



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

FOUNDATIONS OF ACCOUNTING 2 MAC 102

END OF SECOND SEMESTER EXAMINATIONS

MAY/ JUNE 2020

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INSTRUCTIONS

ANSWER ONE QUESTION IN MICRO SOFT WORD 97 – 2003
Document.

EACH QUESTION IS WORTH 100 MARKS

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED
MARKS FOR PRESENTATION

QUESTION ONE

On the Zimbabwe Stock Exchange Website, select any two companies in the same business sector e.g banking sector, retail sector, agro – business sector, mining sector etc. Download the latest published full set of financial reports for the selected two companies.

a) Compare and contrast the financial performance and position of these two companies, with special emphasis on

- i. profitability, [10 marks]
- ii. liquidity, [5 marks]
- iii. gearing, [5 marks]
- iv. asset management, [7 marks]
- v. efficiency and [8 marks]
- vi. market value. [10 marks]

Each of the emphasis areas should be a sub – heading in your paper. Facts should be fully supported by computations which should be clearly shown.

b) For each of the two companies prepare a brief environmental scan report (based on various management analysis criteria such as SWOT analysis, Financial Statement Analysis, Michael Porter's five competitive forces etc) and advice

- i. a potential investor on whether to buy a share in the company; [25 marks]
- ii. a current investor on whether to sell their share. [25 marks]

Your conclusion should be very clear on the buy/ sell decision. [5 marks]

QUESTION TWO

Hans Ltd is a private company which owns a group of schools and was incorporated in January 2010, the year it started its operations. The company has two lease agreements:

1. A 25 year land lease agreement with the local government and with the option to buy. On the land, the school has leveled the land and built two blocks of classrooms to completion as well as the gardener's cottage. USD 70 000 has been spend on the construction of the classroom blocks as well as the development of the land. The company has contributed USD30 000 towards the construction of a road by the community which will pass by the school. However, the premises has not yet been used and only the gardener, who doubles up as a guard, stays on this premises. Monthly rates of ZWL8 000 and annual lease rentals of ZWL20 000 are paid to the local government.
2. A 10 year lease with Bord Ltd for the school's premises where the building is being used for both classroom and office purposes. Monthly rentals of ZWL5 000 are paid at the beginning of each month.

The company was initially owned by five people who each had equal ownership (20%). The company has an issued ordinary share capital of USD100 000 and an authorized ordinary share capital of USD1 million. A 5 year debt secured on the owners' personal properties amounting to ZWL500 000 attracting 11% annual interest was taken by the company in September 2016. Interest is paid at the end of August annually and the principal is to be paid at the end of the loan term.

The school owns a bus, which was acquired five years ago for USD50 000, used to ferry the students and the teachers. Property and equipment used for day to day school operations has been

valued at ZWL273 600 000 as at 31 December 2019; including library books, text books, kitchen utensils and sports equipment. The school runs a feeding program where it provides lunches for the kids at cost. The school only realized that it had been running the food program below cost, due to the inflationary economy and poor accounting record keeping, at the end of the year. The school's uniform sales and tuck shop sales are operated at a 10% mark up. To cushion against inflation, the school has fixed its fees in a stable currency but they receive the local currency equivalent based on the prevailing bank rate.

In response to the current challenges arising from the corona epidemic, the school has acquired an e – learning program to enable classes to resume during the lockdown. Teachers have prepared teaching modules in line with the relevant curriculum and compatible to the e – learning software acquired. The teachers have drawn up a proposal in which they justify that the e – learning material they have prepared is intellectual property and thus they should be paid for their contribution. They also propose the branding of the material as part of Han Ltd's property. Administrators are still analyzing this proposal and they have two opposing opinions: some of the administrators agree with the teachers' proposal and advocate that the material should be capitalized; while the other administrators argue that this material is produced in the normal course of the teachers' work and thus does not need any payment above their normal salaries and thus should not be capitalized.

The company does not have an accounting department and the receptionist doubles up as an accounting clerk/ cashier. However, she trained as a secretary and only has book keeping experience. A recent accounting graduate is contracted to prepare the monthly payroll as well as any tax reports required by ZIMRA. Since its incorporation, Han Ltd has not prepared any financial report.

- a) With reference to the conceptual framework, identify and justify items to be
- i. Recognized under each of the elements of the financial statements to be prepared for the year ended 30 April 2020. [10 marks]
 - ii. Disclosed in the financial statements for the year ended 30 April 2020 [7 marks]
- b) Justify, based on the accounting conceptual framework, the measurement criteria to be used for each item recognized. [10 marks]
- c) Since the school mentioned above, is operating in a multi – currency economy and thus earns income and incurs expenses in both the US dollar and the ZW Local currencies, how best should it report its performance as well as its position? Justify your answer. [8 marks]
- d) Identify three classes of inventory kept by the company and, based on IAS 2, justify the measurement criteria to be used for each class. [10 marks]
- e) Based on a comprehensive cost – benefit analysis, prepare a report to Han Ltd Board of Directors on whether or not to insist on the preparation and presentation annual financial reports. In your report, include an outline of the information content of each of the components of a financial report. [30 marks]
- f) In your opinion (and with reference to a small registered enterprise whose business you are familiar with) how relevant are the IFRSs for SMEs for use by small enterprises operating in developing countries such as Zimbabwe. [25 marks]

QUESTION THREE

Given the developments concerning the new and revised International Accounting Standards and International Financial Reporting Standards, Accountants need to make themselves conversant with the developments. Critically examine and comment on the development of the following; (the discourse should outline the major changes made from the superseded accounting framework/ standard as well as the updates adopted since then).

1. Accounting Conceptual Framework [55 marks]
2. IAS 1 [15 marks]
3. IAS 7 [15 marks]
4. IAS 2 [15 marks]

END OF PAPER