# BINDURA UNIVERSITY OF SCIENCE EDUCATION

## FACULTY OF COMMERCE

## DEPARTMENT OF ACCOUNTANCY

NOV 2023

**PROGRAMME:**
**Bachelor of Accountancy (Honours) Degree**

## CORPORATE REPORTING I (AC410)
## EXAMINATION PAPER

**DURATION: 3 HOURS**

**INSTRUCTIONS TO CANDIDATES:**

1. You should answer all questions.
    a. Section A multiple choice 2 marks each.
    b. Section B structured questions.
2. No cell phones are allowed in the examination venue.
3. Use of silent non-programmable calculators is allowed.

**Section A (*Multiple choice*)**

1. The International Accounting Standards Board's (IASB) Framework for the Preparation and Presentation of Financial Statements (Framework) is the IASB's conceptual framework. Which one of the following does the Framework not cover?
   a) The format of financial statements
   b) The objective of financial statements
   c) Concepts of capital maintenance
   d) The elements of financial statements

2. The following balances were extracted from N's financial statements:

   *Statement of financial position (extract)*

   | | As at 31 December 2021 | As at 31 December 2020 |
   |---|---|---|
   | | $000 | $000 |
   | ***Non-Current liabilities*** | | |
   | Deferred tax | 38 | 27 |
   | ***Current Liabilities*** | | |
   | Current tax payable | 119 | 106 |

   *Statement of profit or loss and other comprehensive income for the year ended 31 December 2021 (extract)*

   | | $000 |
   |---|---|
   | Income tax expense | 122 |

   The amount of tax paid that should be included in N's statement of cash flows for the year ended 31 December 2021 is:

   | | $000 |
   |---|---|
   | a) | 98 |
   | b) | 109 |
   | c) | 122 |
   | d) | 241 |

3. The body to which the International Accounting Standards Board is responsible is:
   a) The IFRS Advisory Council
   b) The IFRS Interpretations Committee
   c) The Monitoring Board
   d) The IFRS Foundation

4. The role of the International Financial Reporting Standards (IFRS) Advisory Council is to:
   a) Supervise the work of the IASB
   b) Appoint members to the IASB

c) Inform the IASB of the Council's views on standard-setting projects
d) Interpret the application of international standards

5. The fundamental qualitative characteristics of financial information are:
   a) Verifiability and understandability
   b) Relevance and comparability
   c) Faithful representation and comparability
   d) Relevance and faithful representation

6. The elements of financial statements which relate to financial position are:
   a) Income, expenses and equity
   b) Assets, liabilities and equity
   c) Income and expenses
   d) Assets, liabilities, income and expenses

7. An entity may change one of its accounting policies:
   a) If this would reduce the cost of preparing the financial statements
   b) Never
   c) If this would result in the provision of reliable and more relevant information
   d) Whenever it wishes to do so

8. International standard IFRS3 states that goodwill acquired in a business combination is:
   a) An asset which arises from assets acquired in the business combination that are individually identified
   b) An asset which arises from the acquired entity's strong customer relationships
   c) An asset which arises from the acquired entity's good reputation
   d) An asset which arises from assets acquired in the business combination that are not individually identified

9. Goodwill acquired in a business combination should subsequently be measured:
   a) At cost less accumulated impairment losses
   b) At cost
   c) At cost less accumulated amortisation and less accumulated impairment losses
   d) At cost less accumulated amortisation

10. A company acquires all the assets and liabilities of an unincorporated business for $1m. The net fair value of the identifiable assets and liabilities acquired is $1.2m. The assets acquired include patents with a fair value of $300,000.
    How should this acquisition be accounted for in the company's financial statements?

a) Recognise the patents at $100,000 and recognise all of the other assets and liabilities at their fair values
b) Recognise the identifiable assets and liabilities at their fair values and recognise revenue of $200,000.
c) Recognise the identifiable assets and liabilities at their fair values and recognise goodwill of $200,000
d) Recognise the identifiable assets and liabilities at their fair values and recognise a negative asset of $200,000 in relation to goodwill

11. In order that a provision should be recognised in an entity's financial statements, it is necessary that:
a) It is possible that an outflow of economic benefits will be required
b) The entity has a legally enforceable obligation
c) The entity has a present obligation
d) The entity has a constructive obligation

12. The amount of a provision should be the "**best estimate**" of the expenditure required to settle the obligation concerned. This estimate:
a) Should always be discounted to present value
b) Must always be made on the basis of advice from independent experts
c) Should be the amount that would rationally be paid to settle or transfer the obligation
d) Should not be adjusted to reflect future events that may affect the amount of the required expenditure, whether or not those events are likely to occur

13. How should contingent assets be disclosed?
a) Always disclosed in the notes to the financial statements
b) Always recognised in the statement of financial position
c) Disclosed in the notes if an inflow of economic benefits is probable
d) Disclosed in the notes unless an inflow of economic benefits is only remotely possible

14. A company is preparing its financial statements for the year to 31 March 2022. Assuming that each of the following events occurs after 31 March 2022 but before the financial statements are authorised for issue, which one of them should be classified as a NON-ADJUSTING event?
a) A change in tax rates that is announced in April 2022 and which has a material impact on the tax liability for the year to 31 March 2022
b) The discovery of a major fraud that had occurred in January 2022
c) The sale of inventories which were held on 31 March 2022

d) The bankruptcy of a customer who owed a substantial amount to the company at 31 March 2022

15. Deferred tax should be accounted for in relation to certain differences between taxable profit and accounting profit. The differences which require an entity to account for deferred tax are:
    a) Permanent differences
    b) Temporary differences
    c) Neither temporary differences nor permanent differences
    d) Both temporary differences and permanent differences

**[Total: 30 marks]**

## SECTION B

**Question 1**
**Part A**

i. Explain the circumstances under which a parent may elect not to present consolidated financial statements. (5 marks)

ii. Diary Ltd owns 40% of Farm Ltd's shares. Farm Ltd's relevant activities are directed by the directors' votes. There are six directors who seat on the board of Farm Ltd and, according to the shareholding agreement, Diary Ltd has the right to appoint four of the six directors on the board.

**Required:**
Discuss with reference to the relevant standard if Diary Ltd has control over Farm Ltd. (5 marks)

**Part B**
The statements of financial position of J Ltd and its investee companies, P Ltd and S Ltd, at 31 December 2021 are shown below:

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

| | J Ltd | P Ltd | S Ltd |
|---|---|---|---|
| | **\$'000** | **\$'000** | **\$'000** |
| **Non-current assets** | | | |
| Freehold property | 1,950 | 1,250 | 500 |
| Plant and machinery | 795 | 375 | 285 |
| Investments | 1,500 | – | – |
| | **4,245** | **1,625** | **785** |
| **Current assets** | | | |

| | | | |
|---|---|---|---|
| Inventory | 575 | 300 | 265 |
| Trade receivables | 330 | 290 | 370 |
| Cash | 50 | 120 | 20 |
| | **955** | **710** | **655** |
| **Total assets** | **5,200** | **2,335** | **1,440** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital – $1 shares | 2,000 | 1,000 | 750 |
| Retained earnings | 1,460 | 885 | 390 |
| | **3,460** | **1,885** | **1,140** |
| **Non-current liabilities** | | | |
| 12% loan stock | 500 | 100 | – |
| **Current liabilities** | | | |
| Trade payables | 680 | 350 | 300 |
| Bank overdraft | 560 | – | – |
| | **1,240** | **350** | **300** |
| **Total equity and liabilities** | **5,200** | **2,335** | **1,440** |

**Additional information**

a) J Ltd acquired 600,000 ordinary shares in P Ltd on 1 January 2016 for $1,000,000 when the retained earnings of P Ltd were $200,000.

b) At the date of acquisition of P Ltd, the fair value of its freehold property was considered to be $400,000 greater than its value in P Ltd's statement of financial position. P Ltd had acquired the property in January 2013 and the buildings element (comprising 50% of the total value) is depreciated on cost over 50 years.

c) J Ltd acquired 225,000 ordinary shares in S Ltd on 1 January 2020 for $500,000 when the retained earnings of S Ltd were $150,000.

d) P Ltd manufactures a component used by both J Ltd and S Ltd. Transfers are made by P Ltd at cost plus 25%. J Ltd held $100,000 inventory of these components at 31 December 2021. In the same period J Ltd sold goods to S Ltd of which S Ltd had $80,000 in inventory at 31 December 2021. J Ltd had marked these goods up by 25%.

e) The goodwill in P Ltd is impaired and should be fully written off. An impairment loss of $92,000 is to be recognised on the investment in S Ltd.

f) Non-controlling interest is valued at full fair value. P Ltd shares were trading at $1.60 just prior to the acquisition by J Ltd.

**Required**

Prepare, in a format suitable for inclusion in the annual report of the J Ltd Group, the consolidated statement of financial position at 31 December 2021. (25 marks)

**[Total: 35 marks]**

**Question 2**

Below are the accounting and taxable profits calculations for UCM Ltd for the year ended 31 December 2021:

| | Notes | Accounting Profit $ | Taxable income $ |
|---|---|---|---|
| Profit from operations | | 500,000 | 500,000 |
| Dividends received | | 40,000 | - |
| Donations | | (20,000) | - |
| Depreciation: Office building | 1 | (10,000) | - |
| Manufacturing plant | 2 | (60,000) | - |
| Wear and tear allowance | 2 | - | (85,000) |
| Profit on sale of land | | 80,000 | - |
| Rental received for the year | | 120,000 | 120,000 |
| Rental received in advance | | - | 10,000 |
| Value Added Tax penalty | | (5,000) | - |
| Operating lease: Instalment paid | | - | (90,000) |
| Cost in terms of matching concept | | (55,000) | - |
| Finance lease: Instalment paid | 3 | - | (35,000) |
| Depreciation | | (25,000) | - |
| Interest paid | | (15,000) | - |
| | | **550,000** | **420,000** |

**Notes and additional information**

1. The cost of the original building was $200,000 and the building is depreciated at 5% per annum. On 31 December 2021, the carrying amount is $150,000.

2. Information on the manufacturing plant is as follows;
   Carrying amount at 31 December 2021 - $140,000
   Tax base at 31 December 2021 - $115,000

3. The finance lease relates to the acquisition of plant with a cost price of $100,000. The term of the lease is 4 years and interest is charged at 15% per annum. The asset held under the lease contract, entered into on 1 January 2021, is depreciated on straight-line basis over 4 years.

4. Assume a tax rate of 25%

5. There was no balance on the deferred tax liability account at 31 December 2017.

6. Ignore capital gains tax.

**Required:**

a) Prepare reconciliation between accounting profit and taxable income by differentiating between temporary differences, non-taxable items and non-deductible items for tax purposes. (10 marks)

b) Calculate and journalize the transfer to and from the deferred tax liability or asset account at 31 December 2021. (5 marks)

c) A Ltd acquired a 60% interest in B Ltd on 1 July 2022 for \$2 100 000. The statement of financial position of B Ltd on that date reflected net assets with a total carrying amount of \$3 000 000. The carrying amounts of all the assets and liabilities at acquisition were equal to their fair values, except for plant with a fair value of \$150 000 and a carrying amount of \$100 000.
Assume a tax rate of 30% and that the non-controlling interest is measured at their proportionate share of B Ltd's net identifiable assets.

**Required:**
Calculate the deferred tax liability, non-controlling interest and the goodwill arising upon consolidation. (5 marks)

**[Total: 20 marks]**

**Question 3**

**Part A**

Gasnature is a publicly traded entity involved in the production and trading of natural gas and oil. Gasnature is finalising its financial statements for the year ended 31 August 2022 and purchased a major refinery on 1 January 2022. The directors estimate that a major overhaul is required every two years. The costs of the overhaul are approximately \$5 million which comprises \$3 million for parts and equipment and \$2 million for labour. The directors proposed to accrue the cost of the overhaul over the two years of operations up to that date and create a provision for the expenditure.

**Required:**

Discuss, with reference to the appropriate International Financial Reporting Standards, how Gasnature should account for the above issue raised by the directors. (5 marks)

**Part B**

Verge is a public limited company in the local train market. In February 2021, an inter-city train did what appeared to be superficial damage to a storage facility of a local company. The directors of the company expressed an intention to sue Verge but in the absence of legal proceedings, Verge had not recognised a provision in its financial statements to 31 March 2021. In July 2021, Verge received notification for damages of \$1.2 million, which was based upon the estimated cost to repair the building. The local company claimed the building was much more than a storage facility as it was a valuable piece of architecture which had been damaged to a greater extent than was originally thought. The head of legal services advised Verge that the company was clearly negligent but the view obtained from an expert was that the value of the building was \$800,000. Verge had an insurance policy that would cover the first \$200,000 of such claims. After the financial statements for the year ended 31 March 2022 were authorised, the case came to court and the judge determined that the storage facility actually was a valuable piece of architecture. The court ruled that Verge was negligent and awarded \$300,000 for the damage to the fabric of the facility.

**Required:**
Advise Verge on how the above accounting issue should be dealt with in its financial statements for the years ending 31 March 2021 (where applicable) and 31 March 2022 (5 marks)

**Part C**
Segmental information reported externally is more useful if it conforms to information used by management in making decisions. The information can differ from that reported in the financial statements. Although reconciliations are required, these can be complex and difficult for the user to understand. Additionally, there are other standards where subjectivity is involved and often the profit motive determines which accounting practice to follow. The directors have a responsibility to shareholders in disclosing information to enhance corporate value but this may conflict with their corporate social responsibility.

**Required**
Discuss how the ethics of corporate social responsibility disclosure are difficult to reconcile with shareholder expectations. (5 marks)

**[Total: 15 marks]**

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