



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 405
COURSE TITLE : SPECIFIC FINANCIAL REPORTING
SPECIAL REQUIREMENTS : Non- programmable Calculator
DURATION : 3 Hours
LEVEL : 15 NOV 2019
DATE

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer all the **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 []

SECTION A: MULTIPLE CHOICE QUESTIONS

NB: For each question in this section, write the letter that corresponds with the correct answer.

QUESTION 1

1.1. Which of these considerations would not be relevant in determining the entity's functional currency? *

- A. The currency that influences the costs of the entity.
- B. The currency in which finance is generated.
- C. The currency in which receipts from operating activities are retained.
- D. The currency that is the most internationally acceptable for trading.

1.2. As per IFRS 13, an entity that holds a group of financial assets and financial liabilities is exposed to:

- A. Market risks
- B. Credit risk of each of the counterparties
- C. All the above
- D. None of the above

1.3. Generally speaking, biological assets relating to agricultural activity should be measured using

- A. Historical cost.
- B. Historical cost less depreciation less impairment.
- C. A fair value approach.
- D. Net realizable value.

1.4. Which of the followings are exempted from disclosure requirements of IFRS 13?

- A. Plan assets measured at fair value in accordance with IAS 19 Employee Benefits
- B. Retirement benefit plan investments measured at fair value in accordance with IAS 26 Accounting and Reporting by Retirement Benefit Plans
- C. Assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36
- D. All the above

1.5. Entity A had a plantation forest that is likely to be harvested and sold in 30 years. The income should be accounted for in the following way:

- A. No income should be reported until first harvest and sale in 30 years.
- B. Income should be measured annually and reported using a fair value approach that recognizes and measures biological growth.
- C. The eventual sale proceeds should be estimated and matched to the profit and loss account over the 30-year period.
- D. The plantation forest should be valued every 5 years and the increase in value should be shown in the statement of recognized gains and losses.

1.6. An entity grants 1,000 share options to each of its five directors on July 1, 2014. The options vest on June 30, 2018. The fair value of each option on July 1, 2014, is \$5, and it is anticipated that all of the share options will vest on June 30, 2018. What will be the accounting entry in the financial statements for the year ended June 30, 2015? *

- A. Increase equity \$25,000, increase in expense income statement \$25,000.
- B. Increase equity \$5,000, increase in expense income statement \$5,000.
- C. Increase equity \$6,250, increase in expense income statement \$6,250.
- D. Increase equity zero, increase in expense income statement zero.

1.7. Foreign operations that are an integral part of the operations of the entity would have the same functional currency as the entity. Where a foreign operation functions independently from the parent, the functional currency will be *

- A. That of the parent.
- B. Determined using the guidance for determining an entity's functional currency.
- C. That of the country of incorporation.
- D. The same as the presentation currency.

1.8. The IASB encourages publicly traded entities to provide interim financial reports *

- A. At least at the end of the half-year and within 60 days of the end of the interim period.
- B. Within a month of the half-year-end.
- C. On a quarterly basis.
- D. Whenever the entity wishes.

1.9. Foreign operations that are an integral part of the operations of the entity would have the same functional currency as the entity. Where a foreign operation functions independently from the parent, the functional currency will be *

- A. That of the parent.
- B. Determined using the guidance for determining an entity's functional currency.
- C. That of the country of incorporation.
- D. The same as the presentation currency.

1.10. Which of the following is not dealt with by IAS 41? *

- A. The accounting for biological assets.
- B. The initial measurement of agricultural produce harvested from the entity's biological assets.
- C. The processing of agricultural produce after harvesting.
- D. The accounting treatment of government grants received in respect of biological assets.

[Total 20 Marks]

SECTION B:**QUESTION 2**

The abridged statements of financial position and statement of profit or loss and other comprehensive incomes of Darius Co and its foreign subsidiary, Xerxes Inc, appear below.

DRAFT STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Darius Co	Xerxes Inc
	\$	€
Assets		
<u>Non-current assets</u>		
Plant at cost	600	500
Less depreciation	<u>(250)</u>	<u>(200)</u>
	350	300
Investment in Xerxes(100 €1 shares	<u>25</u>	=
	375	300
<u>Current assets</u>		
inventories	225	200
receivables	<u>150</u>	<u>100</u>
	<u>375</u>	<u>300</u>
TOTAL ASSETS	<u>750</u>	<u>600</u>
Equity and Liabilities		
<u>Equity</u>		
Ordinary \$1/ €1 shares	300	100
Retained Earnings	<u>300</u>	<u>280</u>
	600	380
Long term loans	50	110
<u>Current liabilities</u>	<u>100</u>	<u>110</u>
TOTAL EQUITY AND LIABILITIES	<u>750</u>	<u>600</u>

STATEMENT OF PROFIT/LOSS AND OTHER COMPREHENSIVE INCOME

	Darius Co	Xerxes Inc
	\$	€
Profit before tax	200	160
Tax	<u>(100)</u>	<u>(80)</u>
Profit after tax, retained	<u>100</u>	<u>80</u>

The following further information is given:

- a) Darius and company had its interest in Xerxes Inc since incorporation of the company. Neither company paid dividends during the year to 31 December 2019 and neither company had any other comprehensive income in their separate financial statements.
- b) Depreciation is 8% per annum on cost.
- c) There have been no loan repayments or movements in non-current assets during the year. The opening inventory of Xerxes Inc was €120. Assume that inventory turnover times are very short.
- d) Exchange rates:
- €4 to \$1 when Xerxes Inc was incorporated
 - €2.5 to \$1 when Xerxes acquired its non-current assets
 - €2 to \$1 on 31 Dec 2018
 - €1.6 to \$1 average rate of exchange year ending 31 December 2019
 - €1 to \$1 on 31 December 2019

Required

Prepare the summarised consolidated financial statements of Darius Co as per requirements of IAS 21.

[Total: 30 Marks]

QUESTION 3

Whitegold Ltd sells cotton lint as its core business. Two markets exist for the cotton lint, where location is one of the characteristic of the item. Whitegold Ltd normally transacts cotton lint in UK market. Nevertheless, Whitegold also gathered available information regarding the volume and level of activity in Chinese market.

	<u>UK market</u>	<u>Chinese market</u>
Volume (annual in millions \$)	20	100
Transactions (per day)	15	55
Price (at period end, \$)	100	97
Transport costs (\$)	6	2

- a) Explain what is meant by:
- i. Principal market (3 marks)
 - ii. Most advantageous market (3 marks)
- b) From the data in the table above state which of the two markets is
- i. the principal and (2 marks)

- ii. the most advantageous market (2 marks)
c) calculate the potential fair value of the cotton lint for the two markets (5 marks)
d) Outline the disclosure requirements of IFRS 13 (10 Marks)

[Total 25 marks]

QUESTION 4

Quail Pakistan Limited (QPL), a listed company, is reviewing the following transactions which have not yet been accounted for in the financial statements for the year ended 30 June 2012:

- a) On 1 July 2011, QPL announced a bonus of \$30 million to its employees if they achieved the annual budgeted targets by 30 June 2012. The bonus would be paid in the following manner:
- 25% of the bonus would be paid in cash on 31 December 2012 to all employees irrespective of whether they are still working for QPL or not.
 - The balance 75% will be given in share options, to those employees who are in QPL's employment on 31 December 2012. The exercise date and number of options will be fixed by the management on the same day.

The budgeted targets were achieved. The management expects that 5% employees would leave between 30 June 2012 and 31 December 2012.

- b) On 30 June 2012, a plant having a list price of \$50 million was purchased. QPL has allowed the following options to the supplier, in respect of the payment there against:
- To receive cash equivalent to price of 1.5 million shares of the company after three months, or
 - To receive 1.7 million shares of the company after 6 months.

QPL estimates that its shares would be \$35 per share after three months and \$40 per share after 6 months.

Required:

Show how the above share based transactions should be accounted for in QPL's financial statements for the year ended 30 June 2012. Show necessary calculations. (Journal entries are not required)

[Total 25 Marks]

END OF PAPER