



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC405
COURSE TITLE : SPECIFIC FINANCIAL REPORTING
DURATION : 3 Hours
LEVEL : 4.1
DATE :

*Main
paper
printed*

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions in **Section A and Section B**.
3. Begin each question on a new page for Section B only.
4. The number of marks for each question or part question is shown in brackets []

SECTION A: ANSWER ALL QUESTIONS (Each question carries 2 marks)

SELECT THE MOST APPROPRIATE ANSWER

1. An entity has decided to improve its defined benefit pension scheme. The benefit payable will be determined by reference to 60 years' service rather than 80 years' service. As a result, the defined benefit pension liability will increase by \$10 million. The average remaining service lives of the employees is 10 years.
How should the increase in the pension liability by \$10 million be treated in the financial statements?
 - A. The past service cost should be charged against retained profit.
 - B. The past service cost should be charged against profit or loss for the year.
 - C. The past service cost should be spread over the remaining working lives of the employees.
 - D. The past service cost should not be recognized. Answer: (b)

2. When agricultural produce is harvested, the harvest should be accounted for by using IAS 2, *Inventories*, or another applicable *International Accounting Standard*. For the purposes of that Standard, cost at the date of harvest is deemed to be:
 - A. Its fair value less estimated point-of-sale costs at point of harvest.
 - B. The historical cost of the harvest.
 - C. The historical cost less accumulated impairment losses.
 - D. Market value. Answer: (a)

3. Wattle Company Pvt (ltd) 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. Answer: (b)

4. 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. Answer: (b)

5. An entity purchases plant from a foreign supplier for €3 million on January 31, 2016, when the exchange rate was €2 = \$1. At the entity's year-end of March 31, 2016, the amount has not been paid. The closing exchange rate was €1.5 = \$1. The entity's functional currency is the dollar.

Which of the following statements is correct?

- A. Cost of plant \$2 million, exchange loss \$0.5 million, trade payable \$1.5 million.
- B. Cost of plant \$1.5 million, exchange loss \$0.6 million, trade payable \$2 million.
- C. Cost of plant \$1.5 million, exchange loss \$0.5 million, trade payable \$2 million.
- D. Cost of plant \$2 million, exchange loss \$0.5 million, trade payable \$2 million.

Answer: (c)

6. An entity operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of \$2 million were incurred on March 1, 2017, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around \$20 million for the year; of that sum, \$3 million would relate to the period ending March 31, 2017.

What costs should be included in the entity's quarterly financial report to March 31, 2017?

- A. Advertising costs \$2 million; staff bonuses \$5 million.
- B. Advertising costs \$0.5 million; staff bonuses \$5 million.
- C. Advertising costs \$2 million; staff bonuses \$3 million.
- D. Advertising costs \$0.5 million; staff bonuses \$3 million. Answer: (c)

7. An entity issues shares as consideration for the purchase of inventory. The shares were issued on January 1, 2018. The inventory is eventually sold on December 31, 2019. The value of the inventory on January 1, 2018, was \$3 million. This value was unchanged up to the date of sale. The sale proceeds were \$5 million. The shares issued have a market value of \$3.2 million.

Which of the following statements correctly describes the accounting treatment of this share-based payment transaction?

- A. Equity is increased by \$3 million, inventory is increased by \$3 million; the inventory value is expensed on sale on December 31, 2019.
- B. Equity is increased by \$3.2 million, inventory is increased by \$3.2 million; the inventory value is expensed on sale on December 31, 2019.
- C. Equity is increased by \$3 million, inventory is increased by \$3 million; the inventory value is expensed over the two years to December 31, 2019.
- D. Equity is increased by \$3.2 million, inventory is increased by \$3.2 million; the inventory value is expensed over the two years to December 31, 2019. Answer: (a)

8. In the case of grants related to income, which of these accounting treatments is prescribed by IAS 20?

- A. Credit the grant to "general reserve" under shareholders' equity.
- B. Present the grant in the income statement as "other income" or as a separate line item, or deduct it from the related expense.
- C. Credit the grant to "retained earnings" on the balance sheet.
- D. Credit the grant to sales or other revenue from operations in the income statement.

Answer: (b)

9. Tamsin plc's accounting records show the following:
- | | |
|---|-----------|
| Income tax payable for the year | \$ 60,000 |
| Over provision in relation to the previous year | 4,500 |
| Opening provision for deferred tax | 2,600 |

Closing provision for deferred tax 3,200

What is the income tax expense that will be shown in the Statement of profit or loss for the year?

- A. \$58,700 B. \$63,900 C. \$65,100 D. \$56,100

10. A piece of machinery cost \$500. Tax allowance to date has amounted to \$220 and depreciation charged in the financial statements to date is \$100. The rate of income tax is 30%.

Which of the following statements is incorrect according to IAS12 *Income Taxes*?

- A. The provision for deferred tax in relation to the asset is \$36
B. The tax base of the asset is \$280
C. There is a deductible difference of \$120
D. There is a taxable temporary difference of \$120

[Total 20marks]

SECTION B: ANSWER ALL QUESTIONS. Begin each question on a new page.

Question 1

a) Define the following terms as prescribed by IAS41 Agriculture:

- Agricultural activity [1]
- Biological transformation [2]

[3marks]

b) **Activity 1**

Petronella Farm raises cattle, slaughters them at its abattoirs and sells the carcasses to the local meat market.

Activity 2

Silver Streams Ranjies grows oranges, harvests the oranges and produces orange juices.

Discuss the extent at which the above activities meets the requirements of IAS 41?

[7marks]

c) Dandon Cattle farm has 25 heifers and 17 tollies aged 2 years on 1 January 2019. On the same date the farm also has 10 cows aged 3½ years with some at an advanced stage of gestation.

On 30 June the following animals aged 2½ years were purchased: 12 heifers for \$200 each and 13 tollies for \$210 each. On 1 July 6 calves were born.

No animals were sold or disposed during the financial period ending 31 December 2019. The market value less estimated point of sale costs were as follows:

Animal details	\$
1 January 2019:	
2 year heifer	180
2 year tolly	185
3½ year cow	250
1 July 2019:	
New born calf	70
2½ year heifer	200
2½ year tolly	210
31 December 2019:	
New born calf	73
6 months old calf	80
2 year heifer	190
2 year tolly	188
2½ year heifer	210
2½ year tolly	215
3½ year cow	255
3 year heifer	220
3 year tolly	230
4½ year cow	340

Required is to calculate:

- i. The overall fair value change of the herd less estimated point of sale costs for the year ended 2019. [8]
 - ii. The fair value change as a result of price fluctuations [5]
 - iii. The fair value change as a result of physical change of the herd. [7] [20 marks]
- [Total 30marks]

Question 2

- a) In relation to defined benefit plans explain each of the following terms:
 - defined benefit obligation [2]
 - past service costs [2]
 - actuarial gains or losses [2]
 - curtailments and settlements [2]

[8marks]
- b) A company gives its employees an annual entitlement to paid holiday leave. If there is any unused leave at the end of the year, employees are entitled to carry forward the unused leave for up to 12 months. At the end of 2019, the company's employees carried forward in total 50 days of unused holiday leave. Employees are paid \$100 per day.

Required:

State the required accounting for the unused holiday carried forward [2marks]

- c) A company makes contributions to the pension fund of employees at a rate of 5% of gross salary. The contributions made are \$10,000 per month for convenience with the balance being contributed in the first month of the following accounting year. The wages and salaries for 2016 are \$2.7m.

Calculate and journalise the pension expense for 2016, and the accrual/prepayment at the end of the year. [3marks]

- d) Donella was employed by Thokotech Co on 1 January 2016. His salary on appointment was \$5,000 per month. The salary is reviewed once in December and the changes are effected on January of the following year. Donella's salary is expected to increase at a rate of 6% per annum over the next 5 years until the end of 2020. The employee is a member of the firm's defined benefit scheme, and is entitled to a lump sum on retirement (expected to be in 5 years) of 3% of final salary for each year of service. A discount rate of 7% is applied.

**Calculate the obligation at the end of each year until 2020. [12marks]
[Total 25marks]**

Question 3

- a) Distinguish between:
– current tax and deferred tax. [3]
– permanent difference and temporary difference. [3] [6marks]
- b) Sithole's estimated income tax liability for the year ended 31 December 2018 was \$194,000. In the previous year the income tax liability had been estimated as \$162,000.

Required:

Calculate and journalise the tax charge that will be shown in the statement of profit and loss for the year ended 31 December 2018 if the amount that was actually agreed and settled with Zimbabwe Revenue Authority (ZIMRA) in respect of 2017 was;

- \$170,000
- \$142,000. [4marks]

- c) Cottonex profit before tax was \$300,000 for the consecutive four years starting from 2016, 2017, 2018 and 2019. This profit is stated after charging depreciation of 25% per annum straight line method, on machinery purchased for \$80,000 in 2016. The capital allowance granted for the machinery are:

Year 2016	\$26,000
Year 2017	\$23,000
Year 2018	\$17,000
Year 2019	\$14,000

Income tax is calculated at 30% of taxable profits.

Apart from the above depreciation and tax allowances there are no other differences between the accounting and taxable profits.

Required: