

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

ACCOUNTANCY DEPARTMENT

APR 2025

PROGRAMS

Bachelor of Accountancy (Honours) Degree

EXAMINATION QUESTION PAPER

COURSE: Corporate Reporting 2 (AC411)

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) For section B, start the answer to each question on a fresh page.
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Section A (Multiple choice-30 marks)

1. Cowper plc has spent \$20,000 researching new cleaning chemicals in the year ended 31 December 2024. They have also spent \$40,000 developing a new cleaning product which will not go into commercial production until next year. The development project meets the criteria laid down in IAS 38 *Intangible Assets*.

How should these costs be treated in the financial statements of Cowper plc for the year ended 31 December 2024?

- A. \$60,000 should be capitalised as an intangible asset on the statement of financial position.
 - B. \$40,000 should be capitalised as an intangible asset with subsequent amortisation taken to profit or loss. \$20,000 should be expensed as research costs in the statement of profit or loss.
 - C. \$40,000 should be capitalised as an intangible asset and should not be amortised. \$20,000 should be expensed as research costs in the statement of profit or loss.
 - D. \$60,000 should be expensed as research costs in the statement of profit or loss
2. 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
3. An impairment loss is:
- A. The amount by which the carrying amount of an asset exceeds its market value
 - B. The amount by which the carrying amount of an asset exceeds its recoverable amount
 - C. The amount by which the recoverable amount of an asset exceeds its carrying amount
 - D. The amount by which the recoverable amount of an asset exceeds its written down value
4. 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.
5. Many commentators believe that the trend of earnings per share (EPS) is a more reliable indicator of underlying performance than the trend of net profit for the year. Which of the following statements supports this view?

- A. Net profit can be manipulated by the choice of accounting policies but EPS cannot be manipulated in this way
 - B. EPS takes into account the additional resources made available to earn profit when new shares are issued for cash, whereas net profit does not
 - C. The disclosure of a diluted EPS figure is a forecast of the future trend of profit
 - D. The comparative EPS is restated where a change of accounting policy affects the previous year's profits
6. Geek is developing a new product and expects to be able to capitalise the costs. Which one of the following would preclude capitalisation of the costs?
- A. Development of the product is not yet complete.
 - B. No patent has yet been registered in respect of the product.
 - C. No sales contracts have yet been signed in relation to the product.
 - D. It has not been possible to reliably allocate costs to development of the product
7. Which of the following is one of the criteria for the recognition of development costs as an intangible asset?
- A. The asset has been completed and is available for sale or use
 - B. It is possible that the asset can be sold or used
 - C. The proceeds from sale or use of the asset can be reliably measured
 - D. The asset will generate probable future economic benefits
8. IAS 38 gives examples of activities that would be regarded as research and therefore not eligible for recognition as an intangible asset. Which one of the following would be an example of research costs?
- A. The design and construction of chosen alternative products or processes
 - B. The design of pre-production prototypes and models
 - C. The design of possible new or improved product or process alternatives
 - D. The design, construction and operation of a pilot plant
9. At what amount does IAS 17 Leases require a lessee to capitalise an asset acquired under a finance lease?
- A. Cash price of the asset
 - B. Fair value of the asset
 - C. Present value of minimum lease payments
 - D. Lower of fair value and present value of minimum lease payments
10. Which of the following situations does not suggest that a leasing arrangement constitutes a finance lease?
- A. The present value of the minimum lease payments is substantially less than the fair value of the asset.
 - B. Ownership in the asset is transferred at the end of the lease term.
 - C. The lease term is for a major part of the asset's useful life.
 - D. The lease contains a purchase option at a price below fair value, which is reasonably certain to be exercised.

11. In accordance with IAS 32 Financial Instruments: Presentation, which of the items in the trial balance would be classified as financial instruments?
- A. Closing inventory and trade receivables only
 - B. 5% loan notes only
 - C. Trade receivables and 5% loan notes only
 - D. Closing inventory, trade receivables and 5% loan notes
12. Which of the following statements are true in relation to the recognition of revenue IN accordance with IFRS 15 Revenue from contracts with customers?
- A. A contract must exist between the seller and the buyer
 - B. Performance obligations must be partially satisfied
 - C. The goods have been delivered to a transporter on its way to the buyer
 - D. The entity must not bother to identify and separate the distinct performance obligations within a contract
13. IAS 38 Intangible Assets sets out six criteria that must be met before development costs can be recognised. Which THREE of the following are included in the criteria?
- A. Revenues can be generated
 - B. Adequate cash to complete
 - C. The project must be technically feasible
 - D. Costs can be measured
 - E. An ability to use or sell the developed item
 - F. The developed item will generate a probable future economic benefit
14. At 31 March 2024, Jasim had shareholders' funds (equity) of \$200,000 and debt of \$100,000. Which of the following transactions would increase Jasim's gearing compared to what it would have been had the transaction NOT taken place? Gearing should be taken as debt/(debt + equity). Each transaction should be considered separately.
- A. During the year a property was revalued upwards by \$20,000
 - B. A bonus issue of equity shares of 1 for 4 was made during the year using other components of equity
 - C. A provision for estimated damages was reduced during the year from \$21,000 to \$15,000 based on the most recent legal advice
 - D. An asset with a fair value of \$25,000 was acquired under a finance lease on 31 March 2024
15. At 1 April 2024, 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 2024, 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 2024 was expected to be \$790,500 which had not changed at 31 March 2025. What should be the carrying amount of the property in Tilly's statement of financial position as at 31 March 2025?
- A. \$775,000
 - B. \$790,500
 - C. \$765,000
 - D. \$750,000

SECTION B – (70 marks)

Question 1

Hardfloor House Ltd constructs and refurbishes nightclubs on behalf of their customers. The project generally takes a number of months to complete. The company has three contracts in progress at the year ended April 2024.

	A	B	C
	\$000	\$000	\$000
Costs incurred to date	320	540	260
Estimated costs to complete	40	90	120
Contract price	416	684	400
Work certified to date	312	456	200
Progress billings	250	350	230

Hardfloor House Ltd calculates the percentage of completion by using the work certified basis.

Required:

Calculate the effects of the above contracts on the financial statements of Hardfloor House Ltd and show how the amounts recognised would be reported in the extracts of the statement of profit or loss and the statement of financial position. (30 Marks)

Question 2

On 1 January 2024, Pillbox, a listed entity, had 10 million \$1 ordinary shares in issue. The earnings for the year ended 31 December 2024 were \$5,950,000 and Pillbox made no new issue of shares during the year. The basic earnings per share for the year was therefore 59.5c.

Throughout the year ended 31 December 2024 there were outstanding options to purchase 74,000 ordinary \$1 shares at \$2.50 per share. The average fair value of one ordinary \$1 share was \$4.

Required:

Calculate the diluted EPS for the year ended 31 December 2024. (8 Marks)

Question 3

An entity has incurred the following expenditure during the current year:

- i. A brand name relating to a specific range of chocolate bars, purchased for \$200,000. By the year end, a brand specialist had valued this at \$250,000.
- ii. \$500,000 spent on developing a new line of confectionery, including \$150,000 spent on researching the product before management gave approval to fully fund the project.
- iii. Training costs for staff to use a new manufacturing process. The total training costs amounted to \$100,000 and staff are expected to remain for an average of 5 years.

Required:

Explain the accounting treatment for the above issues. (15 Marks)

Question 4

Moyo Trading Company operates a defined benefit pension plan. At 1 January 2024 the present value of the defined benefit obligation was \$7 million and the fair value of the plan assets was \$7.2 million. Equivalent values at 31 December 2024 were \$7.7 million and \$8.25 million.

For the year ended 31 December 2024:

- Current service cost was \$1.9 million
- The applicable interest rate was 4%
- Contribution of \$2 million were made to the plan
- \$1 million was paid out to retirees

The present value of future economic benefits relating to the plan is \$480 000.

Required:

What amount should be recognised in the profit or loss and other comprehensive income? Show a tabular step by step computation of the amounts. (17 Marks)

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