

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

MAR 2024

PROGRAMMES:

Bachelor of Accountancy (Honours) Degree

Bachelor of Business Studies (Honours) Banking and Finance

Bachelor of Commerce Honours Degree in Financial Intelligence

Bachelor of Business Administration Honours Degree in Police & security
Studies

FINANCIAL ACCOUNTING 2B (AC202) EXAMINATION PAPER

DURATION: 3 HOURS

(100 marks)

INSTRUCTIONS TO CANDIDATES:

1. Answer all questions in section A and section B
2. Start each question on a fresh page
3. No cell phones are allowed in the examination room.

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SECTION A:30 MARKS

1. A business which comprises a single cash generating unit has the following assets:

	\$m
Goodwill	3
Patent	5
Property	10
Plant and Equipment	15
Net current assets	2
Total	35

Following an impairment review, it is estimated that the value of the plant is \$2 million and the recoverable amount of the business is \$24 million.

At what amount should the property be measured following the impairment review?

- A \$8 million
- B \$10 million
- C \$7 million
- D \$5 million

2. On what basis may a subsidiary be excluded from consolidation?

- A. The activities of the subsidiary are dissimilar to the activities of the rest of the group.
- B. The subsidiary was acquired with the intention of reselling it after a short period of time
- C. The subsidiary is based in a country with strict exchange controls which make it difficult for it to transfer funds to the parent
- D. There is no basis on which a subsidiary may be excluded from consolidation

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

- A. Charged as an expense in profit or loss
- B. Capitalized 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 shares.
- B. Ability to exercise control
- C. Existence of significant control
- D. Exposure to variable returns from involvement with the investee.

5. Which two of the following statements are correct when preparing consolidated financial statements?

A. Subsidiary cannot be consolidated unless it prepares financial statements to the same reporting date as the parent.

B. A subsidiary with a different reporting date may prepare additional statements up to the group reporting date for consolidation purposes.

C. A subsidiary's Financial Statements can be included in the consolidation if the gap between the parent and subsidiary reporting dates is five months or less.

D. Where a subsidiary's Financial Statements are drawn up to a different reporting date from those of the parent, adjustments should be made for significant transactions or events occurring between the two reporting dates.

6. IFRS 3 Business Combination requires an acquirer to measure the assets and liabilities of the acquiree at the date of consolidation at fair value. IFRS 13 Fair Value Measurement provides guidance on how fair values should be established.

Which of the following is not one of the issues to be considered according to IFRS 13 when arriving at the fair value of a non-financial asset?

- A. The characteristics of the asset

- B. The present value of the future cash flows that the asset is expected to generate during its remaining life.
- C. The principal or most advantageous market for the asset
- D. The highest and best use of the asset

7. IFRS 10 Consolidated Financial Statements provides a definition of control and identifies three separate elements of control. Which one of the following is not one of these elements of control?

- A. Power over the Investee
- B. The power to participate in the financial and operating policies of the investee
- C. Exposure to or rights to variable return from its involvement with the investee
- D. The ability to use its power over the investee to affect the amount of the investor's returns

8. P owns 100% of the share capital of the following companies. The directors are unsure of whether the investments should be consolidated.

In which of the following circumstances would the investments NOT be consolidated?

- A. P Ltd has decided to sell its investment in A Ltd as it is loss-making; the directors believe its exclusion from consolidation would assist users in predicting the group's future profits.
- B. P Ltd is a bank and its activity is so different from the engineering activities of the rest of the group that it would be meaningless to consolidate it
- C. D Ltd is located in a country where local accounting standards are compulsory and these are not compatible with IFRS used by the rest of the group.
- D. G Ltd is located in a country where a military coup has taken place and P Ltd has lost control of the investment for the foreseeable future.

9. Which one of the following is not true concerning the treatment of investment properties under IAS 40?

- A. Following initial recognition, investment property can be held at either cost or fair value.
- B. If an investment property is held at fair value, this must be applied to all the entity's investment properties.
- C. An investment property is initially measured at cost, including transaction costs
- D. A gain or loss arising from a change in the fair value of an investment property should be recognized in other comprehensive income.

10. A Company has the following loans in place throughout the year ended 31 December 2021.

	\$m
10% Bank loan	140
8% Bank loan	200

On 1 July 2021 \$50 million was drawn down for construction of a qualifying asset which was completed during 2022. What amount should be capitalized as borrowing costs at 31 December 2021 in respect of this asset?

- A. \$ 5,6 million
- B. \$2,8 million
- C. \$4,4 million
- D. \$2,2 millions

Information below is relevant to questions S 11-15

The Financial Statement of P Ltd for the year ended 31 December 2021 are being prepared and the accountant has requested your advice on dealing with the following.

- (a) P Ltd has an administration building which it no longer needs. On 1 July 2021 P Ltd entered into an agreement to lease the building out to another company. The building cost \$600 000 on 1 January 2013 and is being depreciated over 50 years, based on the IAS 16 cost model.
P Ltd applies the fair value model under IAS 40 Investment Property and the fair value of the building was judged to be \$800 000 on 1 July 2021. This valuation had not changed at 31 December 2021.
- (b) P Ltd owns another building which has been leased out for a number of years. It had a fair value of \$550 000 at 31 December 2020 and \$740 000 at 31 December 2021.
- (c) P Ltd owns a retail business which has suffered badly during the recession. P Ltd treats this business as a separate cash generating unit.

The carrying amounts of the assets comprising the retail business are:

	\$000
Buildings	900
Plant and Equipment	300

Inventories	70
Other current assets	130
Goodwill	40

An impairment review has been carried out as at 31 December 2021 and the recoverable amount of the cash generating unit is estimated at \$1.3 million

11. What is the amount of the revaluation surplus that will be recognized in respect of the buildings in (a).

- A. \$200 000
- B. \$314 000
- C. \$308 000
- D. \$Nil

12. In respect of the building in (b) how will the increase in value from \$550 000 to \$740 000 be accounted for?

- A. Credited to profit or loss
- B. Credited to the revaluation surplus
- C. Credited retained earnings
- D. Credited to an investment property reserve

13. When an impairment review is carried out, a potentially impaired asset is measured at what amount?

- A. Fair value
- B. Value in use
- C. Recoverable amount
- D. Carrying amount

14. What will be the carrying amount of the inventory after the impairment loss in (c) has been accounted for?

- A. \$64 000
- B. \$70 000
- C. \$Nil
- D. \$65 000

15. What will be the carrying amount of the building after the impairment loss has been accounted for?

- A. \$ 900 000
- B. \$836 000
- C. \$795 000
- D. \$825 000

SECTION B:70 MARKS

QUESTION 1

The following balances appeared in the books of Milestone Ltd for the financial year ended:

	28 February 2022	29 February 2021
Property, Plant and Equipment	1 575 000	800 000
Investments	198 000	15 000
Preliminary expenses	16 500	24 000
Inventory	182 000	69 000
Trade receivables	192 500	250 000
Prepaid administrative expenses	2 000	4 000
Dividends receivable	12 000	-
Bank	<u>-</u>	<u>55 000</u>
	<u>2 178 000</u>	<u>1 217 000</u>
Ordinary Share Capital of \$1 each	1 000 000	400 000
Share premium	-	10 000

10% Debentures of \$200 each	80 000	150 000
Surplus on revaluation of land	275 000	75 000
Retained earnings	335 500	325 000
18% Long term loans	30 000	40 000
Deferred tax	5 000	12 000
Accumulated depreciation – Property, Plant & Equipment	175 000	100 000
Short term portion of long term loan	10 000	10 000
Tax payable	14 000	34 000
Dividends payable	50 000	20 000
Trade payables	25 000	41 000
Bank Overdraft	<u>178 500</u>	<u>-</u>
	<u>2 178 000</u>	<u>1 217 000</u>

Statement of Comprehensive Income for the year ended 28 February 2022.

	2022	2021
	\$	\$
Revenue	1 100 000	588 000
Cost of sales	<u>(400 000)</u>	<u>(200 000)</u>
Gross Profit	700 000	388 000
Expenses	(578 000)	(342 000)
Directors' remuneration	50 000	30 000
Distribution expenses	150 000	125 000
	100 000	75 000
	60 000	38 000
	195 000	55 000
	23 000	19 000

Administrative expenses

Auditors' remuneration

Depreciation

Finance charges

Other income

42 000

9 000

Profit on sale of plant and Equipment

30 000

-

Dividends on investments

12 000

9 000

Profit before tax

164 000

55 000

Income tax expense

(56 000)

(22 000)

Current year

63 000

21 000

Deferred

(7 000)

1 000

Profit for the year

108 000

33 000

Other comprehensive income

200 000

75 000

Total comprehensive income for the year

308 000

108 000

Additional information:

1.1 500 000 ordinary shares were issued to the public at a premium of 10% on 1 April 2021.

- 1.2 The company issued capitalization shares at par to the ordinary shareholders on 30 June 2021 in the ratio of 1 ordinary share for every 9 ordinary shares held. The share premium account was utilized for this purpose.
- 1.3 Seven thousand five hundred dollars (\$7 500) of the preliminary expenses was written off against retained earnings on 28 February 2022 and an ordinary dividend of 5 cents per share was declared.

2. The following changes in property, plant and equipment took place:

	Land	Plant and Equipment
	\$	\$
Carrying amount beginning of year	400 000	300 000
Cost	400 000	400 000
Accumulated depreciation	-	(100 000)
Purchases at cost	75 000	800 000
Disposals at carrying amount	-	(180 000)
Revaluations during the year	200 000	-
Depreciation for the year	-	(195 000)
Carrying amount end of year	675 000	725 000

Valuation / Cost

675 000

900 000

Accumulated depreciation

-

(175 00)

\$500 000 of the purchases of property, plant and equipment represent replacements of assets disposed of.

3. The debentures were redeemed at par on 1 March 2021.
4. The long term loan was incurred on 1 January 2013 and the capital portion is repayable in five equal annual installments starting on 30 June 2021.
5. New investments were purchased during the year.
6. Revenue consists of cash sales amounting to \$400 000 (2021: \$134 000) and credit sales of \$700 000 (2021 : \$454 000).

Required:

Prepare the statement of cash flows of Milestone Ltd for the financial year ended 28 February 2022 using the direct method. Your answer must comply with IFRS. Show the following calculations:

1. Cash receipts from customers
2. Cash payments to suppliers
3. Dividends paid
4. Tax paid.

(25 marks)

QUESTION 2

The following balances were taken from the records of P Ltd and D Ltd for the year ended 30 June 2022.

P Limited

D Limited

	\$	\$
Credits –		
Share Capital		
Ordinary Shares of \$2 each	200 000	100 000
15% Cumulative Preference Shares \$1 each	80 000	50 000
General Reserve	26 000	30 000
Share Premium	40 000	20 000
Retained Earnings beginning of Year	124 000	88 000
Accumulated depreciation		
Equipment	128 000	94 000
Overdraft – B Bank	48 000	-
Profit on expropriation of non-current assets	-	20 000
(not taxable)		
Trade Payables	175 600	218 300
Taxation Payable	190 000	170 000
Loan from subsidiary	120 000	-
Profit on Ordinary activities before taxation	<u>540 000</u>	<u>486 000</u>
	<u>1 671 600</u>	<u>1 276 300</u>
Debits		
Non- Current Assets –		
Property at Cost	600 000	160 000
Equipment at Cost	300 000	180 000

Inventories	100 000	80 000
Investment in D Ltd at Cost		
30 000 Ordinary Shares	204 000	-
Bank – O Bank	1 200	12 000
Transfer to General Reserve	10 000	8 000
Trade Receivables	114 400	398 800
Allowance for taxation	190 000	170 000
Allowance taxation payments	100 000	90 000
Loan to holding company (interest free)	-	140 000
Dividend paid – Ordinary shares	40 000	30 000
Preference shares	<u>12 000</u>	<u>7 500</u>
	<u>1 671 600</u>	<u>1 276 300</u>

Additional Information:

1. P Ltd acquired its interest in D Ltd on 10 May 2017. At that date D Ltd's retained earnings amounted to \$22 000 and its general reserves to \$13 000 and its share premium to \$20 000. P Ltd paid \$204 000, \$75 000 of which was paid for the cost of control. The balance was attributable to the revaluation of D Ltd's non-current assets i.e. property. At the date of acquisition there was no arrear preference dividend. Each share carries one vote.
2. P Ltd has bought all its inventories from D Ltd since 1 July 2021. D Ltd made a profit of 25% on the cost price of inventories sold to P Ltd.
3. D Ltd paid no preference dividends for the period 1 July 2021 to 30 June 2022. On 30 June 2021 D Ltd paid a preference dividend of \$30 000.

4. On 29 June 2022 D Ltd sent goods to the value of \$20 000 to P Ltd, which only received them on 3 July 2022.
5. On 2 January 2021 P Ltd sold a machine to D Ltd at a profit of \$40 000. It is group policy to provide for depreciation at 25% per annum according to the reducing balance method.

Required:

Prepare a consolidated income statement and a consolidated Statement of Financial Position for P Ltd and its subsidiary for the year ended 30 June 2022. (25 marks)

QUESTION 3

S Ltd was involved in the following uncompleted construction contracts during the year ended 28 February 2022.

	Contract 1	Contract 2	Contract 3
	\$	\$	\$
Total contract price	1 000 000	250 000	400 000
Total estimated contract costs	860 000	300 000	320 000

Work certified:

Year to 28 February 2021,	490 000	-	-
Year to 28 February 2022,	<u>400 000</u>	120 000	280 000
	<u>890 000</u>		

Cash received:

Year to 28 February 2021,	550 000	-	-
Year to 28 February 2022,	<u>380 000</u>	100 000	240 000
	<u>930 000</u>		

Costs incurred:

Year to 28 February 2021,	470 000	-	-
Year to 28 February 2022,	<u>340 000</u>	100 000	200 000
	<u>810 000</u>		

Additional information:

1. Retention money of 10% is withheld until ten months after completion of the contract.
2. Included in the cash received of \$380 000 on contract 1 is an amount of \$10 000 which was paid by the customer as an incentive in recognition of the high standard of work performed.
3. In the previous year Zimra allowed \$3 000 as a deduction in terms of on contract 1.
4. The company's taxable income from all the contracts which were complete during the current tax year amounted to \$50 000.

Required:

Calculate the taxable income of S Ltd for the year ended 28 February 2022. (20 marks)

END OF PAPER