BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

ACCOUNTANCY DEPARTMENT

PROGRAMS

Bachelor of Accountancy (Honours) Degree

Bachelor of Business Studies (Honours) Degree in Banking and Finance

Bachelor of Commerce Honours Degree in Financial Intelligence

Bachelor of Business Administration Honours Degree in Police and Security Studies

---

COURSE: **Financial Accounting 2B** **(AC202)**

DURATION: 3 HOURS

INSTRUCTIONS TO CANDIDATE

(i) This paper is made up of Section A and Section B.
(ii) Answer all questions.
(iii) Only use of non-programmable silent hand-held calculators is permitted.
(iv) Cell phones are not allowed into the examination room.
(v) For section A use the grid provided.
(vi) Start each question on a fresh page.

Section A (*Multiple choice-30 marks*)

1. Which **two** of the following investments would be treated as an associate in the consolidated financial statements of Murehwa Co?

   A. Murehwa Co owns 15% of the ordinary shares of Mvuma Co and has significant influence over Mvuma Co.

   B. Murehwa Co owns 45% of the ordinary shares of Mutoko Co and can appoint 4 out of 5 directors to the board of directors of Mutoko Co.

   C. Murehwa co owns 40% of the preference shares and 15% of the ordinary shares of Bindura Co.

   D. Murehwa Co owns 60% of the preference shares and 40% of the ordinary shares of Karoi Co.

2. Repro, a company which sells photocopying equipment, has prepared its draft financial statements for the year ended 30 September 2023. It has included the following transactions in revenue at the stated amounts below.

   Which of these has been correctly included in revenue according to IAS 18 *Revenue*?

   A. Agency sales of $250,000 on which Repro is entitled to a commission

   B. Sale proceeds of $20,000 for motor vehicles which were no longer required by Repro

   C. Sales of $150,000 on 30 September 2023. The amount invoiced to and received from the customer was $180,000, which includes $30,000 for ongoing servicing work to be done by Repro over the next two years

   D. Sales of $200,000 on 1 October 2022 to an established customer which (with the agreement of Repro) will be paid in full on 30 September 2024. Repro has a cost of capital of 10%

3. When a bargain purchase arises, *IFRS 3 Business Combinations* requires that the amounts involved in computing the bargain purchase should first be reassessed. When the amount of the bargain purchase has been confirmed, how should it be accounted for?

   A. Charged as an expense in profit or loss

   B. Capitalised and presented under non-current assets

   C. Credited to profit or loss

   D. Shown as a deduction from non-current assets

4. Which of the following is the criterion for treatment of an investment as an associate?

   A. Ownership of a majority of the equity shares

B. Ability to exercise control

C. Existence of significant influence

D. Exposure to variable returns from investment with the investee

5. The following information is available for the property, plant and equipment of Fry as at 30 September:

	2023	2022
	$'000	$'000
Carrying amounts	23,400	14,400

The following items were recorded during the year ended 30 September 2023:

(i) Depreciation charge of $2·5 million

(ii) An item of plant, with a carrying amount of $3 million, was sold for $1·8 million

(iii) A property was revalued upwards by $2 million

(iv) Environmental provisions of $4 million relating to property, plant and equipment were capitalised during the year

What amount would be shown in Fry's statement of cash flows for purchase of property, plant and equipment for the year ended 30 September 2023?

A. $8·5 million

B. $12·5 million

C. $7·3 million

D. $10·5 million

6. Yling entered into a construction contract on 1 January 2023 which is expected to last 24 months. The agreed price for the contract is $5 million. At 30 September 2023, the costs incurred on the contract were $1·6 million and the estimated remaining costs to complete were $2·4 million. On 20 September 2023, Yling received a payment from the customer of $1·8 million which was equal to the full amount of the progress billings. Yling calculates the stage of completion of its construction contracts on the basis of progress billings to the contract price.

What amount would be reported in Yling's statement of financial position as at 30 September 2023 for the amount due from the customer for the above contract?

A. Nil

B. $160,000

C. $800,000

D. $200,000

7. The net assets of Fyngle, a cash generating unit (CGU), are:

	$
Property, plant and equipment	200,000
Allocated goodwill	50,000
Product patent	20,000
Net current assets (at net realisable value)	30,000
	300,000

As a result of adverse publicity, Fyngle has a recoverable amount of only $200,000.

What would be the value of Fyngle's property, plant and equipment after the allocation of the impairment loss?

A. $154,545

B. $170,000

C. $160,000

D. $133,333

8. On 1 January 2023, Xplorer commenced drilling for oil from an undersea oilfield. The extraction of oil causes damage to the seabed which has a restorative cost (ignore discounting) of $10,000 per million barrels of oil extracted. Xplorer extracted 250 million barrels of oil in the year ended 31 December 2023.
Xplorer is also required to dismantle the drilling equipment at the end of its five-year licence. This has an estimated cost of $30 million on 31 December 2027. Xplorer's cost of capital is 8% per annum and $1 has a present value of 68 cents in five years' time.
What is the total provision (extraction plus dismantling) which Xplorer would report in its statement of financial position as at 31 December 2023 in respect of its oil operations?

A. $34,900,000

B. $24,532,000

C. $22,900,000

D. $4,132,000

9. Which of the following is NOT an indicator of impairment?
   A. Advances in the technological environment in which an asset is employed have an adverse impact on its future use
   B. An increase in interest rates which increases the discount rate an entity uses
   C. The carrying amount of an entity's net assets is higher than the entity's number of shares in issue multiplied by its share price
   D. The estimated net realisable value of inventory has been reduced due to fire damage although this value is greater than its carrying amount

10. Which of the following statements relating to intangible assets is true?
   A. All intangible assets must be carried at amortized cost or at an impaired amount; they cannot be revalued upwards.
   B. The development of a new process which is not expected to increase sales revenues may still be recognised as an intangible asset.
   C. Expenditure on the prototype of a new engine cannot be classified as an intangible asset because the prototype has been assembled and has physical substance.
   D. Impairment losses for a cash generating unit are first applied to goodwill and then to other intangible assets before being applied to tangible assets.

11. Simba Co acquired 80% of the equity shares of Zuva on 1 April 2023 when Zuva's retained earnings were $200,000. During the year ended 31 March 2024, Zuva purchased goods from Simba Co totaling $320,000.

    At 31 March 2024, one quarter of these goods were still in the inventory of Zuva. Simba Co applies a mark-up on cost of 25% to all of its sales. At 31 March 2024, the retained earnings of Simba Co and Zuva were $450,000 and $340,000 respectively.

    What would be the amount of retained earnings in Simba's consolidated statement of financial position as at 31 March 2024?

   A. $706,000
   B. $542,000
   C. $498,000

D. $546,000

12. Which of the following statements about IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* are true?

i. A government grant related to the purchase of an asset must be deducted from the carrying amount of the asset in the statement of financial position.

ii. A government grant related to the purchase of an asset should be recognised in profit or loss over the life of the asset.

iii. Free marketing advice provided by a government department is excluded from the definition of government grants.

iv. Any required repayment of a government grant received in an earlier reporting period is treated as prior period adjustment.

A. and (ii)

B. (ii) and (iii)

C. (ii) and (iv)

D. (iii) and (iv)

13. In a review of its provisions for the year ended 31 March 2024, Cumla's assistant accountant has suggested the following accounting treatments:

i. Making a provision for a constructive obligation of $400,000; this being the sales value of goods expected to be returned by retail customers after the year end under the company's advertised 30-day returns policy.

ii. Based on past experience, a $200,000 provision for unforeseen liabilities arising after the year end.

iii. The partial reversal (as a credit to the statement of profit or loss) of the accumulated depreciation provision on an item of plant because the estimate of its remaining useful life has been increased by three years.

iv. Providing $1 million for deferred tax at 25% relating to a $4 million revaluation of property during March 2024 even though Cumla has no intention of selling the property in the near future.

Which of the above suggested treatments of provisions is/are permitted by IFRS?

A. Only

B. i) and (ii)
C. (ii) and (iii)
D. (iv)

14. At 1 April 2023, Tilly owned a property with a carrying amount of $800,000 which had a remaining estimated life of 16 years. The property had not been revalued. On 1 October 2023, Tilly decided to sell the property and correctly classified it as being 'held-for-sale'. A property agent reported that the property's fair value less costs to sell at 1 October 2023 was expected to be $790,500 which had not changed at 31 March 2024.

What should be the carrying amount of the property in Tilly's statement of financial position as at 31 March 2024?

A. $775,000
B. $790,500
C. $765,000
D. $750,000

15. Johnson paid $1·2 million for a 30% investment in Treem's equity shares on 1 August 2023. Treem's profit after tax for the year ended 31 March 2024 was $750,000. On 31 March 2024, Treem had $300,000 goods in its inventory which it had bought from Johnson in March 2024. These had been sold by Johnson at a mark-up on cost of 20%. Treem has not paid any dividends.

On the assumption that Treem is an associate of Johnson, what would be the carrying amount of the investment in Treem in the consolidated statement of financial position of Johnson as at 31 March 2024?

A. $1,335,000
B. $1,332,000
C. $1,300,000
D. $1,410,000

SECTION B – (70 marks)

Question 1

Chitova Co is a publicly listed company. Its financial statements for the year ended 31 March 2023 including comparatives are shown below:

Statements of profit or loss and other comprehensive income for the year ended:

	31 Mar 2023	31 Mar 2022
	$000	$000
Revenue	31 000	25 000
Cost of sales	(21 800)	(18 600)
Gross Profit	9 200	6 400
Distribution costs	(3 600)	(2 400)
Administrative expenses	(2 200)	(1 600)
Finance costs- loan interest	(150)	(250)
- lease interest	(250)	(100)
Profit before tax	3 000	2 050
Income tax expense	(1 000)	(750)
Profit for the year	2 000	1 300
Other comprehensive income(note(i))	1 350	nil
	3 350	1 300

Statements of financial position as at:

	31 March 2023		31 March 2022	
	$000 DR	$000 CR	$000 DR	$000 CR
Assets				
Non-current assets				
Property, plant and equipment		14 000		10 700
Deferred development expenditure		1 000		nil
		15 000		10 700
Current assets				
Inventory	3 300		3 800	
Trade receivables	2 950		2 200	
Bank	50	6 300	1 300	7 300
Total assets		21 300		18 000
Equity and liabilities				
Equity				
Equity shares of $1 each		8 000		8 000
Revaluation reserve		1 350		nil
Retained earnings		3 200		1 750
		12 550		9 750
Non current liabilities				

8% loan notes	1 400		3 125	
Deferred tax	1 500		800	
Finance lease obligation	1 200	4 100	900	4 825
Current liabilities				
Finance lease obligation	750		600	
Trade payables	2 650		2 100	
Current tax payable	1 250	4 650	725	3 425
Total equity and liabilities		21 300		18 000

Notes:

(i) On 1 July 2022, Chitova Co acquired additional plant under a finance lease that had a fair value of $1.5 million. On this date it also valued its property upwards by $2 million and transferred $650,000 of the resulting revaluation reserve this created to deferred tax. There were no disposals of non-current assets during this period.

(ii) Depreciation of property, plant and equipment was $900,000 and amortization of the deferred development expenditure was $200,000 for the year ended 31 March 2023.

Required:
Prepare a statement of cash flows for Chitova Co for the year ended 31 March 2023, in accordance with IAS 7 Statement of Cash Flows, using the indirect method. (35 marks)

Question 2

On 1 October 2022, Zanda Co acquired 60% of Medda Co`s equity shares by means of a share exchange of one new share in Zanda Co for every two acquired shares in Medda Co. In addition, Zanda Co will pay a further $0.54 per acquired share on 30 September 2023.

Zanda Co has not recorded any of the purchase consideration and its cost of capital is 8% per annum.

The market value of Zanda Co`s shares at 1 October 2022 was $3.00 each.

The summarized statements of financial statements of financial position of the two companies as at 31 March 2023 are:

	Zanda Co $000	Medda Co $000
Assets		
Non-current assets		
Property, plant and equipment (note (i))	25 400	13 500
Financial asset: equity investments (note (iv))	5 500	2 000
	30 900	15 500
Current assets		
Inventory (note(iii))	12 700	5 300
Other current assets	9 700	4 000
	22 400	9 300
Total assets	53 300	24 800
Equity and liabilities		
Equity		
Equity shares of $1 each	20 000	9 000
Retained earnings:		
Brought forward at 1 April 2015	12 200	8 600
Profit/(loss) for the year ended 31 March 2016	5 000	(3 000)
	37 200	14 600
Non-current Liabilities		
Deferred tax (note(i))	5 000	nil
Current liabilities	11 100	10 200
Total equity and liabilities	53 300	24 800

The following information is relevant:

(i) At the date of acquisition, Zanda Co conducted a fair value exercise on Medda Co`s net assets which were equal to their carrying amounts (including Medda Co`s financial asset equity investments) with the exception of an item of plant which had a fair value of $2.5 million below its carrying amount. The plant had a remaining useful life of 30 months at 1 October 2022.

The directors of Zanda Co are of the opinion that an unrecorded deferred tax asset of $1.2 million at 1 October 2022, relating to Medda Co`s losses, can be relieved in the near future as a result of the acquisition. At 31 March 2023, the directors` opinion has not changed, nor has the value of the deferred tax asset.

(ii) Zanda Co`s policy is to value the non-controlling interest at fair value at the date of acquisition. For this purpose, a share price for Medda Co of $1.50 each is representative of the fair value of the shares held by the non-controlling interest.

(iii) At 31 March 2023, Medda Co held goods in inventory which had been supplied by Zanda Co at a mark-up on cost of 35%. These goods had cost Medda Co $2.43 million.

(iv) The financial asset equity investments of Zanda Co and Medda Co are carried at their fair values at 1 April 2022. At 31 March 2023, these had fair values of $6.1 million and $1.8 million respectively, with the change in Medda Co`s investment all occurring since acquisition on 1 October 2022.

(v) There is no impairment to goodwill at 31 March 2023.

Required:
Prepare the following extracts from the consolidated statement of financial position of Zanda Co as at 31 March 2023:

(i) Goodwill; **(10 marks)**
(ii) Retained earnings; **(11 marks)**
(iii) Non-controlling interest. **(3 marks)**

Question 3

Question 3 (a)
The objective of IFRS Non-current Assets Held For Sale and Discontinued Operations specifies, amongst other things, accounting for and presentation and disclosure of discontinued operations.

Required:

Define a discontinued operation and explain why the disclosure of such information is important to users of financial statements. (5 marks)

Question 3(b)

Radar`s sole activity is the operation of hotels all over the world. After a period of declining profitability, Radar`s directors made the following decisions during the year ended 31 March 2013:

- it disposed of all of its hotels in country A;
- it refurbished all of its hotels in country B in order to target holiday and tourism market. The previous target market in country B had been aimed at business clients.

Required:

Treating the two decisions separately, explain whether they meet the criteria for being classified as discontinued operations in the financial statements for the year ended 31 march 2013. (6 marks)

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