

- Borrowing cost [1]
- Qualifying asset [2]

b) Explain when the capitalisation of borrowing costs should commence and terminate. [5]

c) Mudoni Multinational Company (MNC) a socially responsible company had commenced the construction of a bridge connecting two villages of Ndima and Rusitu which were separated by a natural disaster cyclone Idai which ravaged the area sometime in 2018. The construction of this bridge started on 1 January 2019. For this purpose MNC negotiated a portfolio of loans at the start of the year as follows:

<b>Loan</b>	<b>Amount (\$)</b>	<b>Interest rate</b>
International Monetary Fund	150,000,000	5%
Afreximbank	65,000,000	6%
NMB Loan	80,000,000	15%
Stanbic Loan	70,000,000	13%
Disaster Fund Loan Facility (DFLF)	40,000,000	8%

The construction of Mwadetsera Bridge as the project was affectionately known progressed earnestly in phases and ultimately was completed on 31 December 2019. The construction phases were structured in such a way that each phase coincided with the disbursement of funds from the Loan portfolio. The loan disbursement and construction phases were as follows:

<b>Date</b>	<b>Amount (\$)</b>
1 Jan 2019	120,000,000
1 March 2019	78,000,000
1 June 2019	100,000,000
1 August 2019	57,000,000
1 October 2019	50,000,000

Mwadetsera bridge was completed on planned schedule and was officially handed over to the community on 31 December 2019. However, during the construction phases, idle funds were reinvested at an interest rate of 6% for a period at which these funds were available.

**Required is to calculate:**

- The borrowing cost eligible for capitalisation for the year ended 31 December 2019. [19]
- The carrying amount of the bridge to be recognised in the statement of financial position as at 31 December 2019. [3]

**[Total 30marks]**

**Question 2**

a) After a political rally in 2018 ten people died, possibly as a result of food poisoning from products sold by Mukaka Milk Co. Legal proceedings are started seeking damages from

Mukaka Milk but it is disputing the liability. Up to the date of approval of the financial statements for the year to 31 December 2018, Mukaka Milk's lawyers advise that it is probable that it will not be found liable. However, when Mukaka Milk prepares the financial statements for the year to 31 December 2019 its lawyers advised that, owing to developments in the case, it is probable that it will be found liable.

**What is the required accounting treatment?**

– At 31 December 2018?

– At 31 December 2019? [6]

b) The board of directors of Mwanyenyeni Inc. at their meeting held on December 15, 2019, decided to close down the entity's international branches and shift its international operations and consolidate them with its domestic operations. A detailed formal plan for winding up the international operations was also formalised and agreed by the board of directors in that meeting. Letters were sent out to customers, suppliers, and workers soon thereafter. Meetings were called to discuss the features of the formal plan to windup international operations, and representatives of all interested parties were presenting those meetings.

**Required:**

**Do the actions of the board of directors create a constructive obligation that needs a provision for restructuring? [5]**

c) Zvironzo Pvt (ltd). has been sued for following three alleged infringements of law:

1) Unauthorized use of a trademark; the claim is for \$100 million

2) Non-payment of end-of-service severance pay and gratuity to 5,000 employees who were terminated without Zvironzo Pvt(ltd). giving any reason; the class action lawsuit is claiming \$3 million.

3) Unlawful environmental damage for dumping waste in the river near its factory; environmentalists are claiming unspecified damages as clean-up costs. Legal counsel is of the opinion that not all the legal cases are tenable in law and has communicated to Zvironzo Pvt(ltd). this assessment of the three lawsuits:

Lawsuit 1: The chances of this lawsuit are remote.

Lawsuit 2: It is probable that Zvironzo Pvt(ltd). would have to pay the displaced employees, but the best estimate of the amount that would be payable if the plaintiff succeeds against the entity is \$2 million.

Lawsuit 3: There is no current law that would compel the entity to pay for such damages. There may be a case for constructive obligation, but the amount of damages cannot be estimated with any reliability.

**Required:**

**What should be the provision that Zvironzo Pvt(ltd). should recognize or the contingent liability that it should disclose in each of the lawsuits, based on the assessments of its legal counsel? [11]**

[Total 22marks]

### Question 3

- a) During the year ended June 30, 2018, Border Timbers Limited (BTL)\* has carried out several transactions with the following individuals and entities:
- Acord Associates provides information technology services to BTL. One of the directors of BTL is also the partner in Acord Associates.

- ii. Sande Shield Bank Limited is the main lender. By virtue of an agreement it has appointed a nominee director on the Board of BTL.
- iii. Mr. Zunza who supplies raw materials to BTL, is the brother of the Chief Executive Officer of the company.
- iv. Jabaz Limited is the distributor of BTL's products and have exclusive distribution rights for the Province of Manicaland.
- v. Mr Tanganda is the General Manager –Marketing of BTL and is responsible for all major decisions made in respect of sales prices and discounts.
- vi. BTL's gratuity fund is administered by the Trustees appointed by the Company.

**Required:** Comment as to whether the above individuals and entities are 'related parties' (*IAS24 Related Party Disclosures*) of Border Timbers Limited or not. Support your argument with reference to relevant international accounting standards. [12]

- b) Cavoice Timber Ltd, an entity engaged in the business of manufacturing timber products leased a Fingerjointer machine from Nostro (ltd). The agreement was crafted in such a manner that Cavoice Timber assumed control of the machine for the next five years. The contract was entered into on 31 December 2014. Cavoice also agreed to the terms and conditions that, it will pay an additional \$30,000 at the end of the fifth year so that the ownership of the machine will ultimately be transferred to it. Furthermore, Cavoice Timber incurred additional indirect costs amounting to \$15,000. The implicit interest rate of the lease was 12%.

Below are the lease cash flows to be paid by Cavoice Timbers for the use of the Fingerjointer machine in the next five years.

Year	Lease cashflow (\$)
2015	70,000
2016	100,000
2017	65,000
2018	60,000
2019	61,000

**Required:**

- i. Journalise the initial recognition of the right-of-use asset and the lease liability. [4]
- ii. Journalise year 2017 lease payments of the lease liability and depreciation expense of the right-of-use asset. [5]
- iii. Prepare the statement of profit or loss and statement of financial position extracts for the next five years. [7]

[Total 28marks]

**END OF EXAMINATION PAPER**