



COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

MAC 202 INTERMEDIATE ACCOUNTING 1

END OF SECOND SEMESTER COMPETENCE BASED EXAMINATIONS

MAY/JUNE 2020

LECTURER: I. RARAMI

DURATION: (48 Hours)

INSTRUCTIONS

Answer ONE question

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

Show all your workings when it is required

Credit will be given for presentations that are neat, logical and grammatically well constructed.

QUESTION ONE (25 MARKS)

Money Money Limited is an IT company whose main business is the manufacture and sale of Automatic Teller Machines (ATMs) to banks.

The company supplies, installs and maintains ATMs for the banks, in terms of 24 months contracts. The fee includes a monthly maintenance service which is available, provided that the ATM was installed by Money Money Limited.

On 23 January 2019 Bank-OTS Ltd and Money Money Ltd signed a contract for 24 months for the supply of 15 ATMs at \$2 600 (excl VAT) per ATM per month. Bank OTS is a long standing customer of Money Money Ltd and is listed on the ZSE. Installation of the 15 ATMs was completed on 28 February 2019. The installation was done at no charge. Based on accurate historical data from the entity's previous contracts with Bank-OTS Ltd, the average number of transaction per month per ATM is between 6000 and 7000. Included in the \$2 600 is a maintenance fee relating to maximum 6000 transactions. There will be additional an additional maintenance charge per transaction, at the standard maintenance contract fee of \$0.575 (incl VAT) if more than 6000 transactions occur per month.

The monthly fee is payable in areas on the last day of every month. Had Banc-OTS contracted another entity to provide the installation and maintenance services, the average market fee would be \$27 000 for the installation and \$0.06 per transaction for maintenance (excl VAT). The cost of manufacturing and installation of each ATM to Money Money Ltd is \$40 000 and \$1 400 respectively. Money Money keeps a detailed record of all their costs relating to maintenance. Money Money Ltd maintains a 25% mark-up on cost.

The stand-alone selling price of the maintenance is \$0.05 per transaction.

A market related nominal interest rate is 10% p.a compounded monthly.

The VAT rate is 15%

Required

Discuss the recognition and measurement of the revenue from the above transaction in the accounting records of Money Money Ltd for the year ended 31 December 2019 in terms of IFRS 15. **(25 marks)**

Ignore VAT and calculations

QUESTION TWO (25 MARKS)

You are the accountant of the leading manufacturing company in Zimbabwe Universal Quality Products Ltd (UQP Ltd). Mr Bvunzai, the managing director of UQP Limited, questions the recognition and disclosure of a finance lease entered into for machinery to the value of \$50 000, which is used in the company's manufacturing process. He is of the opinion that it is unnecessary to capitalize the machinery and the corresponding loan. Mr Bvunzai is also of the opinion that too much information will be disclosed.

Required:

Explain to Mr Bvunzai, by only referring to the requirements of the Revised Conceptual Framework for Financial Reporting, why the finance lease should be capitalized and disclosed as such. **(25 marks)**

END OF PAPER