



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC207
COURSE TITLE : GENERAL FINANCIAL REPORTING
SPECIAL REQUIREMENTS : Non-programmable Calculator
DURATION : 3 Hours
LEVEL : 2.1
DATE : 14 NOV 2019

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **All FOUR (4)** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

Question 1

The following Trial Balance relates to Otley limited at 31 March 2016

	\$'000	\$'000
Lease rental	5 000	
Revenue		1 040 000
Cost of Sales	585 800	
Distribution Costs	15 200	
Administration Expenses	39 600	
Loan interest paid	9 600	
Property-cost	400 000	
Property –depreciation at 1 st April, 2015		75 000
Plant and Equipment –cost	337 200	
Plant and Equipment- Depreciation at 1 st April 2015		97 200
Licence –cost	80 000	
Licence –amortization at 1 st April, 2015		32 000
Trade receivables	81 400	
Inventory-31 st March, 2015	37 600	
Bank		3 900
Trade Payables		70 400
Ordinary shares of 0.50 cents each		100 000
12% Loan note (issued 1 st April 2015)		80 000
Taxation		4 000
Retained Earnings at 1 st April, 2015		88 900
	<u>1 591 400</u>	<u>1 591 400</u>

The following notes are relevant: -

1. On 1st April 2015 Otley Limited revalued its property to \$480 million, of which \$120 million relates to the land. The property's original cost on 1st April 2005 of \$400 million included \$100 million for land. The building had an estimated life of 40 years when it was acquired and this has not changed as a result of the revaluation. Depreciation is charged on a straight-line basis. The revaluation has not yet been recorded in the books. Otley Limited has a policy of transferring any excess depreciation to retained earnings.

2. During the year, Otley Limited sold some plant that cost \$40 million on 1st December 2015. The proceeds of this sale were \$24 million and these have been credited to cost of sales. No entries have been made relating to the disposal.

Plant and equipment is to be depreciated on the reducing balance basis at a rate of 20% per annum. Otley Limited charges a full year's depreciation in the year of acquisition and none in the year of disposal.

3. The licence is being amortized on a straight-line basis at a rate of 20% per annum. All depreciation and amortization is to be charged to cost of sales.

Required: -

- Prepare a statement of profit or loss and other comprehensive income for the year ended 31st March 2016 using function method. **(7 marks)**
- Prepare a statement of changes in equity for year ended 31st March 2016. **(3 marks)**
- Prepare a statement of financial position as at 31st March 2016. **(15 marks)**

[Total 25 Marks]

Question Two

- (a)
- i. Define **Control in** accordance with IAS 28 [2]
 - ii. Define Significant influence as it relates to investment in associates and joint ventures IAS 28 [2]
- (b) Identify four ways in which an entity may gain significant control over another entity [2]
- (c) The following financial statements relate to Harry, Stanley and Agrippa Limited.

Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2018.

	Harry Ltd	Stanley Ltd	Agrippa Ltd
	\$	\$	\$
Sales	980 200	490 100	245 050
Cost of sales	(245 050)	(147 030)	(98 020)
Gross profit	735 150	343 070	147 030
Distribution costs	(98 020)	(24 505)	(29 406)
Administration cost	(49 010)	(29 406)	(34 307)
Operations costs	588 120	289 159	83 317
Dividend receivable:			
Stanley Limited	70 000	0	0
Agrippa Limited	12 500	0	0
Profit before tax	670 620	289 159	83 317
Company tax	(245 000)	(107 800)	(39 200)
Net Profit	425 620	181 359	44 117

Statement of Changes in Equity for the year ended 30 June 2018

	Harry Ltd	Stanley Ltd	Agrippa Ltd
	\$	\$	\$
Balance brought forward	946 400	283 920	185 920
Net profit after tax	425 620	181 359	44 117
Dividends declared	(250 000)	(100 000)	(50 000)
Closing balance	1 122 020	365 279	180 037

Statements of Financial Position as at 30 June 2018

	Harry Ltd	Stanley Ltd	Agrippa Ltd
	\$	\$	\$
Assets			
Tangible non-current assets	980 000	295 000	260 000
Investments in quoted companies			
70% in Stanley Ltd	344 000	0	0
25% in Agrippa Ltd	63 000	0	0
Current Assets			
Inventory	343 070	396 981	38 208
Trade Receivables	352 872	88 218	34 307
Dividends receivables	82 500	0	0
Cash at bank	85 300	42 600	52 460
	2 250 742	822 799	384 975
Equity and Reserves			
Share capital	500 000	250 000	100 000
Retained earnings	1 122 020	365 279	180 037
Shareholders capital and reserves	1 622 020	615 279	280 037
Non-Current Liabilities			
Long term Loan	378 722	107 520	54 938
Current Liabilities			
Dividends Payable	250 000	100 000	50 000
	2 250 742	822 799	384 975

Additional Information:

1. When Harry Ltd acquired its interest in the other companies many years ago, the retained earnings were \$150 000 and \$ 86 200 for Stanley and Agrippa Ltd respectively.

REQUIRED:

Prepare the following sets of financial statements.

- (a) Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2018. **(10 Marks)**
- (b) Consolidated Statement of Changes in Equity for the year ended 30 June 2018. **(10 Marks)**
- (c) Consolidated Statement of Financial Position as at 30 June 2018. **(14 Marks)**

[Total: 40 Marks]

Question 3

A company receives a 20% grant towards the cost of a new item of machinery, which cost \$100,000. The machinery has an expected life of four years and a nil residual value. The expected profits of the company, before accounting for depreciation on the new machine or the grant, amount to \$50,000 per annum in each year of the machinery's life.

Required:

Prepare the relevant accounts according to IAS 20 Government grants and assistance for the four (4) years?

[Total: 20 Marks]

Question 4

FRS 5 Non-current Assets Held for Sale and Discontinued Operations outlines the accounting treatment for non-current assets held for sale and discontinued operations.

Required:

- (a) Define the terms “non-current assets held for sale” and “discontinued operations”. (6 marks)
- (b) Explain the usefulness of information on discontinued operations. (2 marks)

(c) On 1 January 2011, Michelle Company bought a chicken-processing machine for \$ 20,000. On 31 December 2012, after two years of using the asset, Michelle Company decides to sell the machine and starts actions to locate a buyer. The machines are in short supply, so Michelle Company is confident that the machines will be sold quickly. Its current market value is \$15,000 and it will cost \$500 to dismantle the machine and make it available to the purchaser.

At what value should the machine be stated in Michelle Company’s statement of financial position at 31 December 2012? (7 marks)

[Total: 15 Marks]

“ÉND OF QUESTION PAPER”