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INTERMEDIATE LEVEL	
SUBJECT	FINANCIAL ACCOUNTING II
DATE	OCTOBER 2020
TIME	3 HOURS
MARKS	100
EXAM TYPE	CLOSED BOOK
READING TIME	TEN MINUTES READING TIME IS ALLOWED FOR THIS PAPER. DURING THIS TIME YOU ARE PERMITTED TO WRITE ON THE QUESTION PAPER BUT NOT IN YOUR ANSWER BOOK
EQUIPMENT REQUIREMENTS	SILENT HANDHELD CALCULATOR

INSTRUCTIONS TO CANDIDATES

1. Read the instructions CAREFULLY before answering the paper
2. Answer all questions
3. Use black or blue ink
4. Ensure that all information on the cover of your answer book is completed in full.
5. Cheating is not allowed. If anyone is caught cheating, disciplinary measures will be taken by the Institute of Bankers.

GOOD LUCK !

**INSTITUTE OF BANKERS
OF
ZIMBABWE**

OCTOBER 2020 EXAMINATIONS

FINANCIAL ACCOUNTING II

QUESTION NUMBER	TOPIC	MARKS
1	FINANCIAL STATEMENTS	
1A	- Adjustments to equity accounts and financial statements of a partnership	15
1B	- IAS 1 Presentation of financial statements of a company	10
2	VARIOUS IFRS	
2A	- IAS 12 Income Taxes	15
2B	- IAS 33 Earnings per share	6
2C	- IAS 16 Property plant and equipment	4
3	ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS	
3A	- IAS 7 Statement of Cash flows	16
3B	- Financial Ratio Analysis	9
4	GROUP FINANCIAL REPORTING	
	- IFRS 3 Business combinations, IFRS 10 Consolidated financial statements	25

QUESTION 1 (25 MARKS)

Part 1A (15 marks)

Toyota and Mazda operated a partnership business Toma Traders. The following is the trial balance of Toma Traders as 31 August 2016.

	Debit	Credit
	\$	\$
Land and buildings at cost	114 000	
Machinery at cost	20 000	
Accounts receivable	30 800	
Inventory	14 000	
Cash at Bank	72 400	
Interest bearing borrowings		16 000
Accounts payable		28 200
Accrued expenses		2 400
Accumulated depreciation		
- Machinery		4 000
Capital accounts		
Toyota		56 000
Mazda		65 000
Current Accounts		
Toyota		41 708
Mazda		25 892
General Reserve		12 000
	-----	-----
	251 200	251 200
	=====	=====

On 1 September 2016 Toyota and Mazda agreed to admit Navara into the partnership on the following terms;

- i) The following values were placed on the partnership assets and liabilities;

	\$
Land and buildings	140 000
Machinery	18 000
Inventory	13 000
Accounts receivable	28 800
Goodwill	38 400

All other assets and liabilities were considered to be fairly valued.
- ii) Navara contributed \$88 000 to the partnership, and will be entitled to a one third share of partnership profits. Toyota and Mazda are to relinquish shares of profit in such a way that each partner will have a third of the future profits.
- iii) The new partnership agreed to maintain
 - the assets at the revalued amounts
 - a goodwill account, and
 - the general reserve account
- iv) The new partnership will trade under the new name of Tomana traders

Required

- i) Show the adjustments to the profit sharing ratio resulting from the admission of Navara **(2 marks)**
- ii) Prepare the revaluation account **(3 marks)**
- iii) Calculate net adjustments to capital accounts as a result of changes in proportionate interest in general reserve. **(2 marks)**
- iv) Prepare an extract of the Statement of Changes in Equity of Tomana Traders for the year ending 31 August 2017 showing the changes in equity arising from the admission of Navara. Omit partners' current accounts and total columns **(4 marks)**
- v) Prepare an extract of the Statement of Financial Position of Tomana Traders showing only the assets section immediately after the admission of Navara **(4 marks)**

Part 1B (10 marks)

The following is a trial balance of Mercedes Limited

Mercedes Limited
Trial Balance as at 31 March 2017

	Debit	Credit
	\$	\$
Advertising expenses	3 700	
Delivery expenses	5 525	
Income tax expense	85 899	
Profit on disposal of land		50 000
Dividends paid	20 000	
Dividend income		1 750
Dividend income		750
Rent income		
Cost of sales	261 650	
Interest expense	9 825	
Non-controlling interest in profit	14 706	
Salaries;		
- Administrative personnel	23 450	
- Sales personnel	21 050	
Stationery	2 750	
Sales		577 800
Depreciation expense		
- Delivery vehicles	6 675	
- Office buildings	2 050	
General Reserve		1 250
Cash and cash equivalents	99 495	
Accounts receivable	11 250	
Property, plant and equipment	188 520	
Accounts payable		6 375
Non – controlling interest (cumulative)		49 320

Retained earnings: 31 March 2016		8 000
Revaluation surplus (net of tax 31 March 2016 - \$Nil)		6 250
Issued share capital 66 250 ordinary shares of \$1.00 each		66 250
12 500 10% preference shares of \$1.00 each		12 500
Inventories	23 700	
	<u>780 245</u>	<u>780 245</u>
	=====	=====

Additional information

- Dividends paid consist of both preference and ordinary dividends
- An amount of \$40 000 is to be transferred from retained earnings to general reserve.

Required

Prepare the following financial statements for the year ended 31 March 2017, Comparative figures are not required.

- Statement of profit or loss and other comprehensive income **(7 marks)**
- Statement of financial position extract showing the equity section **(3 marks)**

QUESTION 2 (25 MARKS)

Part 2A (15 marks)

On 1 September 2014, Jeep Limited which has a 31 August financial year end, bought a machine for \$20 000. The machine is depreciated at the rate of 25% per annum on cost. For tax purposes, a 50/30/20 wear and tear allowance is applied. The tax rate is 30%. The profits before tax (after taking into account depreciation) for the years ended 31 August 2016 and 2015 were as follows;

	31 August	
	2016	2015
	\$	\$
Profit before tax	200 000	160 000

There are no exempt differences and no other temporary differences.

Required

- Calculate current tax for the years ended 31 August 2016 and 2015 **(3 marks)**
- Calculate deferred tax asset/liability at 31 August 2016 and 2015 **(3 marks)**
- Prepare journal entries for deferred tax for the years ended 31 August 2015 and 2016 **(2 marks)**
- Show extracts of the
 - Statement of profit or loss for the year ended 31 August 2016 **(2 marks)** and
 - Statement of financial position at 31 August 2016 **(2 marks)** including income tax expense and liabilities. Comparatives are required.
- Disclose the income tax note to the statement of profit or loss for the year ended 31 August 2016. Comparatives are required. **(3 marks)**

Part 2B (6 marks)

The following is an extract of the Income Statement of the Fortuner Limited for the year ended 31 March 2017.

	2017	2016
	\$	\$
Gross profit	550 000	387 500
Share of profit/loss of associates	76 430	(10 360)
	-----	-----
Profit before tax	626 430	377 140
Income tax expense	(187 430)	(113 140)
	-----	-----
Profit for the year	439 000	264 000
	=====	=====
Profit attributable to;		
Owners of the parent	395 000	238 000
Non-controlling interest	44 000	26 000
	-----	-----
	439 000	264 000
	=====	=====

Additional information

- 1) Fortuner Limited paid the following dividends for the years ended 31 March;

	2017	2016
	\$	\$
Preference dividend	32 000	32 000
Ordinary dividend	200 000	138 000
	-----	-----
	232 000	170 000
	=====	=====

- 2) Over the two year period ended 31 March 2017, Fortuner made the following issues of ordinary shares.
- i) On 1 April 2015, Fortuner issued 2 000 000 ordinary shares for fair value.
 - ii) On 1 September 2015, Fortuner issued an additional 321 000 in order to obtain the total issued share capital of Magumbo Pvt Ltd with effect from 31 August 2015.
 - iii) On 26 March 2017, Fortuner made a capitalisation issue of one ordinary share for every two ordinary shares held on that date.

Required

- i) Calculate the basic earnings per share of Fortuner Ltd for the years ended 31 March 2017 and 2016 **(4 marks)**
- ii) Present the basic earnings per share of Fortuner Ltd on the statement of profit or loss and other comprehensive income for the year ended 31 March 2017 **(2 marks)**

Notes to the financial statements are not required.

Part 2C (4 marks)

Avensis Ltd entered into the following exchange transactions during the year ended 30 June 2010;

Transaction 1

A motor vehicle with a carrying amount of \$100 000 in the records of Avensis Ltd and a fair value of \$120 000 was exchanged for a light delivery vehicle of Zaz Ltd with a fair value of \$125 000. The fair values of both vehicles can readily be determined since there is an active market for used vehicles.

Transaction 2

A machine of Avensis Ltd with a carrying amount of \$90 000 was exchanged for a machine of YK Ltd which is carried in Yk's records at \$80 000. The fair values of neither of the machines could be readily determined.

Transaction 3

A computer network system of Avensis Ltd with a carrying amount of \$160 000 was exchanged for furniture with a carrying amount of \$170 000 in the records of Xi Ltd. The fair value of the network system cannot be determined readily as this item is seldom sold in its entirety, but based on probabilities the fair value is estimated at \$150 000. The fair value of the furniture is \$165 000 and is readily determinable because an active market exists for these used assets.

Transaction 4

Avensis Ltd exchanged a truck with a carrying value of \$200 000 for a similar truck with the same age and condition of WOW Ltd. The truck of Avensis Ltd has blue stripes printed on the sides and the other truck has silver stripes which is more to the liking of the managing director of Avensis Ltd. The fair value of the blue striped truck is \$210 000 and that of the silver striped truck is \$220 000, which indicates that the silver striped truck is more popular.

Required

Calculate for each transaction the amount at which the new asset acquired from the exchange should be measured in the financial statements of Avensis Ltd according to the requirements of International Financial Reporting Standards **(4 marks)**

QUESTION 3 (25 MARKS)**Part 3A (16 marks)**

The following are annual financial statements of Honda Ltd for the year ended 30 June 2014:

	2014	2013
	\$	\$
Revenue	4 830	4 643
Cost of sales	(2 898)	(3 186)
	-----	-----
Gross Profit	1 932	1 457
Other Income		
- Gain on disposal of land	660	-
- Reduction in allowance for credit losses	-	20
Distribution costs	(390)	(125)
Other expenses		
- Audit fees	100	90
- Depreciation – machinery	220	210
- - furniture	20	20
- Allowance for credit losses	100	-
- Loss on disposal of machinery	20	-
- Finance costs	20	40
-	-----	-----
Profit before tax	1 722	992
Income tax expense	(500)	(100)
	-----	-----
Profit for the year	1 222	892
Other comprehensive income		
Gain on property revaluation	2 000	-
Income tax on other items of comprehensive income	(560)	-
	-----	-----
Total comprehensive income for the year	2 662	892
	=====	=====

Honda Ltd
Statement of financial position as at 30 June 2014

	2014	2013
	\$	\$
Assets		
Non-current assets		
Property, plant and equipment	4 920	2 000
Land at valuation	4 000	-
Land at cost	-	1 240
Machinery	800	660
Cost price	1 600	1 400
Accumulated depreciation	(800)	(740)
Furniture	120	100
Cost price	200	160
Accumulated depreciation	(80)	(60)
	4 920	2 000
Current assets		
Inventories	3 200	2 800
Debtors	4 400	3 600
Cash on deposit	600	200
Bank	480	-
	8 680	6 600
Total Assets	13 600	8 600
Equity and liabilities		
Share capital – ordinary	3 300	1 460
Retained earnings	690	700
Other components of equity -Revaluation surplus	1 440	-
	5 430	2 160
Non-current liabilities		
Loans	2 200	2 000
Deferred tax	610	40
	2 810	2 040

Current Liabilities

Creditors	2 800	3 200
Short – term loan	1 200	200
Tax payable: ZIMRA	150	100
Shareholders for dividends	1 200	800
Unclaimed dividends	10	-
Bank overdraft	-	100
	-----	-----
	5 360	4 400
	-----	-----
Total liabilities	8 170	6 440
	-----	-----
Total equity and liabilities	13 600	8 600
	=====	=====

Honda Ltd**Statement of changes in equity for the year ended 30 June 2014**

	Share Capital \$	Revaluation surplus \$	Retained earnings \$	Total \$
Balance at 30 June 2012	1 460	-	640	2 100
Preference dividend	-	-	(32)	(32)
Ordinary dividend	-	-	(800)	(800)
Profit for the year	-	-	892	892
Other comprehensive income, net of tax	-	-	-	-
	-----	-----	-----	-----
Balance as 30 June 2013	1 460	-	700	2 160
Ordinary shares issued	1 840	-	-	1 840
Preference dividend	-	-	(32)	(32)
Ordinary dividend	-	-	(1 200)	(1 200)
Profit for the year	-	-	1 222	1 222
Other comprehensive income, net of tax	-	1 440	-	1 440
	-----	-----	-----	-----
Balance as 30 June 2014	3 300	1 440	690	5 430
	=====	=====	=====	=====

Additional information

1. Land at a cost of \$540 was sold during the year and new land was acquired. This was not done to replace the land that was sold.
2. Machinery with a cost of \$400 was purchased on 31 October 2013 to replace existing machinery which cost \$200 and was sold on 1 July 2013.

3. Depreciation on machinery and furniture is calculated at 15% per annum and 10% per annum respectively on the straight line basis.
4. Furniture with a cost of \$40 was purchased on 1 July 2013 as a replacement of old furniture.

Required

Prepare the Statement of Cash Flows of Honda Ltd for the year ended 30 June 2014 using the indirect method. Notes to the financial statements are not required. **(16 marks)**

Part 3B (9 marks)

The following data relate to Nissan Limited

Nissan Limited
Extracts from Statement of financial position as at 31 March

	2015	2014
	\$	\$
Inventory	88 000	26 000
Accounts receivable	50 160	34 200
Cash and cash equivalents	-	60 560
Accounts payable	50 160	38 760
Bank overdraft	66 000	-

Additional information

Sales and purchases for the year ended 31 March 2015 were as follows;

	Sales	Purchases
	\$	\$
Cash	178 000	56 000
Credit	222 000	234 000
	-----	-----
Total	400 000	290 000
	=====	=====

Required

Using a table with such columns and rows as given below, analyse the profitability and liquidity of Nissan Limited. For ratios 1, 4 and 5 the comparatives for 2014 are not required. Base your interpretation on the comparison of the two ratios.

	Ratio	Formula	Calculation		One possible reason for trend
			2015	2014	
1.	Gross profit to sales ratio			-	-
2.	Current ratio				
3.	Acid test ratio				
4.	Receivable collection period				
5.	Payable settlement ratio				

QUESTION 4 (25 marks)

On 1 June 2010 Isuzu Limited acquired 90 000 Ordinary shares in Chevrolet Ltd at a cost of \$110 000. At the date of acquisition, Chevrolet Ltd's shareholders' interest consisted of the following;

	\$
100 000 Ordinary shares of \$1.00 each	100 000
Retained earnings	15 000

For the purpose of the acquisition land with a carrying amount of \$40 000 was revalued at \$45 000. The revaluation was not recorded in the books of Chevrolet Limited.

The condensed financial statements of Isuzu Limited and Chevrolet Ltd for the year ended 31 August 2015 were as follows;

**Statements of Profit or Loss and other Comprehensive Income
For the year ended 31 August 2015**

	Isuzu Limited	Chevrolet Limited
	\$	\$
Sales	200 000	127 500
Cost of sales	(124 000)	(76 500)
	-----	-----
Gross Profit	76 000	51 000
Other income:		
Dividend income	4 000	12 000
Depreciation	(10 000)	-
Other expenses	(20 000)	(28 000)
Finance cost	(10 000)	(5 000)
	-----	-----
Profit before tax	40 000	30 000
Income tax expense	(20 000)	(15 000)
	-----	-----
Profit for the year	20 000	15 000
	=====	=====

**Statement of Changes in Equity (extracts)
For the year ended 31 August 2015**

	Isuzu Limited	Retained earnings Chevrolet Limited
	\$	\$
Balance at 31 August 2014	29 000	37 500
Total comprehensive income	20 000	15 000
Dividend	(4 000)	(2 500)
	-----	-----
Balance at 31 August 2015	45 000	50 000
	-----	-----

Statement of financial position as at 31 August 2015

Isuzu Limited Chevrolet Limited

ASSETS	\$	\$
Land and buildings at cost	105 000	75 000
Plant and Machinery	55 000	74 000
Cost	80 000	90 000
Accumulated depreciation	(25 000)	(16 000)
Investment in Chevrolet Ltd	110 000	-
Inventories	47 500	41 500
Accounts receivable	15 000	6 000
	-----	-----
Total Assets	332 500	196 500
	=====	=====
EQUITY AND LIABILITIES		
Share capital	215 000	100 000
Retained earnings	45 000	50 000
Long term loans	22 500	11 500
Accounts payable	50 000	35 000
	-----	-----
	332 500	196 500
	=====	=====

Additional information

- i) Included in Isuzu Limited's plant and machinery is a machine sold to Isuzu Ltd by Chevrolet Limited on 1 September 2013. Chevrolet Ltd made a profit of \$10 000 on this transaction. It is group policy to charge depreciation at the rate of 10% per annum on cost.
- ii) Since 1 January 2012 Isuzu Ltd purchased some of its inventories from Chevrolet Ltd at the latter's normal selling price, that is determined at cost plus 25%. During the year ended 31 August 2015, sales from Chevrolet Ltd amounted to \$100 000.
- iii) Opening and closing inventories of Isuzu Ltd were all purchased from Chevrolet Ltd. On 31 August 2014, the inventories on hand of Isuzu Ltd amounted to \$30 000.

Required

Prepare;

- a) An analysis of shareholders' interest in Chevrolet limited **(5 marks)**
- b) Consolidated journal entries. Narrations are not required **(4 marks)**
- c) The consolidated statement of Profit or Loss and other Comprehensive Income of the Isuzu Limited Group for the year ended 31 August 2015 **(7 marks)**
- d) The consolidated statement of changes in equity of the Isuzu Limited Group for the year ended 31 August 2015 **(4 marks)**
- e) The consolidated statement of financial position (extract of asset section) of the Isuzu Ltd Group at 31 August 2015 **(5 marks)**