



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC 202: INTERMEDIATE ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2021

LECTURER: MR I. RARAMI

DURATION: 5 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 [100 MARKS]

A). Following the collapsing of many companies like Enron, World Com and many others. The International Accounting Standards Board (IASB) and The Financial Accounting Standard Board (FASB) agreed to have a joint project working on the conceptual framework for financial accounting and reporting. The goals of the project was to build on the existing frameworks and converge them into a common framework. The first phase has now been published as the Conceptual Framework for Financial Reporting.

Required

Discuss why there is a need to develop an agreed international conceptual framework and the extent to which an agreed international conceptual framework can be used to resolve practical accounting issues. **(25 marks)**

B). In March 2018, the IASB issued The Conceptual Framework for Financial Reporting, which addressed areas found to be deficient in the previous Conceptual Framework.

Discuss the changes made in the revised conceptual framework in respect of the following matters:

- (i) De-recognition of assets and liabilities **(5 marks)**
- (ii) The reintroduction of prudence **(5 marks)**
- (iii) The introduction of stewardship **(5 marks)**
- (c) What criticisms could be made of the changes made? **(5 marks)**

C). RAIS Consultants received \$80 000 in cash on 20 December 2020 from Hanno Limited in return for having provided financial advice during the 2020 financial year. You are the senior accountant and your junior accountants are confused on which elements to be recognised and they approached you for an explanation.

Required:

- i). Explain, with reference to the relevant definitions, which elements should possibly be recognised in the 2020 financial year. **(15 marks)**
- ii). Briefly identify whether and/ or how your answer would change if the cash received had been received for financial advice to be provided in the 2021 financial year. **(12 marks)**
- iii). Discuss with reference to the relevant recognition criteria whether the elements may be recognised in the 2020 financial year. **(12 marks)**

iv).The 2019 accounting records were audited during January 2020. The audit is a legal requirement. An invoice for \$3 000 for this audit work was received in February 2020. The 2019 annual financial statements have not yet been finalised and the junior accountant wishes to know if he should recognise this invoice in the 2019 financial statements as it is the cost of auditing these 2019 financial statements.

Required:

i). Briefly explain whether you think the cost of the audit should be recognised as an expense in 2019. You need only refer to the aspects of the definitions that affect your argument. **(10 marks)**

ii). Give an example of an expense that has a direct link to income and which is often recognised in a way that matches the expense with the income. **(3 marks)**

ii). Give an example of an expense that has no direct link with income and which is thus recognised in a systematic / rational basis over the relevant accounting periods. **(3 marks)**

QUESTION TWO [100 MARKS]

A). The introduction of IFRS 15 Revenue from contracts with customers will have a significant impact on the financial statements of many companies. IFRS 15 significantly reduces an entity's discretion to apply judgement when recognising revenue. This represents an improvement on the old revenue standards, which provided limited revenue recognition guidance and led to divergence in practice.

Required

((i) Discuss the main weaknesses in the old revenue standards which led to the introduction of IFRS 15 Revenue from contracts with customers. **(25 marks)**

(ii) Discuss the ways in which IFRS 15 attempts to remedy the disadvantages of the previous standards on revenue. **(25 marks)**

B). On 1 July 2020, Vana Ltd entered into a contract with Parent

Ltd for the sale of plant for \$500,000. The contract included a call option that gave Vana the right to repurchase the plant for \$550,000 on or before 30 June 2020.

Required

Discuss how the above transaction would be treated in subsequent financial statements of Vana for the year ended 31 July 2021.
(10 marks)

C). Ruvako Building has signed a contract to construct an additional bathroom for a customer and promises to provide all building materials, sanitary ware, electrical supplies and labour.

Required:

i) Explain whether the goods and services contained in the contract are *capable of being distinct*. **(5 marks)**

ii) Explain whether the goods and services promised are *distinct in the context of the contract*. **(5 marks)**

iii) Explain whether the contract contains one or more performance obligation. **(5 marks)**

iv) Explain whether the goods and services contained in the contract would be considered distinct (and thus whether the contract contains more than one performance obligation) if the contract also includes a promise to repair the gutters of the customer's house. **(5 marks)**

D). Admin & Legal Services Ltd provides various services to customers on a contract basis. During June, it signs contracts with two customers:

i) Contract 1 involves providing a customer with the services of a receptionist for six months.

ii) Contract 2 involves providing a customer with legal advice and representation leading up to a court case in which this customer is being sued.

Required:

For each contract, classify the performance obligation by assessing whether or not the customer receives an asset & consumes its benefits as the entity performs its obligation. **(20 marks)**

QUESTION THREE [100 MARKS]

A). John has been given a list of line-items that his company wants sub-classified as follows:

- The 'revenue' line item: separate into revenue from sales and revenue from services;
- The 'property, plant and equipment' line-item: separate into its two parts, being factory equipment and the office equipment;

- The 'cash' line-item: separate into the amount held in cash and the amount held in the 6-month fixed deposit;
- The 'trade and other receivables' line-item: separate into the trade receivable balance and the rent prepaid balance;
- The 'provisions' line-item: separate into the provision for future rehabilitation of land in 20 years' time and the provision for leave pay, payable within 1 year of reporting date.

Required:

For each of the line-items listed above, explain to the assistant accountant why the accountant has requested that certain sub-classifications be provided **(25 marks)**

B). IAS 2 "Inventories" requires inventories of raw materials and finished goods to be valued in financial statements at the lower of cost and of net realisable value.

Required:

(i) Describe two methods of determining cost of inventory which are permitted under IAS 2. **(5 marks)**

(ii) Explain how the cost of an inventory of finished goods held by the manufacturer would normally be arrived at when obtaining the figure for the financial statements. **(3 marks)**

C). i) Explain and give an example of the effect on a set of published financial statements if the going concern convention is held not to apply. **(10 marks)**

ii). Explain in general terms what the IASB *Conceptual Framework* is trying to achieve. **(10 marks)**

iii). State three different regulatory influences on the preparation of the published accounts of quoted companies in Zimbabwe and briefly explain the role of each one. Comment briefly on the effectiveness of this regulatory system. **(15 marks)**

D). Your two junior accountants were preparing a cash flow statement and were not sure on the main differences between the direct method and the indirect method. They were also not sure where to classify dividend and interest receipts and payments as well as taxation on income. They are not sure whether they are classified as Operating, Investing or Financing Activities

Required:

i). Explain the usefulness and limitations of cash flow statement **(12 marks)**

i). Explain clearly the differences between the direct and indirect method. **(8 marks)**

ii) Explain the treatment of dividend and interest receipts and payments and taxation under the three sections of the cash flow statement with reasons. **(12 marks)**

END OF PAPER