



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 207
COURSE TITLE : GENERAL FINANCIAL REPORTING
DURATION : 3 Hours
DATE : 15 July 2019

INSTRUCTIONS TO CANDIDATES:

1. Answer any FOUR questions only.
2. Each question carries 25 Marks.
3. Start each question on a new page of your answer sheet.
4. Use of silent, non-programmable calculators is allowed.

Question One

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance sets out the requirements for recognising as income any grants received from government agencies, together with any repayments of such grants.

On 1 January 2016, Gumbochuma Ltd (Gumbochuma) applied to a government agency for a grant to assist with the construction of a factory in Lupane. The proposed construction cost of the factory was \$52 million and the company projected that 350 people would be employed on its completion. Gumbochuma already owned the land.

On 1 March 2016, the government agency offered to grant a sum amounting to 25% of the factory's construction cost to a maximum of \$13 million. The grant aid was to be payable on completion, and would be repayable on demand if total employment at the factory fell below 300 people within 5 years of completion.

At the financial year-end, 31 March 2016, Gumbochuma had accepted the offer of grant aid, and had signed contracts for the construction of the factory at a total cost of \$52 million. Construction work was due to commence on 1 April 2016.

By 31 March 2017, the factory had been completed on budget, 400 people were employed ready to commence manufacturing activities, and the government agency agreed that the conditions necessary for the drawdown of the grant had been met.

On 1 April 2015, the factory was brought into use. It was estimated that it would have a ten-year useful economic life. On 1 June 2017, the government agency paid over the agreed \$13 million. In addition, the company sought and was paid an employment grant of \$1.2 million as employment exceeded original projections. This is expected to be payable annually for 5 years in total, at a rate of \$12,000 per additional person employed over 300 in each year. There are no repayment provisions attached to the employment grant. The directors of Gumbochuma expect employment levels to exceed 350 people for at least 4 further years from 31 March 2018.

Required:

- a. Detail the requirements of IAS 20 Accounting for Government Grants and Disclosure of Government Assistance with respect to government grants to aid capital expenditure. Your answer should cover the initial recognition and subsequent treatment of these grants (7 Marks)
- b. Discuss, showing calculations and journal entries where relevant, how Gumbochuma Ltd should record the above transactions and events in its financial statements for years ended 31 March 2016, 2017 and 2018. (11 Marks)
- c. Advise what accounting adjustments which would be necessary should it become apparent at 31 March 2019, that employment at the factory would soon drop below 300 people (5 Marks)

[Total: 25 Marks]

Question Two

Issue One

Chitonga plc purchases a bond for \$441,014 on 1 Jan 2012. It will be redeemed on 31 December 2015 for \$600,000. Chitonga intends to hold the bond to maturity and it carries no interest coupon. The final payment of \$600,000 consists entirely of compensation for principal advanced by Chitonga and accrued interest thereon. The effective rate of return is 8%.

Required:

Discuss how this bond will be recognised on purchase, and subsequently accounted for over its life as an investment of Chitonga plc. Assume the reporting date is 31 December each year. Show appropriate journal entries. (8 Marks)

Issue Two

Chitonga plc purchased 10,000 shares in another company during 2011 as a long term investment for a cost of \$4.50 per share, incurring transaction costs of \$1,450. She made an irrevocable election immediately after purchase to take all remeasurement gains and losses through —other comprehensive income as allowed by IFRS 9. The market value of the shares at 31 December 2011 was \$5.04 per share. It would cost \$1,500 in transaction costs to sell the shares at that date. In the event, due to liquidity problems, Chitonga plc had to sell the shares in 2012 for \$5.45 per share, incurring transaction costs of \$1,510 on the deal.

Required:

Discuss the accounting treatment of the financial asset in 2011 and 2012. Assume the financial year ends on 31 December each year. Show appropriate journal entries. (8 Marks)

Issue Three

Operating Segments

Our advisors say that we should prepare and disclose information on operating segments in the 2017 financial statements. Is there still an accounting standard that addresses this area? How should we account for operating segments and what information needs to be disclosed? I have reviewed the internal accounting information that used to allocate resources and assess performance for Chitonga in 2017. I have identified the following potential segments that we could report on.

	Revenue	Profit/(Loss)	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Asia	5,200	1,080	5,470	4,200
Australia	1,400	(430)	800	750
Europe	17,630	1,180	14,345	4,165
North America	2,300	(80)	1,200	800
Total	26,530	1,750	21,815	9,915

Required

Identify which segments are reportable

(9 Marks)

[Total: 25 Marks]

Question Three

The following represents the abridged financial statements of Major and Minor Limited:

Statement of Financial Position at 31 December 2016

	Major	Minor
Assets	\$	\$
Property, plant and equipment	240 000	450 000
Investments in :216 000 shares at fair value (cost :\$350 000)		
Loan	150 000	
Trade Receivable	235 000	155 000
Inventories	135 000	165 000
	<u>1110 000</u>	<u>770 000</u>
Equity and Liabilities		
\$ Ordinary Shares	300 000	240 000
Retained Earnings	375 000	290 000
Non current liabilities	225 000	
Loan from Major Limited		150 000
Trade Payables	210 000	90 000
	<u>1110 000</u>	<u>770 000</u>

Statement of Profit or loss and other Comprehensive Income for the year ended 31 December 2016

	Major Limited	Minor Limited
	\$	\$
Revenue	945 000	1 500 000
Cost of sales	<u>(472 500)</u>	<u>(700 000)</u>
	472 500	800 000
Net expenses	<u>(202 500)</u>	<u>(450 000)</u>
Dividends received from Minor Limited	<u>96 000</u>	
Profit before tax	366 000	350 000
Taxation	<u>108 000</u>	<u>120 000</u>
Profit after tax	<u>258 000</u>	<u>230 000</u>

Extract from the statement of changes in equity for the year ended 31 December 2016

	Retained Earnings	Retained Earnings
Balance in 31 December 2015	225 000	180 000
Profit for the period	258 000	230 000
Ordinary dividend	<u>108 000</u>	<u>120 000</u>
Balance on 31 December 2016	<u>375 000</u>	<u>290 000</u>

Additional Information:

- (i) On 1 January 2010, the date on which Major Limited acquired interest in Minor Limited the latter's shareholders equity consisted:

\$ 1 Ordinary shares	\$ 240 000
Retained earnings	\$ 120 000

- (ii) Since 1 January 2016 ,Major Limited has purchased some of its inventories to the value of \$300 000 from Minor Limited at cost plus 50%
- (iii) On 31 December 2016 ,Major Limited 's inventory included an amount of \$ 90 000 in respect of inventories purchased from Minor Limited

Required:

Prepare consolidated financial statements for Major Limited and its subsidiary for the year ended 31 December 2016. Show all workings.

[Total: 25 marks]

Question Four

Part A

On 1 January 2018 an entity with a 30 June financial year end decided to dispose of a group of assets within the following year. These assets met the classification as held for sale at that date. The carrying amounts of the assets and other relevant information was as follows:

	\$
Land(1/7/2017)	14 136 150
Factory building (1/7/2017) Depreciated at 10% p.a reducing bal	67 146 810
Plant and equipment (1/7/2017) Depreciated at 15% reducing balance	26 800 000
Inventory(1/7/2017)	7 500 000
Inventory(30/6/2018)	5 900 000
Liabilities related to plant-1/7/2017	4 650 000
-30/06/2018	3 480 000
Investments (1/07/2017)(fair value)	15 000 000
(30/06/2018) fair value	18 000 000
Additional information	
Fair Value of disposal group	145 000 000
Disposal costs	5 960 000
Cumulative impairment loss recognised to (1/10/2017)	6 500 000

Required:

Outline the accounting treatment for the group assets in terms of IFRS 5 on 30/06/2018

(15 Marks)

Part B

The following related party transactions were carried out by Golden Limited (GL) 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 GL. It is GL's policy to add 30% margin on cost. Outstanding liability at year end, in respect of these purchases was \$ 6.5 million.
- ii. PL provided administrative services to GL. 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. GL 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 GL 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 GL's financial statements for the year ended December 31, 2018 showing disclosures as required under IAS - 24 (Related Party Disclosures).

(10 Marks)

[Total: 25 Marks]

END OF PAPER