



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE**

**COURSE TITLE: INTERMEDIATE ACCOUNTING 2: MAC 203**

**END OF SEMESTER EXAMINATIONS  
MAY 2019**

**LECTURER: (MR KAZOMBA.S)**

**DURATION: (3 HRS)**

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### ***INSTRUCTIONS***

Answer **ALL** Questions from this paper

Start **each** question on a new page in your answer Booklet.

The marks allocated to **each** question are shown at the end of the question.

**Show all your workings.**

Credit will be awarded for logical, systematic and neat presentations.

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**QUESTION ONE****(25 Marks)**

- a) Give **five** examples of changes in accounting estimates **[5]**
- b) Explain what a user of the accounts would want to know in relation to a material change in an accounting policy? **[5]**
- c) Norkaz sells carpets from several retail outlets. In previous years, the company has undertaken responsibility for fitting the carpets in customers' premises. Customers pay for carpets at the time they are ordered. The average length of time from a customer ordering a carpet to its fitting is 14 days. In previous years, Norkaz had not recognized a sale in income until the carpet had been successfully fitted as the rectification costs of any fitting error would be expensive. From 1 April 2012, Norkaz changed its method of trading by subcontracting the fitting to approved contractors. Under this policy, Norkaz pays the subcontractors and they (the subcontractors) are liable for any errors made in the fitting. As a result of this Norkaz is proposing to recognize sales when customers order and pay for the goods rather than when they have been fitted. Details of the relevant sales figures are:

	\$
Sales made in retail outlets for the year to 31 March 2013	23 000
Sales value of carpets fitted in the 14 days to 14 April 2012	1200
Sales value of carpets fitted in the 14 days to 14 April 2013	1600

**Note:** Sales value of carpets fitted in the 14 days to 14 April 2012 are not included in the annual sales figure of \$23 000 but those for the 14 days to 14 April 2013 are included.

**Required:**

- i. Discuss whether the above represents a change in accounting policy. **[8]**
- ii. Based on your discussion calculate the amount that you would include in sales revenue for carpets in the year to 31 March 2013. **[7]**

## QUESTION TWO

(25 Marks)

- a) CB is an entity specialising in importing a wide range of non-food items and selling them to retailers. George is CB's president and founder and owns 40% of CB's equity shares:

CB's largest customer, XC, accounts for 35% of CB's revenue. XC has just completed negotiations with CB for a special 5% discount on all sales.

During the accounting period, George purchased a property from CB for \$500,000. CB had previously declared the property surplus to its requirements and had valued it at \$750,000.

George's son, Arnold, is a director in a financial institution, FC. During the accounting period, FC advanced \$2 million to CB as an unsecured loan at a favourable rate of interest.

### Required:

Explain, with reasons, the extent to which each of the above transactions should be classified and disclosed in accordance with IAS 24 Related Party Disclosures in CB's financial statements for the period. [9]

- b) Arturo receives a government grant representing 50% of the cost of a depreciating asset which costs \$40,000. The residual value is nil. The useful life is four years.

### Required:

Show how the grant be recognised if Arturo depreciates the asset:

- (i) over four years straight line method; or [8]
- (ii) at 40% reducing balance method? [8]

## QUESTION THREE

(25 Marks)

IAS 37 provides definitions of a provision and a contingent liability and describes how each should be treated in financial statements.

[a] Define a '**provision**' and a '**contingent liability**' as set out in IAS 37 and describe under what circumstances, if any, they should be recognised in the financial statements. [6]

[b] Review the following scenarios and confirm whether a provision should be recognised in the financial statements as at 31 December 2018. Provide reasons for your answer.

**(i)** On 12 December 2018 the board of Company A decided to close down a division making a particular product. On 20 December 2018, the board agreed a detailed closure plan and, on the same day, letters were sent to both customers and employees informing them of the intended closure.

**(ii)** Company B gives warranties at the time of sale to purchasers of its products. Under the terms of the warranty, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale.

**(iii)** Company C operates profitably from a factory that it has leased under an operating lease.

During December 2018, the entity relocates its operations to a new factory. The lease on the old factory has four years remaining and it cannot be cancelled. The entity hopes to re-let the premises to a tenant however, no tenant has been found by year-end.

**(iv)** Under new legislation Company D is required to fit smoke alarms to its factories by 30 December 2019. The company has not yet fitted the smoke alarms. **[12]**

**c)** Explain the following terms used in IAS 19; Employee Benefits:

- i)** Short term employee benefits **[3]**
- ii)** Termination benefits **[4]**

#### **QUESTION FOUR**

**(25 Marks)**

**a)** On 1 January 2011, an entity grants 100 share options to each of its 400 employees. Each grant is conditional upon the employee working for the entity until 31 December 2013. The fair value of each share option is \$20.

During 2011 20 employees leave and the entity estimates that 20% of the employees will leave during the three-year period.

During 2012 a further 25 employees leave and the entity now estimates that 25% of its employees will leave during the three-year period.

During 2013 a further 10 employees leave.

**Required:**

Calculate the remuneration expense that will be recognised in respect of the share-based payment transaction for each of the three years ended 31 December 20X3. [13]

**b)** IAS 41 applies to the following when they relate to agricultural activity:

- Biological asset
- Agricultural produce
- Government grants relating to biological assets

Define with examples:

- i)** Biological asset [3]
- ii)** Agricultural produce [3]
- iii)** What are the three conditions to be met to recognize a biological asset? [3]
- iv)** Outline the initial recognition of a biological asset. [3]

**END OF PAPER**