



**ZIMBABWE EZEKIEL GUTI UNIVERSITY**

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**FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING**

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**DEPARTMENT OF ACCOUNTING AND FINANCE**

**EXAMINATION PAPER**

**COURSE CODE** : CAC 207  
**COURSE TITLE** : GENERAL FINANCIAL REPORTING  
**DURATION** : 3 Hours  
**DATE** : 29 May 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

House Ltd erected a number of buildings at a cost of \$800 000, which was settled on 1 January 2016 in cash. These buildings have a useful life of 10 years and were completed and put into use on 1 January 2016.

House Ltd received a government grant of \$180 000 on 1 January 2016, since it is important for the national government to provide hoses for all its citizens.

However, on 1 January 2018 the national government ruled that \$40 000 of the government grant received on 1 January 2016 must be paid back immediately since House Ltd did not meet all the all the conditions attached to the grant.

Assume a profit before tax prior to the above transactions of \$500 000 for the year ended 31 December 2016 to 31 December 2018.

#### Required:

- a) Prepare the journal entries for the years ended 31 December 2016 to 31 December 2018 in respect of the above transactions if it is assumed that the government grant is presented as deferred income in the statement of financial position. **(9 Marks)**
- b) Prepare the journal entries for the years ended 31 December 2016 to 31 December 2018 in respect of the above transactions if it is assumed that the government grant is presented by deducting the grant from the carrying amount of the asset. **(8 Marks)**
- c) Describe the presentation and disclosure requirements for government grants related to assets. **(8 Marks)**

**[Total: 25 Marks]**

### Question Two

- a. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations sets out the principles governing the measurement and presentation of non-current assets that are expected to be realised through sale rather than through continuing use. The standard also deals with reporting the results of operations that qualify as discontinued.

**Required:**

Discuss what is meant in IFRS 5 by ‘available for immediate sale in its present location ‘ and ‘the sale must be highly probable’ ,setting out briefly why regulators may question entities on the application of the standard. (7 marks)

- b. Strawboy Plc is a long-established travel agent, operating through a network of retail outlets and an online store. In recent years, the business has seen its revenue from the online store grow strongly, and that from retail outlets decline significantly. On 25 January 2018, the board decided to close the retail network at the financial year end of 31 July 2018, and put the buildings up for sale on that date. The directors are seeking advice regarding the treatment of the buildings in the statement of financial position, as well as the treatment of the trading results of the retail division for the year. The following figures are available at 31 July 2018:

Carrying value of buildings	\$20.0 million
Fair value less costs to sell of buildings	\$17.2 million
Other expected costs of closure	\$3.9 million

**Trading Results**

## Trading Results

	Year Ended 31 July 2018		Year Ended 31 July 2017	
	Online Store \$	Retail Store \$	Online \$	Retail \$
Revenue	39	9	32	12
Cost of Sales	(13)	(7)	(11)	(9)
Gross Profit	26	2	21	3
Operating Costs	(10)	(5)	8	(5)
Profit before tax	16	(3)	13	(2)

**Required:**

- a. Outline the conditions which must be present in order to present the results of an operation as “discontinued” and the accounting treatment that applies when such a classification is deemed appropriate. **(5 marks)**
- b. Draft the Statement of Profit or Loss for Strawboy Plc for year ended 31 July 2018, together with the comparative for 2017, taking the above information into account. **(8 marks)**
- c. On 31 March 2018 an entity with a June 30 financial year and decided to dispose of an individual asset which was correctly classified as held for sale and had a carrying amount of \$7 500 000.

This recorded carrying amount incorporates

	\$
Cost	13 900 000
Accumulated depreciation	(4 300 000)
Previous impairment loss	(2 100 000)
	<u>7 500 000</u>

**(5 Marks)**

**[Total: 25 Marks]**

**Question Three**

- a. Banana Plc purchased a four year non-convertible loan note on 1st June 2017 for \$100,000. The loan has a coupon rate of 10% per annum and an annual effective interest rate of 12%. The difference between the two interest rates is due to a premium of \$10,000 receivable at loan maturity.

The interest for the year to 31st May 2015 was received on 30th May 2018.

This kind of loan has an annual market interest rate of 8%.

**Required:**

Explain the accounting treatment of the loan note in the financial statements of Banana Plc for the year to 31st May 2018 if it were classified as follows:

- i. Financial asset at amortised cost **(6 marks)**
- ii. Financial asset at Fair value through profit or loss **(9 marks)**

In your capacity of Assistant Accountant, write a report to the Chief Finance Officer of Bling Bling Accessories Limited (BBAL), advising him of the practical problems arising on the application of the new rules arising, under IFRS 8 Operating segments, on the identification of and reporting for operating segments. **(10 marks)**

**[ Total :25 Marks ]**

**Question Four**

Two years ago Singapore paid \$90,000 for a controlling interest of 80% in the Marina Bay's equity when the retained earnings were \$25,000. The summarised statement of financial positions at the reporting date are as follows:

	Singapore \$	Marine Bay \$
Investment in Marina Bay	90,000	
Property plant & equipment	30 000	30 000
Current Assets	30 000	30 000
	150 000	60 000

Equity shares	25 000	15 000
Retained Earnings	100 000	40 000
	125 000	55 000
Liabilities	25 000	5 000
	150 000	60 000

**Additional information:**

- i. At the date of acquisition the fair value of the NCI of Marina Bay was measured at \$20,000.
- ii. For consolidation purposes at the date of acquisition the fair value of the non-depreciable land of Marina Bay exceeded its carrying value by \$25,000. Marina Bay has not incorporated this fair value adjustments into its individual financial statements.
- iii. At the reporting date Singapore is owed \$5,000 by Marina Bay.

**Required:**

Prepare the Singapore group statement of financial position.

**( 20 Marks )**

- b. Purple Co acquired 70% of the voting share capital of Silver Co on 1 October 2017. The following extracts are from the individual income statements of the two companies for the year ended 30 September 2018:

	Purple Co	Silver Co
	\$	\$
Revenue	79,300	29,900
Cost of sales	(54,990)	(17,940)
Gross Profit	24,310	11,960

**Required:**

Prepare an extract of the consolidated statement of profit or loss and other comprehensive income.

**(5 Marks)**

**[Total: 25 Marks]**

**END OF PAPER**