



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 :
DATE :

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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. Border Forestry 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 Border Forestry 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:

- 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.
2. **Which of these events will cause a change in a defined benefit obligation?**
- 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.
3. **Which of the following information should be disclosed under IAS 41?**
- A. Separate disclosure of the gain or loss relating to biological assets and agricultural produce.
 - B. The aggregate gain or loss arising on the initial recognition of biological assets and agricultural produce and the change in fair value less estimated point-of-sale costs of biological assets.
 - C. The total gain or loss from biological assets, agricultural produce, and from changes in fair value less estimated point-of-sale costs of biological assets.
 - D. There is no requirement in the Standard to disclose separately any gains or losses.
4. **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.
5. **Which of the following transactions involving the issuance of shares does not come within the definition of a "share-based" payment under IFRS 2?**
- 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.

6. Which of the following is true regarding the requirements of IFRS 2?
- Private companies are exempt.
 - “Small” companies are exempt.
 - Subsidiaries using their parent entity’s shares as consideration for goods and services are exempt.
 - There are no exemptions from IFRS 2.
7. An entity prepares quarterly interim financial reports in accordance with IAS 34. The entity sells electrical goods, and normally 5% of customers claim on their warranty. The provision in the first quarter was calculated as 5% of sales to date, which was \$10 million. However, in the second quarter, a design fault was found and warranty claims were expected to be 10% for the whole of the year. Sales in the second quarter were \$15 million.

What would be the provision charged in the second quarter’s interim financial statements?

- A. \$750,000 B. \$1.25 million. C. \$1.5 million. D. \$2 million.

8. In the case of a nonmonetary grant, which of the following accounting treatments is prescribed by IAS 20?

- Record the asset at replacement cost and the grant at a nominal value.
- Record the grant at a value estimated by management.
- Record both the grant and the asset at fair value of the nonmonetary asset.
- Record only the asset at fair value; do not recognize the fair value of the grant.

9. In the case of grants related to an asset, which of these accounting treatments (Statement of financial position presentation) is prescribed by IAS 20?

- Record the grant at a nominal value in the first year and write it off in the subsequent year.
- Either set up the grant as deferred income or deduct it in arriving at the carrying amount of the asset.
- Record the grant at fair value in the first year and take it to income in the subsequent year.
- Take it to the income statement and disclose it as an extraordinary gain.

10. The following information has been extracted from the accounting records of Clarice Ltd:

Estimated income tax for the year ended 30 September 2019	\$75,000
Income tax paid for the year ended 30 September 2019	\$80,000
Estimated income tax for the year ended 30 September 2020	\$83,000

What figures will be shown in the statement of profit or loss for the year ended 30 September 2020 and the statement of financial position as at that date in respect of income tax?

	SPL	SOFP
A	\$ 83,000	\$ 83,000
B	88,000	83,000
C	83,000	88,000
D	88,000	88,000

[Total 20marks]

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

Question 1

a) In relation to defined benefit plans explain each of the following terms:

- defined benefit obligation [2]
- current service costs [2]
- past service costs [2]
- curtailments and settlements [3]

[9marks]

b) Differentiate between defined benefit plan and defined contribution pension plan. [6]

c) The following data applies to the post employment defined benefit compensation scheme of Intaunosuarance Co.

Discount rate: 10% (each year)

Present value of obligation at start of 2017: \$1,000,000

Market value of plan assets at start of 2017: \$1,000,000

The following figures are relevant.

	2017	2018	2019
	\$'000	\$'000	\$'000
Current service cost	140	150	150
Benefits paid out	120	140	150
Contributions paid by entity	110	120	120
Present value of obligation at year end	1,200	1,650	1,700
Fair value of plan assets at year end	1,250	1,450	1,610

Additional information:

- At the end of 2018, a division of the company was sold. As a result of this, a large number of the employees of that division opted to transfer their accumulated pension entitlement to their new employer's plan. Assets with a fair value of \$48,000 were transferred to the other company's plan and the actuary has calculated that the reduction in Intaunosuarance's defined benefit liability is \$50,000. The year-end valuations in the table above were carried out before this transfer was recorded.

2. At the end of 2019, a decision was taken to make a one-off additional payment to former employees currently receiving pensions from the plan. This was announced to the former employees before the year end. This payment was not allowed for in the original terms of the scheme. The actuarial valuation of the obligation in the table above includes the additional liability of \$40,000 relating to this additional payment.

Required

Show how Intaunosuarance should account for this defined benefit plan in each of years 2017, 2018 and 2019. [15]

[Total 30marks]

Question 2

a) IFRS13 Fair value measurement

- Define the term fair value in accordance with IFRS13. [2]
- List three standards which are excluded under the scope of IFRS13. [1]
- Describe IFRS13 hierarchy of inputs to valuation techniques. [6]
- Differentiate fair value on recurring basis and a non-recurring basis in each case giving examples of IFRSs affected by these basis. [3] [12marks]

IAS34 Interim financial reporting

b) Explain the following terms in accordance with IAS34:

- an interim financial report [2]
- an interim period. [2] [4marks]

c) State the minimum financial reports to be prepared under interim financial reporting. [2]

d) Lyons an ice-cream manufacturing company recently had its shares listed on the Zimbabwe Stock Exchange (ZSE). Management is worried about publishing the first quarter's interim results because the entity normally earns most of its profits in the third and fourth quarters, which coincide with the summer months. Statistics show that the revenue pattern is more or less as follows:

1st quarter = 10% of total annual revenue
2nd quarter = 15% of total annual revenue
3rd quarter = 40% of total annual revenue
4th quarter = 35% of total annual revenue

During the first quarter of the current year, total revenue amounted to \$254,000. Management plans to report $\frac{1}{4}$ of the projected annual revenue in its interim financial report, calculated as follows: $\$254,000/0.10 \times \frac{1}{4} = \$635,000$

Discuss the appropriateness of recognising \$635,000 in light of the requirements of IAS34 [4]

e) An entity that reports bi-annually had equipment with a historical cost of \$2,430,000 at the end of the previous financial year. Depreciation is calculated at 20% per annum on the straight-line method. The capital expenditure budget shows that the entity intends to acquire a further \$1,000,000 of equipment at the beginning of the second semester

How much depreciation is to be charged to the interim financial statements in respect of the first semester. Support your answer with the requirements of IAS34 *interim financial reporting*. [3]

[Total 25 marks]

Question 3

a) Define the following terms as per requirements of IAS21 *The effects of changes in foreign exchange rates*

- Functional currency [1]
- Exchange rate [1]
- Exchange difference [1]
- Monetary item [2]

[5marks]

b) Discuss the circumstances which results in exchange differences on monetary items [2]

c) Explain the recognition requirements of exchange differences on monetary items. [3]

d) Poloqan ltd a Zimbabwean listed company bought goods from Pronto Co.of Azania for 600,000 Mulas on 1 November 2019. The transaction was not settled on 31 December 2019, the financial year end of the company. Exchange rates were as follows:

1 November 2019	\$1 = 3.8 Mulas
31 December 2019	\$1 = 6.5 Mulas

Required:

Show the journal entries to record the above transactions.

[5]

e) Thudu Zimbo Co a Zimbabwean firm, whose financial year end is 31 December, purchased a large consignment of goods from Cottonex Inc. of United Kingdoms of Africa (UKA) state on 30 June 2019. The invoice value is 75,000,000 Ukres and is due for settlement in three equal instalments on 31 July, 30 November and the last instalment on 31 April 2020 the following year.

The exchange rate moved as follows:

- 30 June 1Zim = Uka 160
- 31 July 1Zim = Uka 180
- 30 November 1Zim = Uka 175
- 31 December 1Zim = Uka 190
- 31 April 1Zim = Uka 185

Required: State the accounting entries in the books of Thudu Zimbo Co. [10]

[Total 25marks]

END OF EXAMINATION QUESTION PAPER