



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

MAC 203 INTERMEDIATE ACCOUNTING 11

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 if required

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

QUESTION ONE [25 MARKS]

A. In-order to comply with the Zimbabwean Indigenisation Act, Mbada Mbada diamond mine in Marange granted Chiyadzwa \$10 million. This would allow the Chiyadzwa community to benefit from the activities of the mine. The amount would be used to build schools, hospitals and other public amenities and in return Mbada Mbada would have complied with the Act and its licence to mine would be safe. You graduated from Africa University with 1st Class Honours Degree in Accounting and you are a first year audit trainee at Rais Auditors.

You have been asked by the partner to determine how to account for the \$10 million in the 31 December 2019 financial Statements of Mbada Mbada. **(12 marks)**

B. You are the Chief Accountant of Rais Ltd a Transport and Tyre manufacturing company in Mutare. You were represented by your Junior Accountant, recently graduated from Africa University in the Directors meeting. The Directors meeting was held on the 24th of December 2019. The following are some of the decisions which were made:

A: A decision was made by the directors to pay a bonus to an employee.

B: A decision was made by the directors to purchase a new truck in 3 year time.

C: Legislation recently passed means that one of the plants has to be dismantled in a year's time.

D: Future losses are expected from a branch in Botswana.

Also discussed in the meeting was a road tanker that overturned in early December 2019 during a bad rain storm. The tanker spilled its contents, thus contaminating a local river. Rais Ltd has never before contaminated a river. Rais Ltd has no legal obligation to clean the river, has no published policies as to its views on the rehabilitation of the environment and has not made any public statement that it will clean the river. It intends to clean-up the river and has been able to calculate a reliable estimate of the cost thereof.

Required:

Your junior accountant is not sure whether or not any of the above A to D decisions result in present obligations at 31 December 2019. Explain to your junior accountant. **(8 marks)**

Required: Explain to the junior accountant whether Rais Ltd should recognise a liability or a provision at 31 December 2019. **(5 marks)**

QUESTION TWO [25 MARKS]

a).Mask & Sanitiser Limited is a manufacture of masks and sunitisers. The entity enters into a three-year contract with Rais Wheels Limited, a supplier of Road transport vehicles, for the use of ten vehicles to deliver orders of customer's masks and hand sanitisers around Zimbabwe. The model and capacity of the vehicles are specified in the contract.

Road Runner Limited has a large pool of similar vehicles that could be used to fulfil the requirements of the contract. Rais Wheels Ltd's premises are in the same area as Mask & Sanitiser Ltd's mask & sanitiser factory and the vehicles are parked at Rais Wheel Ltd's premises when not in use. The cost associated with substituting the vehicles used by Mask & Sanitisers Ltd with other similar vehicles are minimal for Rais Wheels Limited.

Required

Discuss, with reference to IFRS 16 leases, whether the agreement contains a lease. **(3 marks)**

b). **Part A:** Hello Limited is a telecommunications company, providing internet and data services to its customers, its engineers are investigating ways to improve customer services and have taken a decision to obtain the right to use strands of dark fibre to create their own privately owned optical fibre network. (Dark fibre refers to unused strands of a fibre optic cable).

Hello limited enters into a twenty-year contract with Interdata Limited, a telecommunications company for the right to use 100 physically distinct strands of dark fibre within the undersea cable connecting the United Kingdom and Europe with Zimbabwe.

Hello Limited has control of use of all 100mstrands of fibre within the cable and decides the type and quality of data that will be transported. It is also responsible for the technical connections to equipment.

Interdata is responsible for the repairs and maintenance to the undersea cable. It can substitute the strands only for purpose of repair and maintenance.

Required:

Discuss, with reference to IFRS 16 Lease, whether the arrangement contains a lease. **(3 marks)**

Part B: Lessee Limited a communications company, providing internet and data services to its customers, its engineers have been investigating ways to improve customer services and have taken a

decision to obtain the right to use a specified amount of bandwidth capacity within an existing optical fibre network.

Lessee Limited makes decisions about which strands are used to transport Lessee Limited's data and is responsible for the technical connections to its equipment.

Required

Discuss, with reference to IFRS 16 Lease, whether the arrangement contain a lease. **(3 marks)**

c). **Part A:** Apple Limited is a producer of apples. It enters into a contract with Freight Limited, a shipping company, for the transport of apples from Harare to Blantyre on a specific 18 tonnes truck. Freight Limited does not have substitution rights.

The contract specifies the quantity, quantity, grade and packaging of apples to be transported as well as the dates of departure and arrival. The apples will occupy substantially all of the capacity of the truck.

Freight Limited operates and maintain the truck and is responsible for the safe transport of the apples and other cargo on board. Apple limited is not permitted to hire another operator for the truck or to operate the truck itself.

Required:

Discuss, with reference to IFRS Lease, whether the arrangement contain a lease. **(3 marks)**

Part B: Apple Limited is a producer of apples. It enters into a contract with Freight Limited, a shipping company, for the transport of apples for a three-year period on a specific truck. Freight Limited does not have substitution rights.

Apple Limited decides on the quantity, grade and packaging of apples to be transported, the date of travel and also the departure and arrival depots. It is also permitted to use space capacity to transport produce from neighbouring farms.

Freight Limited operates and maintains the truck and is responsible for its safe passage. It can restrict the truck from travelling on roads deemed unsafe due to civil wars and piracy, and can restrict the carrying of unsuitable cargo.

Required

Discuss, with reference to IFRS 16 Lease, whether the arrangement contain a lease. **(3 marks)**

d). Africa University is a private educational institution. It enters into a contract with Copy Limited for the lease of twenty-one printers for a period of three years.

One of the printers is a high specification printer that can cope with high volumes and can email scanned documents to recipients. It has current retail price of \$20 000. The other 20 printers are desk models for use in individual offices and each has a current price of \$2 000.

The make and model of the printer is specified in the contract and although Copy Limited has substitution rights, it is not economically viable to do so.

Required

Discuss, with reference to IFRS 16 Lease, how Africa University should account for this lease contract. **(10 marks)**

END OF PAPER