

**ZIMBABWE EZEKIEL GUTI UNIVERSITY**



**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**B. COM ACCOUNTING**

**COURSE: PUBLIC SECTOR ACCOUNTING I**

**COURSE CODE: CAC401**

**DURATION: 3 HOURS**

**27 JULY 2017**

**INSTRUCTIONS TO CANDIDATES:**

1. Answer all questions.
2. No cell-phones are allowed in the examination.
3. Use of silent non-programmable calculators is allowed.

## QUESTION 1

- a) A socially responsible Parastatal decided to construct a tunnel that will link two sides of the village that were separated by a natural disaster years ago. Realising its role as a good corporate citizen, the Parastatal has been in this village for a couple of years exploring oil and gas in the nearby plain area. The tunnel would take two years to build and the total capital outlay needed for the construction would be not less than \$25 million. To allow itself a margin of safety, the Parastatal borrowed \$28 million from three sources and used the extra \$3million for its working capital purposes (not on the Qualifying Asset).

Financing was arranged in this way:

- Bank loan: \$8 million at 7% per annum was borrowed on 1 February 2016;
- External fund loan: \$11 million at 8% per annum was borrowed on 1 July 2016 and
- Institutional borrowings: \$9 million at 9 % per annum was borrowed on 1 September 2016.

In the first phase of the construction of the tunnel, there were idle funds of \$10 million, which were invested for a period of six months. Income from this investment was \$500 000.

### Required:

- i) Name the two allowed treatments of borrowing cost under IPSAS 5: Borrowing Cost. (4 marks)
- ii) Calculate the capitalisation rate for use in the project. (6 marks)
- iii) Calculate interest eligible for capitalisation over the two years. (5 marks)
- iv) Show the value of the tunnel on year two. (5 marks)
- b) Compare and contrast cash basis of accounting from accrual basis of accounting in Public Sector Entities. (5 marks)

[Total: 25 marks]

## QUESTION 2

- a) "Statutory Corporations are necessary in any economy". Discuss with reference to relevant Zimbabwean examples. (17 marks)
- b) Explain the differences between the private sector enterprises and public sector enterprises. (8 marks)

[Total: 25 marks]

### QUESTION 3

- a) At the beginning of the year, the following were approved by the public-sector enterprise;
- Estimated revenue for the year amounted to \$100 million.
  - Authorised expenditure was pegged at \$97 million.
  - The total of \$2 million was estimated to be obtained from the government's main fund account.
  - It was also assumed that \$4 million will be transferred to a sister entity during the year.

#### Required:

Prepare the following ledger accounts:

- |                                     |           |
|-------------------------------------|-----------|
| i) Revenue control account          | (2 marks) |
| ii) Estimated other finance sources | (2 marks) |
| iii) Appropriations control         | (2 marks) |
| iv) Estimated other finance uses    | (2 marks) |
| v) Fund balance account             | (5 marks) |
- b) Explain the implications of recording the budget above. (4 marks)
- c) Evaluate 4 main sources of government revenue. (8 marks)

[Total: 25 marks]

### QUESTION 4

- a) Briefly state and explain duties of the Auditor- General as provided in the Constitution of Zimbabwe. (Constitution of Zimbabwe Amendment 20) (8 marks)
- b) Assess 3 methods that can be used in re-inventing government of Zimbabwe. (9 marks)
- c) Explain the role of Consolidated Revenue Fund (CRF) in ensuring control over public funds. (8 marks)

[Total: 25 marks]

\*\*\*END OF EXAMINATION PAPER\*\*\*