

ZIMBABWE EZEKIEL GUTI UNIVERSITY



**DEPARTMENT OF ACCOUNTING AND FINANCE
B. COM ACCOUNTING**

COURSE: SPECIFIC FINANCIAL REPORTING

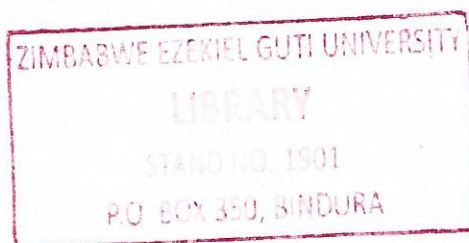
COURSE CODE: CAC405

DATE 21 JUNE 2017

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. No cell phones are allowed in the examination venue.
2. Answer **ALL FOUR** questions
3. Begin each question on a new page.
4. The number of marks allocated to each question or part question is shown in brackets
5. All questions carry twenty five marks each.
6. Hand-held, self-powered, non-programmeable, silent calculators are allowed into the examination.



Question 1

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.

- i) On 1 January 2014, Gilmartin Ltd applied to a government agency for a grant to assist with the construction of a factory in Mazowe. The proposed construction cost of the factory was \$52 million and the company projected that 350 people would be employed on its completion. The land was already owned by Gilmartin Ltd.
- ii) On 1 March 2014, 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.
- iii) At the financial year end, 31 March 2014, Gilmartin Ltd had accepted the offer of grant, and signed contracts for the construction of the factory at a total cost of \$52 million. Construction work commenced on 1 April 2014.
- iv) By 31 March 2015, 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.
- v) 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 2015, 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 Gilmartin Ltd expect employment levels to exceed 350 people for at least 4 further years from 31 March 2016.

Required:

- a) Define the term government grant, as provided by IAS 20. (3 marks)
- b) Outline the requirements of IAS 20, with respect to government grants for capital expenditure (asset related grants). Your answer should cover the initial recognition and subsequent treatment of these grants. (7 marks)
- c) Discuss, showing calculations and journal entries where relevant, how Gilmartin Ltd should record the above transactions and events in its financial statements for years ended 31 March 2014, 2015 and 2016. (10 marks)
- d) Advise what accounting adjustments which would be necessary should it become apparent at 31 March 2017, that employment at the factory would soon drop below 300 people. (5 marks)

[Total 25 marks]

Question 2

Livestock Ltd had a herd of 10 two-year-old animals at 1 January 2016. One animal, aged 2.5 years, was purchased on 1 July 2016 for \$324, and one animal was born on 1 July 2016. No animals were sold during the year. Fair values less estimated point-of-sale costs per animal were as follows:

| | \$ |
|---|-----|
| 2-year-old animal at 1 January 2016 | 300 |
| Newborn animal at 1 July 2016 | 210 |
| 2.5-year-old animal at 1 July 2016 | 324 |
| Newborn animal at 31 December 2016 | 216 |
| 0.5-year-old animal at 31 December 2016 | 240 |
| 2-year-old animal at 31 December 2016 | 315 |
| 2.5-year-old animal at 31 December 2016 | 333 |
| 3-year-old animal at 31 December 2016 | 360 |

Required

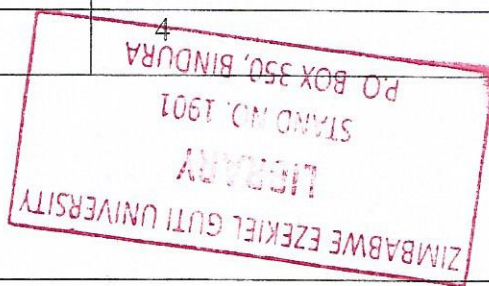
Applying the provisions of IAS 41 (Agriculture):

- a) Define the following terms and concepts:
 - i) Agricultural Activity (3 marks)
 - ii) Biological assets (2 marks)
 - b) Show the overall movement in the valuation of Livestock Ltd's herd for 2016. (5 marks)
 - c) Calculate the physical changes and price changes for livestock Ltd's herd in 2016 (10 marks)
 - d) Outline the minimum components of an interim report as prescribed by IAS 34 (Interim Financial Reporting). (5 marks)
- [Total 25 marks]**

Question 3

- a) Accruals Ltd has the following assets and liabilities recorded in its statement of financial position at 31 December 2016:

| | Carrying Value Smillion | Tax Base Smillion |
|---------------------|----------------------------|----------------------|
| Property | 20 | 14 |
| Plant and equipment | 10 | 8 |
| Inventory | 8 | 12 |
| Trade receivables | 6 | 8 |
| Trade payables | 12 | 12 |
| Cash | 4 | 4 |



Additional information

- i) Accruals Ltd made a provision for inventory obsolescence of \$4 million that is not allowable for tax purposes until the inventory is sold, and an impairment charge against trade receivables of \$2 million that will not be allowed in the current year for tax purposes but will be in the future.
- ii) The tax rate is 25%.

Required:

Calculate the deferred tax provision at 31 December 2016.

(15 marks)

- b) Blue Limited, whose year-end is 31 December, buys goods from a foreign company for 180,000 Ricos on 31 July 2016. The transaction is settled on 31 October 2016.

Exchange rates:

31 July 2016 \$1 = 1.5 Ricos

31 October 2016 \$1 = 1.6 Ricos

Required:

Show the journal entries to record the above transaction by Blue Ltd for the year ended 31 December 2016.

(10 marks)

[Total 25 marks]

Question 4

- a) On 1 January 2016, the fair value of the assets of Schilling Ltd's defined benefit plan were valued at \$1.2 million and the present value of the defined obligation was \$1.25 million. On 31 December, the plan received contributions from Schilling Ltd amounting to \$250,000 and paid out benefits of \$150,000. The current service cost for the financial year ending 31 December 2016 is \$300,000. An interest rate of 5% is to be applied to the plan assets and obligations. The fair value of the plan's assets at 31 December was \$1.4 million, and the present value of the defined benefit obligation was \$1.60 million. No accounting entries have been made for the year ended 31 December 2016.

Required

- i) Distinguish between a defined contribution plan and a defined benefit plan as provided for by IAS 19 (Employee Benefits). **(4 marks)**
- ii) Clearly show how the defined benefit pension plan given above would be accounted for in the financial statements of Schilling Ltd for the year ended 31 December 2016. **(15 marks)**
- b) As provided for by IFRS 2 (Share Based Payments) differentiate between equity-settled share-based payment transactions and cash-settled share-based payment transactions.

(6 marks)

[Total 25 marks]

*****END OF PAPER*****