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SERVICE FIDELITY KNOWLEDGE

INTERMEDIATE LEVEL	
SUBJECT	FINANCIAL ACCOUNTING II
DATE	25 APRIL 2022
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 PERMITED TO WRITE ON THE QUESTION PAPER BUT NOT IN YOUR ANSWER BOOK
EQUIPMENT REQUIREMENTS	SILENT HANDHELD CALCULATOR

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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

APRIL 2022 EXAMINATIONS

FINANCIAL ACCOUNTING II

QUESTION NUMBER	TOPIC	MARKS
1	MULTIPLE CHOICE QUESTIONS	30
2	CONSOLIDATED FINANCIAL STATEMENTS	30
3	PARTNERSHIP ACCOUNTING	20
4	IAS 10- EVENTS AFTER THE REPORTING PERIOD	20

Question 1 (30 Marks)

Multiple Choice Questions- Each question carries 2 marks

1.1. The Conceptual Framework for financial reporting developed by the International Accounting Standards Board (IASB) defines elements of financial statements. Which one of the following is not an element of financial statements?

A. Income

B. Assets

C. Accounts receivable

D. Equity

1.2. Which one of the following best defines an asset?

A. A resource owned by the entity which is guaranteed to generate a future return for the business.

B. A physical resource which the company can use in the production facilities of the entity.

C. A present economic resource controlled by the entity as a result of past events.

D. A resource which the company hopes will increase the net value of the entity.

1.3. The Conceptual Framework for financial reporting developed by the International Accounting Standards Board (IASB) also outlines components of financial statements. Which one of the following is not a component of financial statements?

A. Notes to the financial statements

B. Directors' report

C. Statement of changes in equity

D. Statement of cashflows

1.4. Which of the following is a fundamental qualitative characteristic of useful financial accounting information?

A. Relevance

B. Accrual basis

C. Going concern

D. Comparability

1.5. Which of the following items may appear in a company's statement of financial position, according to International Accounting Standard (IAS) 1, Presentation of Financial Statements?

(i) Cash and cash equivalents

(ii) Dividends paid

(iii) Provisions

(iv) Profit for the year

A. (i), (iii) and (iv)

B. (ii), (iii) and (iv)

C. (i) and (iii)

D. (i), (ii) and (iv)

1.6. What is the correct treatment of ordinary dividends paid under IAS 1?

A. Dividends paid are shown on the face of the statement of profit or loss

B. Dividends paid are included in administrative expenses

C. Dividends paid are deducted in the statement of changes in equity

D. Dividends paid are deducted from other comprehensive income

1.7. For the year ended 31 March 2021, Zivo (Pvt) Ltd estimated their tax liability at $5 million. In August 2021, Zivo (Pvt) Ltd made a payment of $5.3 million to settle their tax liability for the year ended 31 March 2021. Zivo (Pvt) Ltd estimated their tax liability at $4.3 million, for the year ended 31 March 2022. What is the charge to the statement of profit or loss for income tax expense for the year ended 31 March 2022?

A. $4.3 million.

B. $5.3 million.

C. $4.6 million.

D. $4.0 million.

1.8. Wellington (Pvt) Ltd reported profit before taxation of $45 million for the year ended 30 September 2021. The tax charge on profit was $8 million, and other comprehensive income totalled $5 million. If there were 30 million ordinary shares in issue for the whole year how much should be reported as basic earnings per share by Wellington (Pvt) Ltd?

A. $1.23

B. $1.40

C. $1.50

D. $1.67

1.9. ABC Pvt Ltd borrowed a $3 million loan on 1 April 2021. Loan issuing costs associated with the loan were $50,000 and the loan has a coupon rate of interest of 5% per annum. On redemption, ABC must repay a premium giving the loan an effective interest rate of 7% per annum. ABC measures the loan using amortised cost. For the year ended 31 March 2022, what is the interest charge in the statement of profit or loss?

A. $150,000.

B. $206,500.

C. $210,000.

D. $213,500.

1.10. Data Pvt Ltd has a year end of 31 March 2021 and their financial statements were authorised for issue on 18 June 2021. The following events occurred during April 2021:

(i) The fair value of an investment property fell by $1 million.

(ii) A fire occurred in a warehouse, destroying $2,000 of inventory.

(iii) A trade receivable who owed $150,000, at 31 March, was declared bankrupt.

(iv) The company were issued with the ruling of a court case, which was held in February 2021. On 31 March 2021, the company had disclosed a contingent liability of $1m regarding possible damages, but following the court ruling, Data Pvt Ltd must pay $1.5 million in damages.

Which one of the following statements is true?

A. (ii) and (iii) are classified as adjusting events.

B. (i) and (iii) are classified as adjusting events.

C. (ii) and (iv) are classified as adjusting events.

D. (iii) and (iv) are classified as adjusting events.

1.11. In relation to IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors,* which one of the following statements is incorrect?

A. A change in accounting policy requires retrospective adjustment.

B. Revaluing an item of Property, Plant & Equipment for the first time is an example of a change in accounting policy.

C. Changing from measuring inventory using First in First Out (FIFO) to Weighted Average is an example of a change in accounting policy.

D. A change in how an item is recognised, measured, or presented is a change in accounting policy.

1.12. On 1 April 2020, Spring Pvt Ltd purchased 25% of the equity shares of Summer Pvt Ltd for \$3 million and this gave them the power to participate in the financial and operating policy decisions of Summer Pvt Ltd. The following summary is provided for the year ended 31 March 2021:

i) Summer Pvt Ltd reported a profit after tax of \$1 million.

ii) In January 2021, Summer Pvt Ltd declared and paid a dividend of \$0.3 million.

iii) On 31 March 2021, Spring Pvt Ltd was advised that the investment in Summer Pvt Ltd was impaired by \$0.2 million.

In Spring's Pvt Ltd group financial statements, what is the carrying value of the investment in associate, for the year ended 31 March 2021?

A. \$2,975,000.

B. \$3,000,000.

C. \$3,050,000.

D. \$3,500,000.

1.13. IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* gives guidance when accounting for assets held by an entity where the economic benefits will be realised primarily through sale rather than through continuing use. On 31 December 2021, Jaison (Pvt) Ltd had a property which met all the criteria to be classified as 'held for sale' under IFRS 5. It was carried at its depreciated historic cost of \$15 million. The company estimated the fair value of the property at \$18 million and that disposal costs will be \$1.5 million. How should the property be treated in the financial statements as at 31 December 2021?

A. Include in current assets at a value of $15 million.

B. Include in non-current assets at a value of $15 million.

C. Include in current assets at a value of $16.5 million.

D. Include in non-current assets at a value of $16.5 million.

1.14. Joel's year-end inventory amounted to $89,120 valued at cost. Included in this amount is some inventory which has been damaged and is beyond repair. The cost of this damaged inventory is $3,250. Joe can sell it at 70% of the usual selling price and normally makes a mark-up of 40% on cost. Determine the correct amount to be used by Joe in the preparation of financial statements, based on guidance provided by IAS 2 Inventories.

A. $89,120

B. $85,870

C. $89,055

D. $89,738

1.15. When carrying out an impairment review, assets are measured at their recoverable amount. Which of the following statements best describes recoverable amount?

A. Higher of fair value less costs of disposal and value in use

B. Higher of carrying amount and fair value less costs of disposal

C. Lower of fair value less costs of disposal and value in use

D. Lower of carrying amount and fair value less costs of disposal

Question 2 (30 Marks)

On 1 April 2019, Henn Ltd acquired a 70% interest in Egg (Pvt) Ltd. The summarized draft financial statements of the companies are as follows:

Statement of Profit or Loss for the year ended 31 March 2022.

	Henn Ltd ($'000)	**Egg (Pvt) Ltd ($'000)**
Revenue	7 800	1 940
Cost of sales	(3 000)	(700)
Gross profit	4 800	1 240
Other income	480	120
Administration expenses	(1 400)	(360)
Distribution costs	(450)	(250)

Finance costs	(100)	(60)
Profit before tax	3 330	690
Taxation	(420)	(80)
Profit for period	2 910	610

Statement of Financial Position as at 31 March 2022

	Henn Ltd ($'000)	**Egg (Pvt) Ltd ($'000)**
Non-current assets		
Property, Plant & Equipment	7 300	2 080
Investment in Egg (Pvt) Ltd	1 400	0
	8 700	2 080
Current assets		
Inventories	260	300
Trade receivables	710	500
Cash & bank	180	210
	1 150	1 010
Total assets	**9 850**	**3 090**
Equity & liabilities		
Equity		
Equity share capital of $1 each	2 000	400
Share premium	600	300
Retained earnings	5 540	1 360
	8 140	2 060
Non-current liabilities		
Long term loans	1 000	600
Current liabilities		
Trade payables	210	330
Taxation	500	100
	710	430
Total equity and liabilities	**9 850**	**3 090**

The following additional information is provided:

i) On the date of acquisition, the retained earnings of Egg (Pvt) Ltd were \$550 000. On this date the carrying value of the net assets were the same as their fair values with the exception of a factory building, which had a fair value of \$200 000 in excess of its carrying value. The factory building had a remaining useful life of ten years at the date of acquisition.

ii) Henn Ltd measures non-controlling interest at fair value. The fair value of the non-controlling interest in Egg (Pvt) Ltd at the date of acquisition was \$400 000.

iii) In the year ended 31 March 2021, goodwill was impaired by \$50 000 and by \$20 000 in the current period ending 31 March 2022.

iv) During December 2021, Henn Ltd sold goods with an invoice value of \$60 000 to Egg (Pvt) Ltd. Henn Ltd has a policy of charging a mark-up of 25% on cost, to determine selling price. At 31 March 2022, 20% of these goods were still in the inventory of Egg (Pvt) Ltd. At 31 March 2022, Egg (Pvt) Ltd still owed Henn Ltd \$20 000, and this agreed with the balance in the financial statements of Henn Ltd.

v) On 1 October 2021, Henn Ltd purchased 25% of the equity shares in Mazai (Pvt) Ltd for \$50 000 cash. Henn Ltd appointed a director to the board of Mazai (Pvt) Ltd and takes an active role in the management of the company. Mazai (Pvt) Ltd generated profits after tax, for the year ended 31 March 2021 of \$24 000. Hen Ltd has not recorded any part of this transaction in their financial statements.

vi) In November 2021, Egg (Pvt) Ltd declared and paid a dividend of \$200 000. Hen Ltd accounted for this dividend in other income, in the statement of profit or loss.

vii) All calculations may be taken to the nearest \$0.1 thousand. Assume all expenses and gains accrue evenly throughout the year unless otherwise stated. No new equity capital was issued by any group company in the last two years.

Required:

(a) Prepare the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Henn Ltd group for the year ended 31 March 2022, in accordance with IFRS.

(15 marks)

(b) Prepare a consolidated statement of changes in equity for the Henn Ltd group. **(5 marks)**

(c) Prepare the Consolidated Statement of Financial Position for the Henn Ltd group as at 31 March 2022, in accordance with IFRS. **(10 marks)**

Question 3 (20 Marks)

Michael and Rachel have been in partnership sharing profits or losses in the ratio of 2:1. Brandon was admitted as a new partner on 1 January 2021 and the new profit-sharing ratio is 3:1:1. Michael is entitled to a yearly salary of $20,000. Interest on drawings and interest on capital is calculated at 6% per annum and 4% per annum respectively. Interest on drawings is incurred from the date of drawings to the year-end. Interest on capital is calculated based on the closing balance of each partner's capital account at year-end. Brandon introduced capital of $30,000 on his admission to the new partnership. All partners agreed to introduce goodwill to the capital accounts and for this to be recorded in the books of the partnership. An independent expert valued the goodwill at $60,000. Rachel decided to withdraw capital of $10,000 on 31 October 2021. Drawings for each partner for the year are as follows:

Michael	$20,000 was withdrawn on 1 April 2021
Rachel	$10,000 was withdrawn on 1 June 2021
Brandon	$25,000 was withdrawn on 1 September 2021

The closing trial balance before adjusting for the above is as follows:

		Debit $	Credit $
Property, plant, and equipment		200,000	
Trade Receivables		60,000	
Inventory		80,000	
Cash and cash equivalents		120,000	
Capital Accounts at 1 January 2021	Michael		120,000
	Rachel		80,000
Current Accounts at 1 January 2021	Michael		18,000
	Rachel		12,000

Profit for the year			180,000
Trade Payables			50,000
		460,000	**460,000**

Required:

Prepare the following:

(a) Capital Accounts for the partnership for the year-ended 31 December 2020. **(4 marks)**

(b) Profit and loss appropriation account for the year-ended 31 December 2020. **(5 Marks)**

(c) Current Accounts for the partnership for the year-ended 31 December 2020. **(4 marks)**

(d) Statement of Financial Position for the partnership as at 31 December 2020. **(7 Marks)**

Question 4 (20 Marks)

Makeke Pvt Ltd manufactures plastic products in Ruwa. The financial controller has asked you, a trainee accountant, for some help in correctly accounting for events after the reporting date within the company for the financial year ending 31 July 2021. Makeke expected to authorise its accounts for issue on 1 October 2021.

Required:

Makeke Pvt Ltd has asked you to prepare a report which addresses the following:

a) In accordance with *IAS 10 – Events after the Reporting Period,* describe what is meant by the following:

   i) Events after the reporting period. **(2 Marks)**

   ii) Adjusting events. **(2 Marks)**

   iii) Non-adjusting events. **(2 Marks)**

b) An identification of the disclosures that should be given in relation to material non-adjusting events. **(2 Marks)**

c) An outline of the accounting treatment that Makeke Pvt Ltd should adopt in relation to the following issues faced by the company and provide the necessary journal entries to reflect each of these transactions.

i) Makeke initiated and completed a major share issue in August 2021. It issued and sold an additional 400,000 shares at \$3 each. This issue of shares accounted for 40% of its previous issued share capital. **(4 Marks)**

ii) Makeke was owed \$7,000 by a customer at the reporting period year-end date. The customer went into liquidation one month after the year-end and available information suggests that there is little prospect of recovering the debt. The amount of the debt has increased to \$9,000 at the date of liquidation. **(4 Marks)**

iii) Makeke had a fire in one of its warehouses after the reporting year-end that resulted in a loss of \$100,000 in relation to inventory it held in the warehouse. The damaged inventory was not insured. **(4 Marks)**

*****END OF EXAMINATION QUESTION PAPER*****