



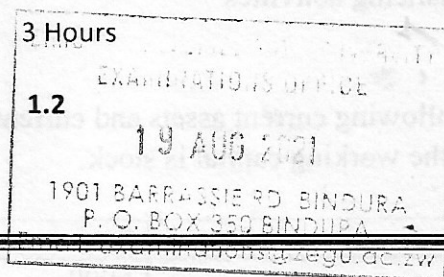
ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 106
COURSE TITLE : **INTRODUCTION TO FINANCIAL REPORTING**
SPECIAL REQUIREMENTS :
DURATION : 3 Hours
LEVEL : 1.2
DATE :



INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer all 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: (Each question carries 2 marks)

Answer all questions in this Section

Select the most appropriate answer

1: The current ratio of a company increases from 1.4 to 1.9.
Which of the following could explain this movement?

- A. An issue of more share capital for cash
- B. The giving of more generous credit terms to customers
- C. The granting of cash discounts to customers
- D. The purchase of some short-term investments

2: A company's stock turnover ratio is calculated using the cost of goods sold and the average of opening and closing stocks.

In each of the last two financial years, closing stock was valued at \$5000 more than the corresponding opening stock. In both years, the stock turnover was ten times and in the earlier year the cost of goods sold was \$125 000.

What was the cost of goods sold in the second year?

- A. \$200 000
- B. \$175 000
- C. \$150 000
- D. \$125 000

3: According to IAS 7-Statement of Cash flow, under which heading in the Statement of Cash flows should cash payments to acquire property, plant and equipment be included?

- A. Cash Flows from operating activities
- B. Cash flows from investing activities
- C. Cash Flows from financing activities
- D. None of the above

4: A business has the following current assets and current liabilities:

The only other item in the working capital is stock.

	\$
Debtors	6000
Bank Overdraft	1500
Cash in hand	50
Creditors	5050

The current ratio is 2:1. What is the value of the stock?

- A \$ 2550 B \$ 4050 C \$ 5550 D \$ 7050

5: Orange Pvt Ltd provides the following information in respect of the year ended 31 March 2019

- (i) Profit before taxation was \$30million
- (ii) Depreciation charged to expenses was \$6million

- (iii) A provision for resolution of a compensation claim of \$3million made in a previous year was realised.
- (iv) Inventory decreased by \$1.6 million
- (v) Trade payables increased by \$2.2million

What is the cash generated from operations based on the above information?

- A \$33.6 million
- B \$42.8 million
- C \$36.8 million
- D \$29.2 million

6: Which of the following items may appear in a company's statement of changes in equity, according to IAS 1-Presentation of Financial statements?

- (i) Revaluation Reserve
- (ii) Dividends paid
- (iii) Accumulated depreciation
- (iv) Profit for the year

- A (i) and (iii)
- B (ii), (iii) and (iv)
- C (i) (iii) and (iv)
- D (i), (ii) and (iv)

7: IAS 1, Presentation of financial statements framework, identified the elements of the financial statements. Which of the following items are elements of the financial statements?

- (i) Income
- (ii) Expenses
- (iii) Assets
- (iv) Drawings

- A (i) (ii) and (iii)
- B (ii), (iii) and (iv)
- C (i) (iii) and (iv)
- D (i), (ii) and (iv)

8: Which of the following is the definition of a business as a going concern?

- A. The assets owned by the business exceed its liabilities.
- B. The business has accumulated revenue reserves.
- C. The business is currently liquid and able to pay its creditors.
- D. The business will continue in operational existence for the foreseeable future

9: When a businessman introduces capital into his business, the transaction is debited in the Cash Book and credited to his Capital account.

Of which accounting principle is this an example?

- A. entity
- B. going concern
- C. matching
- D. prudence

10: IAS 1, Presentation of financial statements, identifies the financial statements that are presented by companies at the end of the financial year. Which of the following financial statements are included in the standard;

- (i) Statement of profit or loss and other comprehensive income
- (ii) Statement of financial position
- (iii) Statement of cash-flows
- (iv) Statement of changes in equity

- A (i) and (iii) only
- B (ii), (iii) and (iv) only
- C (i) (ii) and (iii) only
- D all of the above

[20marks]

SECTION B

Answer **all** questions in this section

Question One

Chipindura Ltd, a motor dealer, sold a vehicle to a customer on 14 November 2017. The contract showed an agreed price of \$30,000 and a delivery date of 3 January 2018. The customer paid a 20% non-refundable deposit on 14 November 2017. The vehicle was delivered on 10 January 2018 and the balance due of \$24,000 was paid by the customer on that date.

Required:

Advise, making reference to the 5 Step approach according to IFRS 15 Revenue from contracts and customers, showing relevant journal entries, how the above transaction should be recognized in Chipindura's financial statements for the year ended 31 December 2017 and 2018?

[15marks]

(b) Explain, with the aid of an example, the term "performance obligation" within a contract.

[5marks]

[Total 20marks]

Question Two

Explain the importance of the following financial statements

- (i) Cash-flow statement [5marks]
- (ii) Statement of profit or loss and other comprehensive income [5marks]
- (iii) Statement of financial position [5marks]
- (iv) Statement of changes in equity [5marks]

[Total 20marks]

Question 3

The following are annual financial statements of ABC Ltd:

Statement of Financial Position as at 31 December 2010

	2010	2009
	\$	\$
Land at cost	45 000	70 000
Buildings at cost	200 000	200 000
Less accumulated depreciation	<u>(21 000)</u>	(11000)
	179 000	189 000
Equipment	193 000	68 000
Less accumulated depreciation	<u>(28 000)</u>	(10000)
	<u>165 000</u>	<u>58 000</u>
Current assets	309 000	17 000
Stock	54 000	0
Pre-paid expenses	4 000	6 000
Debtors	68 000	26 000
Cash	54000	37 000
Ordinary share capital	<u>220 000</u>	<u>60 000</u>

Retained earnings	<u>206 000</u>	<u>136000</u>
	426 000	196000
Creditors	33000	40000
Debentures	110 000	150000
	_____	_____

Statement of Comprehensive Income

Sales		890 000
Cost of sales		465 000
Gross profit		425 000
Operating expenses	221000	
Interest	12 000	
Loss on sale of equipment	<u>2 000</u>	<u>235 000</u>
Profit		190 000
Tax		65 000
Profit after tax		<u>125 000</u>

The following additional information is provided:

Operating expenses on the statement of comprehensive income include depreciation expense of \$33 000 and amortisation of prepaid expenses of \$2 000. ABC Ltd sold the land at its book value and \$55 000 in cash dividends were paid. Interest expense of \$12 000 was paid in cash and additional equipment was purchased for \$166 000. Equipment that cost \$41 000, having a book value of \$36 000, was sold for \$34 000. The debentures were redeemed at their book value for cash and ordinary share capital (\$1) was issued.

Required

Prepare the statement of cash flows using a) The direct method

[8marks]

b) The indirect method

[12marks]

[Total 20marks]

Question Four

- a) An item of plant cost \$600,000 in March 2014 and was depreciated at 12.5% reducing balance. During the year ended 31 December 2016, the directors changed the method to 20% straight line in order to give a fairer presentation of the consumption of benefits (i.e. an estimated useful life of five years). It is company policy to charge a full years depreciation in the year of acquisition and none in the year of disposal.

Required

Explain how this should be reflected in the financial statements.

[10marks]

- b) Bunny Ltd is a producer and distributor of tea. The company's year ended is 31 December. The directors of Bunny are due to sign the company's financial statements for the year ended 31 December 2017 on 5 March 2018. The following information is available.
- i) Flavoured tea is included in year end inventory at its original cost of \$120,000. Audit work carried out in February 2018 indicated that the tea was sold for \$100,000 in January 2018 due to a fall in demand for such products during 2017.
- ii) During 2017 there had been industrial unrest amongst Bunny's production workers following automation of one of the manufacturing processes. Management had sought to make 20% of the workforce redundant. In February 2018, following protracted negotiations it was agreed that 15% of the workforce would be made redundant at a cost of \$400,000.
- iii) On 31 January 2018, \$250,000 was paid to Trevor as compensation for his removal of Managing Director. Trevor has been dismissed by the Chairman at the December 2017 Board Meeting as a result of a serious disagreement over marketing strategy for 2018.
- iv) It was discovered in January 2018 that a long serving employee had systematically stolen \$250,000 over the previous four years. Material errors had thus been made in the financial statements over those years and there is now no chance of recovery.

Required

Explain briefly how each of the above transactions should be treated in the financial statements of Bunny for the year ended 31 December 2017.

[10marks]

[Total 20marks]

END OF EXAMINATION QUESTION PAPER