



***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMAC 411: ADVANCED FINANCIAL ACCOUNTING**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2021**

**LECTURER: N. E CHIRIMA**

**TIME: 5 HOURS**

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### ***INSTRUCTIONS***

ANSWER ALL QUESTIONS USING MICRO SOFT 97 – 2003 Document

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

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QUESTION 1 [25 possible marks]

The following information has been extracted from HM Ltd's consolidated financial report for the year ended 30 September 2021.

|                | Industrial | Agriculture | Energy    | Financial | Mining    | Health    | Company   |
|----------------|------------|-------------|-----------|-----------|-----------|-----------|-----------|
|                | \$million  | \$million   | \$million | \$million | \$million | \$million | \$million |
| Total Sales    | 2,305      | 2, 406      | 708       | 5, 347    | 1, 782    | 4, 134    | 17, 000   |
| Internal Sales | 125        | 44          |           |           | 410       |           |           |
| Net Assets     | 10, 144    | 5, 178      | 7, 661    | 2, 345    | 9, 785    | 6, 492    | 45, 856   |
| Profit         | 1, 375     | (330)       | 406       | (786)     | 876       | (155)     | 1, 500    |

The following information is also relevant:

- a. HM Ltd operates in four different locations in Zimbabwe as follows:

|        |                      |            |                   |
|--------|----------------------|------------|-------------------|
| Harare | Financial and Health | Bulawayo   | Industrial        |
| Mutare | Agriculture          | Zvishavane | Mining and Energy |

- b. An extra – ordinary loss of 1, 2m was incurred when part of the company’s timber plantations in the Eastern Highlands was destroyed by veld - fire.
- c. The following items are yet to be accounted for

|   |                |
|---|----------------|
| Interest received (relating to the Health Segment)                        | \$27 850       |
| Interest paid (relating equally to all segments)                          | \$120 000      |
| Income Tax expense (yet to be reviewed by chief operating decision maker) | \$1, 7 million |

- d. Inter – group loan from Industrial Segment to Energy Segment of \$500 000 has been included in the segments’ balances
- e. Inter segment transfers are priced at cost plus 15%.
- f. Interest on the inter – group amounted to \$25 000 and was included in the profit calculation.

You are required to

1. Disclose the above information, according to the requirements of International Financial Reporting Standard (IFRS) 8, in HM Ltd’s financial report for the year ended 30 September 2021. *5 marks*
2. The Managing Director is questioning the need to disclose the above information in HM Ltd’s financial report for the year ended 30 September 2021. He views it as time consuming and unnecessary since the information is already included in the financial statements, though without specifying the segments.

You are required to write a report to the Managing Director, including the following in your report

- i. A cost versus benefit analysis of disclosing the information from the company’s perspective *5 marks*
- ii. An explanation of how disclosure of the information ensure useful information is reported to users *8 marks*
- iii. Explain any limitations on comparison of different entities as a result of adopting IFRS 8. *7 marks*

QUESTION 2 [25 possible marks]

Choks Ltd acquired 78% interest in Jen Ltd in June 2019. In January 2021, Choks Ltd sold 40% of its interest in Jen Ltd and entered into an agreement with Han Ltd where each party had 50% interest. Unanimous consent is required from both parties when decisions are being made. You are the accountant of Choks Ltd. You are not well and the assistant accountant is preparing the draft financial report for the year ended 30 June 2021.

You are required to write a report to the assistant accountant explaining to him/ her

1. how the above investments differ from each other *5 marks*
2. The accounting treatment for each based on the relevant International Accounting Standard (IAS)/ IFRS. *10 marks*
3. The disclosures required based on the relevant IAS/ IFRS. *10 marks*

#### QUESTION 3 [ 50 possible marks]

A. Hyper – inflationary economies, characterized by rapid changes in prices, have posed various challenges in financial reporting as preparers try to ensure the qualitative characteristics of useful information are embodied in the financial reports. IAS 6 (accounting responses to changing prices) was adopted to try and address these challenges but was superseded by IAS 15 (information reflecting the effects of changing prices) in January 2003 which was later withdrawn in December 2003. IAS 29 (financial reporting in hyper – inflationary economies) became effective in 1989.

You are required to

1. Identify and explain the reporting challenges addressed by IAS 29 when reporting in a hyper – inflationary economy. *15 marks*
2. Select a company in a hyper – inflationary environment and
  - i. Outline the financial reporting challenges faced when adopting IAS 29. *10 marks*
  - ii. Identify the financial reporting risks faced due to the challenges outlined in (i). *10 marks*
  - iii. Specify how the company addressed (or should address) the challenges outlined in (i). *5 marks*

B. The following information relating to JJ Ltd for the year ended 30 December 2020 is available:

| 2020  | Sales   | Purchases | Salaries and Wages | Repairs and Maintenance | Depreciation | CPI |
|-------|---------|-----------|--------------------|-------------------------|--------------|-----|
| Jan   | 682 709 | 122 300   | 315 000            | -                       | 153 473      | 66  |
| Feb   | 550 600 | 133 300   | 315 000            | -                       | 153 473      | 70  |
| March | 471 200 | 112 700   | 315 000            | -                       | 153 473      | 75  |
| April | 392 100 | 99 900    | 315 000            | 81 000                  | 153 473      | 89  |
| May   | 168 700 | 122 300   | 315 000            | -                       | 153 473      | 91  |
| June  | 137 800 | 58 800    | 315 000            | -                       | 153 473      | 102 |
| July  | 225 700 | 72 600    | 315 000            | -                       | 153 473      | 144 |
| Aug   | 250 000 | 72 600    | 315 000            | 54 750                  | 153 473      | 187 |
| Sept  | 252 600 | 122 300   | 315 000            | -                       | 153 473      | 209 |
| Oct   | 324 520 | 122 300   | 315 000            | -                       | 153 473      | 294 |
| Nov   | 482 500 | 72 600    | 315 000            | -                       | 153 473      | 312 |
| Dec   | 572 700 | 122 300   | 315 000            | -                       | 153 473      | 453 |

You are required to prepare the inflation adjusted Statement of Comprehensive Income for the year ended 31 December 2020 and include the historical cost comparatives. *10 marks*