ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

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 [ ]

SECTION A: ANSWER ALL QUESTIONS (Each question carries 2marks)

1. The following information relates to three assets held by a company:

	Asset A	Asset B	Asset C
	$	$	$
Carrying amount	100	50	40
Value in use	80	60	35
Fair value less cost to sell	90	65	30

What is the total impairment loss?

A $15 **B** $30 **C** $Nil **D** $1

2. **Which of the following could be an indication that an asset may be impaired according to IAS 36 Impairment of Assets?**

   I. Increase in market interest rates
   II. Obsolescence of assets
   III. Reduction in market value of an asset
   IV. Management intention to reorganise the business

A All of them **B** II, III and IV **C** II and III **D** I and IV

3. Finsbury Ltd has a cash generating unit (CGU) that suffers a large drop in income due to reduced demand for its products. An impairment review was carried out and the recoverable amount of the cash generating unit was determined at $100m. The assets of the CGU had the following carrying amounts immediately prior to the impairment:

	$m
Goodwill	25
Intangibles	60
Property, plant and equipment	30
Inventory	15
Trade receivables	10
	140

The inventory and receivables are considered to be included at their recoverable amounts.

What is the carrying amount of the intangibles once the impairment loss has been allocated?

A $45m **B** $50m **C** $55m **D** $60m

4. **In accordance to IAS23 what is a qualifying asset?**

A Is an asset that takes a substantial period to get ready for its intended use.
B Is an asset that was once used for a long period of time.
C These are assets held for own use and are in the company's name.
D Intangibles and inventories that takes a substantial amount of time to get ready for their intended use.

5. Jackson Ltd's year end is 31 December 2010. In February 2011 a major receivable went into liquidation and the directors' believe that they will not be able to recover the $450,000 owed to them.

How should this item, be treated in the financial statements of Jackson Ltd for the year ended 31 December 2010?

A irrecoverable debt should be disclosed by note.
B The financial statements are not affected.
C The debt should be provided against.
D The financial statements should be adjusted to reflect the irrecoverable debt.

6. A former employee is claiming compensation of $50,000 from Harriot Ltd for wrongful dismissal. The company's solicitors have stated that they believe that the claim is unlikely to succeed. The legal costs relating to the claim are likely to be in the region of $5,000 and will be incurred regardless of whether or not the claim is successful.

How should these items be treated in the financial statements of Harriot Ltd?

A Provision should be made for $55,000.
B Provision should be made for $50,000 and the legal costs should be disclosed by note.
C Provision should be made for $5,000 and the compensation of $50,000 should be disclosed by note.
D No provisions should be made but both items should be disclosed by note.

7. In the year ended 31 December 2016, there were 12 million ordinary shares in issue and the earnings per share was calculated as 33.3c per share. In the year ended 31 December 2017 the earnings available for ordinary shareholders amounted to $5 million. On 30 September 2017 the company made a one for four bonus issue.

What is the EPS for the year ended 31 December 2017 and the restated EPS for the year ended 31 December 2016

	2017	**2016**
A.	33.3c	33.3c
B.	41.7c	33.3c
C.	39.2c	26.7c
D.	33.3c	26.7c

8. In the year ended 31 December 2017, there were 12 million ordinary shares in issue. I n the year ended 31 December 2017 the earnings available for ordinary shareholders a mounted to $5million. 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

9. A company leases a motor vehicle under a finance lease. The present value of minimum lease payments is $27,355 and the fair value of the vehicle is $29,000. The interest rate implicit in the lease is 10%. The terms of the lease require three annual instalments to be paid of $10,000 each at the start of each year.

At the end of the first year of the lease what amount will be shown for the finance lease obligation in the company's statement of financial position under the headings of noncurrent liabilities and current liabilities?

	Current liabilities	Non-current liabilities
A	$9,091	$10,000
B	$10,000	$10,900
C	$10,900	$10,000
D	$10,000	$9,091

10. Who is not a related party?

A. Has control or joint control over the reporting entity;
B. Has significant influence over the reporting entity; or
C. Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity?
D. Supplier of goods to the entity.

[Total 20marks]

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

Question 1

a) Define the term impairment [2]
b) List the main indications which should suggest that an asset might be impaired. [6]
c) Agua Ltd runs a unit that suffers a massive drop in income due to the failure of its technology on 1 January 2018.

The following carrying amounts were recorded in the books immediately prior to the impairment:

	$
Goodwill	20,000
Technology	5,000
Brands	10,000
Land	50,000
Buildings	30,000
Other net assets	40,000

The recoverable value of the unit is estimated at $85,000. The technology is worthless following its complete failure.

The other net assets include inventory, receivables and payables. It is considered that the carrying amount of other net assets is a reasonable representation of its net realisable value.

Show the impact of the impairment on 1 January. [18] **[Total 26marks]**

Question 2

a) Define the following terms in accordance to IAS23 Borrowing costs:
   i. Borrowing costs. [2]
   ii. Qualifying asset. [2]
   iii. Differentiate between **Specific** and **General** Borrowings. [4]

b) When should borrowing costs capitalisation commence and cease. [6]

c) A Company which prepares financial statements to 30 June each year has the following general borrowings outstanding throughout the year to 30 June 2018;

	$
7.5% Bank loan	800,000
9% Bank loan	500,000
8.5% Loan stock	1,200,000
Total	2,500,000

On 1 October 2017, the company began construction of a qualifying asset and incurred expenditure of $300,000. A further, $240,000 was spent on 1 February 2018. Both of these amounts were financed out of general borrowings. Construction of the asset was still underway at 30June 2018.

Calculate the borrowing cost that should be capitalised during the year to 30 June 2018. [10] **[Total 24 marks]**

Question 3

a) Explain the requirements of IAS37 in recognising provisions [5]

b) A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known. Should a provision be made at the year end? [5]

c) Rowsley is a company that carries out many different activities. It is proud of its reputation as a ‘caring’ organisation and has adopted various ethical policies towards its employees and the wider community in which it operates. As part of its annual financial statements, the company publishes details of its environmental policies, which include setting performance targets for activities such as recycling, controlling emissions of noxious substances and limiting use of non-renewable resources.

   The company has an overseas operation that is involved in mining precious metals. These activities cause significant damage to the environment, including deforestation. The company incurred capital costs of $100 million in respect of the mine and it is expected that the mine will be abandoned in eight years' time. The mine is situated in a country where there is no environmental legislation obliging companies to rectify environmental damage and it is very unlikely that any such legislation will be enacted within the next eight years. It has been estimated that the cost of cleaning the site and re-planting the trees will be $25 million if the planting were successful at the first attempt, but it will probably be necessary to make a further attempt, which will increase the cost by a further $5 million. The company’s cost of capital is10%.

   Discuss whether a provision for the cost of cleaning the site be made and journalise the related transactions if any. [20marks] **[Total 30marks]**

THE END