



COLLEGE OF BUSINESS, PEACE, LEADERSHIP, AND GOVERNANCE

NMAC 404: ADVANCED ACCOUNTING AND FINANCIAL THEORY

END OF SECOND SEMESTER EXAMINATION

APRIL 2023

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DURATION: 3 HOURS

INSTRUCTIONS

You are required to answer questions as instructed

Answer **all** questions

Start **each** question on a new page in your answer booklet

Credit will be awarded for logical, systematic and neat presentations

QUESTION ONE

XY Company bought an asset on 1 Jan 2021 for \$2,5 M with an estimated useful life of 10 yrs. The company can claim capital allowance of 20% reducing balance method. If the tax rate is 40%.

Required:

With reference to *IAS 12 income taxes*, account for this transaction in the financial statements for the year ended 31 October 2021 and October 2022 (show workings) (25 marks)

QUESTION TWO

a) IFRS13 gives a definition of fair value. Briefly explain the meaning of fair value according to this IFRS. (5 marks)

b) Investment property is an office building in Chegutu which Hopez acquired for rental purposes on 1 January 2020 at a cost of \$5400000. Land & buildings are revalued by a sworn valuer at the end of the year. The valuation report had the following values based on the different ways in which Hopez could benefit from the asset:

	2021	2022
Selling Price	6800000	8400000
Office building (current use-rented out)	7000000	7500000
Residential (rent out for domestic use)	7200000	9000000

- It is physically possible and legally permissible to use the building for residential purposes. The cost of converting the office building to residential property are insignificant. The report noted that the area in which the plot is located was de-designated (disallowed) for residential accommodation by the municipality at the beginning of 2021.

Required:

Determine the fair value for year 2021 and for year 2022 (justify your answer)

QUESTION THREE

a) Differentiate basic Earnings per Share (EPS) and diluted EPS (IAS33-EPS) (4 marks)

b) XYZ Ltd had 20 000 \$2.50 shares. At the beginning of the year. It issued 8000 shares @ \$4.25 per share on 1 March 2022. Calculate the EPS if the profit for the year ended 31 October 2022 is \$200 000 (9 marks)

c) Given the following information, Calculate EPS at year end 31 Sept 2022 (12 marks)

- Profit After Tax \$400 000
- Outstanding shares (\$1) 40 000 shares
- 1 April 2022 bonus issue of 2 for 3

QUESTION FOUR

Critique **one** of the following theories and show its relevance/importance to accounting:

- Agency theory
- Stakeholder theory
- Positive Accounting theory (25 marks)

END OF EXAMINATION