



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
DURATION : 3 Hours
DATE : 30 May 2019

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions.
4. Each question carries 25 marks.
5. Begin each question on a new page.

SECTION A: MULTIPLE CHOICE QUESTIONS

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

QUESTION 1

- i. Under IAS 34, interim financial reports should be published * **(2 Marks)**
- A. Once a year at any time in that year.
 - B. Within a month of the half-year-end.
 - C. On a quarterly basis.
 - D. Whenever the entity wishes.
- ii. The IASB encourages publicly traded entities to provide interim financial reports * **(2 Marks)**
- 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.
- iii. Which of these considerations would not be relevant in determining the entity's functional currency? * **(2 Marks)**
- 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.
- iv. 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 * **(2 Marks)**
- 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.
- v. Which of the following is not dealt with by IAS 41? * **(2 Marks)**
- 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.

- vi. Where there is a long aging or maturation process after harvest, the accounting for such products should be dealt with by * **(2 Marks)**
- A. IAS 41.
 - B. IAS 2, Inventory.
 - C. IAS 16, Property, Plant, and Equipment.
 - D. IAS 40, Investment Property.
- vii. Which of the followings are exempted from both measurement and disclosure requirements of IFRS 13: * **(2 Marks)**
- A. Share-based payment transactions within the scope of IFRS 2 Share-based Payment
 - B. Leasing transactions within the scope of IAS 17 Leases
 - C. Measurements that have some similarities to fair value, but are not fair value
 - D. All the above
 - E. Only A and C
- viii. As per IFRS 13, factors to consider in determining “Highest and best use” (HBU): * **(2 Marks)**
- A. Physically possible
 - B. Legally permitted
 - C. Financially viable
 - D. Only A and C
 - E. All the above
- ix. An entity contributes to an industrial pension plan that provides a pension arrangement for its employees. A large number of other employers also contribute to the pension plan, and the entity makes contributions in respect of each employee. These contributions are kept separate from corporate assets and are used together with any investment income to purchase annuities for retired employees. The only obligation of the entity is to pay the annual contributions. This pension scheme is a * **(2 Marks)**
- A. Multiemployer plan and a defined contribution scheme.
 - B. Multiemployer plan and a defined benefit scheme.
 - C. Defined contribution plan only.
 - D. Defined benefit plan only.
- x. Which of these events will cause a change in a defined benefit obligation? * **(2 Marks)**
- A. Changes in mortality rates or the proportion of employees taking early retirement.
 - B. Changes in the estimated salaries or benefits that will occur in the future.
 - C. Changes in the estimated employee turnover.
 - D. Changes in the discount rate used to calculate defined benefit liabilities and the value of assets.
 - E. All of the above.

- xi. Which of the following transactions involving the issuance of shares does not come within the definition of a “share-based” payment under IFRS 2? * (2 Marks)
- A. Employee share purchase plans.
 - B. Employee share option plans.
 - C. Share-based payment relating to an acquisition of a subsidiary.
 - D. Share appreciation rights.
- xii. Which of the following is true regarding the requirements of IFRS 2? * (2 Marks)
- A. Private companies are exempt.
 - B. “Small” companies are exempt.
 - C. Subsidiaries using their parent entity’s shares as consideration for goods and services are exempt.
 - D. There are no exemptions from IFRS 2.
- xiii. Regarding the choice of measurement basis used for valuing biological assets, IAS 41 * (1 Mark)
- A. Sets out several ways of measuring fair value.
 - B. Recommends the use of historical cost.
 - C. Recommends the use of current cost.
 - D. Recommends the use of present value

[Total: 25 Marks]

SECTION B

Question Two

- a. IFRS 2 – *Share-based Payment* – defines a share-based payment transaction as one in which an entity receives goods or services from a third party (including an employee) in a share-based payment arrangement. A share-based payment arrangement is an agreement between an entity and a third party which entitles the third party to receive either:
- Equity instruments of the entity (equity-settled share-based payments); or
 - Cash or other assets based on the price of equity instruments of the entity (cash-settled share-based payments).

Share-based payment arrangements are often subject to vesting conditions which must be satisfied over a vesting period.

Required:

For both cash-settled AND equity-settled share-based payment arrangements, explain:

- (i) The basis on which the arrangements should be measured; **(2 marks)**
- (ii) The criteria which are used to allocate the total value of the arrangement to individual accounting periods; **(3 marks)**
- (iii) The accounting entries (debit and credit) required during the vesting period. **(4 marks)**

b. LEE ltd prepares financial statements to 31 March each year. The following share-based payment arrangements were in force during the year ended 31 March 2015:

i. On 1 April 2013, LEE ltd granted options to 500 employees to subscribe for 400 shares each in LEE ltd on 31 March 2017, providing the employees still worked for LEE ltd at that time. On 1 April 2013, the fair value of each option was \$1.50.

In the year ended 31 March 2014, ten of these employees left LEE ltd and at 31 March 2014, LEE ltd expected that 20 more would leave in the three-year period from 1 April 2014 to 31 March 2017. LEE ltd's results for the year ended 31 March 2014 were below expectations and at 31 March 2014 the fair value of each option had fallen to 25 cents. Therefore, on 1 April 2014 LEE ltd amended the exercise price of the original options. This amendment caused the fair value of these options to rise from 25 cents to \$1.45.

During the year ended 31 March 2015, five of the employees left and at 31 March 2015, LEE ltd expected that ten more would leave in the two-year period from 1 April 2015 to 31 March 2017. The results of LEE ltd for the year ended 31 March 2015 were much improved and at 31 March 2015, the fair value of a re-priced option was \$1.60. **(10 marks)**

ii. On 1 April 2013, LEE ltd granted share appreciation rights to 50 senior employees. The number of rights to which each employee becomes entitled depends on the cumulative profit of LEE ltd for the three years ended 31 March 2016:

– 1,000 rights per employee are awarded if the cumulative profit for the three-year period is below \$500,000.

– 1,500 rights per employee are awarded if the cumulative profit for the three-year period is between \$500,000 and \$1 million.

– 2,000 rights per employee are awarded if the cumulative profit for the three-year period exceeds \$1 million.

On 1 April 2013, LEE ltd expected that the cumulative profits for the three-year period would be \$800,000.

After the disappointing financial results for the year ended 31 March 2014, this estimate was revised at that time to \$450,000. However, given the improvement in results for the year ended 31 March 2015, the estimate was revised again at 31 March 2015 to \$1,100,000.

On 1 April 2013, the fair value of one share appreciation right was \$1.10. This estimate was revised to \$0.90 at 31 March 2014 and to \$1.20 at 31 March 2015. All the senior employees are expected to remain employed by LEE ltd for the relevant three-year period. The rights are exercisable on 30 June 2016. **(6 marks)**

Required:

Show how and where transactions (i) and (ii) would be reported in the financial statements of LEE ltd for the year ended 31 March 2015.

Note: The mark allocation is shown against both of the two transactions above.

Ignore deferred tax

[Total: 25 Marks]

Question Three

a.

i. Discuss the main principles of fair value measurement as set out in IFRS 13.

(7 Marks)

ii. Describe the three -level hierarchy for fair value measurement used in IFRS 13.

(6 Marks)

b. Certain assets and liabilities are being reviewed by Bltd in tandem with IFRS 13. Bltd carries an asset that is traded in different markets and is uncertain as to which valuation to

use. The asset has to be valued at fair value under IFRS. Bltd currently only buys and sells the asset in the Australasian market. The data relating to the asset are set out below:

Year to November 2018	Asian Market	European Market	Australasian Mkt
Volume of market-units	4 million	2 million	1 million
Price	\$19	\$16	\$22
Costs of entering market	\$2	\$2	\$3
Transaction costs	\$1	\$2	\$2

Additionally, Bltd acquired an entity on 30 November 2018 and is required to fair value a decommissioning liability. The entity has to decommission a mine at the end of its useful life, which is in three years' time. Bltd has determined that it will use a valuation technique to measure the fair value of the liability. If Bltd were allowed to transfer the liability to another market participant, then the following data would be used:

Input	Amount
Labour and material costs	\$2 million
Overhead	30% of labour & material costs
Third party mark-up (industry average)	20%
Annual Inflation rate	5%
Risk adjustment-uncertainty relating to cash flows	6%
Risk- free rate of government bonds	4%
Entity's non-performance risk	2%

Bltd needs advice on how to fair value the liability.

Required

Discuss, with relevant computations, how Bltd should fair value the above asset and liability under IFRS 13. (12 Marks)

[Total:25 Marks]

Question Four

You are the financial controller of Omega, a listed company which prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Your managing director, who is not an accountant, has recently attended a seminar and has the following questions for you concerning issues raised at the seminar:

- a. One of the delegates at the seminar was a director of an entity which operates a number of different farms. She informed me that there was a financial reporting standard which applied to farming entities. I think she said it was IAS 41. I'd like to know why a special standard is needed for farming entities. Given that we have IAS 41, does this mean that other IFRSs do not apply to farming entities? Please explain the main recognition and measurement requirements of IAS 41 – I'm not interested in detail about disclosures. I am interested, though, in any areas where the provisions of IAS 41 differ from general IFRSs. I believe I heard that farming entities treat grants from the government in a different way than other entities do. I'm particularly interested to hear about this – assuming I'm correct.

(12 marks)

b.

- i. Why is the definition of "fair value" based on "exit price"? (3 Marks)
- ii. What is the difference between "transaction price" and "fair value"? (2 Marks)
- iii. Are transaction costs considered in determining "fair value"? (2 Marks)
- iv. Does IFRS 13 require the use of a professional valuator? (2 Marks)
- v. What is meant by "recurring" and "non-recurring" fair value measurements

(4 Marks)

[Total: 25 Marks]

END OF PAPER