



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

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**BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING**

PART II FIRST SEMESTER EXAMINATION

**FINANCIAL ACCOUNTING IIA [BAC2101]**

JUNE 2025

DURATION: 3 HOURS

**INSTRUCTIONS**

1. Answer **ALL** QUESTIONS
2. Begin your answer to each question on a new page.

**INFORMATION**

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

**This paper consists of eight printed pages including the cover page**

**QUESTION 1 [20 MARKS]**

1.1 Which of the following does NOT contribute to the concept of faithful representation according to the IASB Financial Reporting Conceptual Framework?

- A. Completeness
- B. Neutrality
- C. Understandability
- D. Free from error.

[2 Marks]

1.2 The going concern concept is applied unless:

- A. Zee Mining is in the early stages of exploration and has not yet achieved profitability.
- B. There is substantial doubt about the company's ability to continue operations for the foreseeable future.
- C. Zimbabwean Sugar Ltd recently changed its accounting policies.
- D. Sweet Brew is operating in an industry with fluctuating market conditions. [2 Marks]

1.3 Which of the following is not a basis of measurement of the elements in the financial statements?

- A. Realisable value
- B. Historical costs
- C. Current cost
- D. Net current value

[2 Marks]

1.4. On 1 January 2025 GDB Bank received a government grant of \$150,000 to support upgrading its banking technology infrastructure. The grant is to be recognized over 8 years. Why should GDB Bank recognize \$18,750 as deferred income in 2025 and amortize it annually?

- A. To match the grant income with the depreciation of the technology over its useful life.
- B. To recognize the grant immediately in its entirety.
- C. To reduce the asset's carrying amount at purchase.
- D. To recognize the grant in full at purchase, matching the asset acquisition cost. [2 Marks]

1.5. A company had equipment with a carrying amount of \$500,000 and reported an impairment loss of \$400,000 on its factory equipment in 2023. Later, market conditions improved, and the recoverable amount rose to \$350,000. How should the company account for the reversal?

- A. Reversing the full impairment loss as a credit to profit or loss.
- B. Reversing the impairment loss by \$250,000

- C. Not reversing because recoverable amount is still below carrying.
- D. Reversing the impairment loss by \$350,000, with a gain recognized in other comprehensive income. [2 Marks]

1.6. Under IAS 8, how should a company record material errors found in prior period financial statements?

- A. Adjust in current year's statements without restating prior periods.
- B. Correct by adjusting opening retained earnings and restating prior figures.
- C. Disclose errors only in notes without restating earlier periods.
- D. Record as a one-time expense in current statement. [2 Marks]

1.7. Regarding IAS 20, which statement is true for capital grants to companies?

- i. Capital grants are credited directly to the asset, reducing its carrying value.
- ii. Capital grants are credited to deferred income, amortized over the asset's useful life.
- A. (i) only
- B. (ii) only
- C. Both (i) and (ii) are permitted
- D. Neither is permitted. [2 Marks]

1.8. According to IAS 23, which borrowing costs can be capitalized by firms?

- A. Interest on loans for general operations.
- B. Interest on loans specifically for purchasing machinery.
- C. Interest on loans for inventory expected to be sold soon.
- D. Interest on bonds issued for general purposes. [2 Marks]

1.9. Under IAS 40, when using the Fair Value Model, which statements are correct?

- i. No depreciation is charged on investment properties.
- ii. Gains or losses from revaluation go to other comprehensive income.
- A. (i) only
- B. (ii) only
- C. Both (i) and (ii)
- D. Neither (i) nor (ii). [2 Marks]

1.10. As per IAS 8, which of the following best defines an "error"?

- A. Management's mistake when projecting future statements.
- B. A miscalculation due to unforeseen market conditions.
- C. An omission or misstatement in prior period financials from unreliable information at the

time.

D. A change in accounting policy leading to different current outcomes. [2 Marks]

1.11. Which of the following is not a primary purpose of IAS 1?

- A. Ensuring comparability over periods and between entities.
  - B. Prescribing the basis of presentation aligning with budget reports.
  - C. Outlining requirements for financial statement structure and content.
  - D. Providing useful info on financial position, performance, and cash flows for decision-making.
- [2 Marks]

1.12. According to IAS 36, which is an internal indicator of impairment for a manufacturing company?

- A. Increase in the carrying amount of a cash-generating unit.
  - B. Significant adverse change in technological environment.
  - C. Market value decline much greater than expected.
  - D. Evidence of obsolescence or physical damage.
- [2 Marks]

1.13. Regarding IAS 38, which statement correctly describes intangible asset amortization?

- A. Indefinite useful life intangibles are amortized up to 20 years.
  - B. Amortization should follow the pattern of future economic benefits consumption.
  - C. Use of only straight-line amortization is required.
  - D. Amortization is recognized only upon revaluation.
- [2 Marks]

1.14. Which key term is defined under IFRS 15?

- A. Carrying Amount
  - B. Performance Obligation
  - C. Depreciation
  - D. Impairment Loss
- [2 Marks]

1.15. Under IAS 7, where should cash payments for acquiring equipment be reported in the statement of cash flows?

- A. Operating Activities
  - B. Investing Activities
  - C. Financing Activities
  - D. Not applicable.
- [2 Marks]

## QUESTION 2 [20 MARKS]

- a. Explain the purpose and importance of the fundamental principles of the IASB Financial Reporting Framework, with particular focus on how the accrual basis and going concern principles influence the preparation and presentation of financial statements? **[8 Marks]**
  
- b. A business purchased two fizzy drink making machines on 1 October 2022 at a cost of \$15,000 each. Each had an estimated life of five years and a nil residual value. The straight line method of depreciation is used. Owing to an unforeseen slump in market demand for fizzy drinks due to changes in customer tastes towards healthy alternatives, the business decided to reduce its output of fizzy drinks, and switch to making other products instead. On 31 December 2024, one fizzy drink making machine was sold (on credit) to a buyer for \$8,000. Later in the year, however, it was decided to abandon production of fizzy drinks altogether, and the second machine was sold on 1 September 2024 for \$2,500 cash.

### Required

Calculate the profit or loss on disposal of the machinery. **[6 Marks]**

- c. IAS23 - Borrowing Costs sets out the conditions that must be met in order to capitalise borrowing costs incurred by entities purchasing or constructing non-current assets.

Discuss the conditions that must be met in order to capitalise borrowing costs under IAS 23 - Borrowing Costs. Your answer should set out when the capitalisation of borrowing costs should commence, be suspended, and cease. **[6 Marks]**

## QUESTION 3 [20 MARKS]

IAS 37 Provisions, Contingent Liabilities and Contingent Assets sets out the accounting treatment and disclosures for these transactions and events.

The following situations have arisen during the preparation of the draft financial statements of Power Corp (PC) for year ended 31 July 2023:

- i. On 1 August 2022, PC acquired a nuclear power plant at a cost of \$200 million. Part of the arrangement was that the plant be dismantled and the site restored after its useful economic life of 20 years had passed. The cost of restoration was estimated on 1 August 2022, after discounting to present value, to be \$40 million. This amount reflected an appropriate discount rate of 6%, (75% of this estimate related to the dismantling of the plant, and 25% to the removal of waste fuel).

At 31 July 2023, due to regulatory and other obstacles, no power had yet been produced hence no waste fuel had been generated.

- ii. During the year ended 31 July 2023, PC decided to close both its coal burning power generating plants in October 2023. This decision had been announced publicly, and a

detailed formal plan prepared. The plan proposes to make 75 employees redundant, retrain 25 other staff to work in the nuclear plant, and sell the coal-fired plants in their current condition. It is anticipated that the redundancy costs will amount to \$7.5 million, and the retraining will cost \$1 million. The coal plants will be disposed of for zero consideration as the new owner will be expected to dismantle the plants and clean up the sites. The carrying value of these plants is \$12 million at 31 July 2023.

### Required

- a) Discuss the accounting treatment in relation to provisions, contingent liabilities and contingent assets required by IAS 37. **[8 marks]**
- b) In the case of (i) and (ii) above, set out the appropriate accounting treatment as at 31 July 2023, applying IAS 37 and other relevant standards. **[12 marks]**

### QUESTION 4 [30 MARKS]

#### a. Trial Balance for Aysnett Ltd as at 30 September 2024

	Debit (USD)	Credit (USD)
Sales Revenue		1,200,000
Cost of Goods Sold	600,000	
Administrative Expenses	80,000	
Borrowing Costs	20,000	
Goodwill	100,000	
Land (at cost)	250,000	
Building (at cost)	800,000	
Accumulated Depreciation – Building		160,000
Machinery (at cost)	500,000	
Accumulated Depreciation – Machinery		200,000
Investment Property	300,000	
Accumulated Depreciation - Investment Property		45,000
Inventory	90,000	
Accounts Receivable	80,000	
Cash and Cash Equivalents	50,000	
Accounts Payable		100,000
Bank Loan		500,000
Share Capital		800,000
Retained Earnings		285,000
<b>Totals</b>	<b>2,870,000</b>	<b>2,870,000</b>

Innsco provided the following additional information for the year ended 30 September 2024:

1. The company capitalized borrowing costs of \$20,000 related to the construction of the building, which was completed on 1 October 2023.
2. The company revalued its investment property on 30 September 2024. The fair value of the investment property is now \$350,000.
3. Depreciation on the building is calculated on a straight-line basis over 40 years with no residual value. The building was acquired on 1, October 2019.
4. The machinery is depreciated on a straight-line basis over 10 years with no residual value. The machinery was acquired on 1 October 2018.
5. Subsequent expenditure of \$50,000 on machinery was incurred on 1 October 2022, and it was determined to extend the useful life of the machinery by 2 years.
6. Goodwill was reviewed for impairment and it was determined that the recoverable amount is \$120,000 as of 30 September 2024.
7. An impairment loss of \$30,000 was recognized on machinery in prior years. As of 30 September 2024, it was determined that the impairment loss should be reversed because the recoverable amount of the machinery increased to \$320,000.

**Required**

- a) Statement of Profit or Loss and Other Comprehensive Income for Aysnett Ltd for the year ended 30 September 2024. **[16 Marks]**
- b) Statement of Financial Position as at 30 September 2024. **[14 Marks]**

**END OF EXAMINATION PAPER**