



NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF SCIENCE AND TECHNOLOGY EDUCATION
DEPARTMENT OF SCIENCE, MATHEMATICS AND TECHNOLOGY EDUCATION
FINANCIAL REPORTING
PST2164

Main Examination Paper

November 2024

This examination paper consists of 7 pages

Time Allowed: 3 hours

Total Marks: 100

Special Requirements: None

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External Examiner: Dr B Dlamini

INSTRUCTIONS

1. Answer all questions

Question One 25 Marks

(a) Mariga intends to dispose of a major line of business and the entity has stated that the held for sale criteria were met under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The criteria in IFRS 5 are very strict and regulators have been known to question entities on the application of the standard. The two criteria which must be met before an asset or disposal group will be defined as recovered principally through sale are: that it must be available for immediate sale in its present condition and the sale must be highly probable.

Required:

Discuss what is meant in IFRS 5 by 'available for immediate sale in its present condition' and 'the sale must be highly probable', setting out briefly why regulators may question entities on the application of the standard [8]

(b) State and explain the indicators of impairment and how a Cash generating unit will be accounted for in the Financial Statements. [8]

(c) Discuss what you understand by the terms:

(i) Historical Cost; [4]

(ii) Current value; [5]

Question Two 25 Marks

RST Co is considering purchasing an interest in its competitor XYZ. The managing director of RST co has obtained the three most recent income statements and statement of financial position of XYZ as shown below.

Income statement

	2023	2022	2021
	\$,000	\$,000	\$,000
Revenue	18,000	18,900	19,845
Cost of sales	<u>10,440</u>	<u>10,340</u>	<u>11,890</u>
Gross profit	7,560	8,560	7,955
Distribution costs	1,565	1,670	1,405
Admin expenses	1,409	1,503	1,591
Other expenses	104	215	450
Finance	<u>600</u>	<u>600</u>	<u>600</u>
Profit before taxation	3,882	4,572	3,909

Income tax expense	<u>1,380</u>	<u>2,000</u>	<u>1,838</u>
Profit after tax	2,502	2,572	2,071

Statement of Financial Position at 31 December

	2023	2022	2021
<u>Assets</u>			
<u>Non-current assets</u>			
Land and buildings	11,460	12,121	11,081
Plant and machinery	8,896	9,020	9,130
<u>current assets</u>			
Current Assets			
Inventory	1,775	2,663	3,995
Trade receivables	1,440	2,260	3,164
Cash	<u>50</u>	<u>53</u>	<u>55</u>
	<u>23,621</u>	<u>26,117</u>	<u>27,425</u>
Equity and liabilities			
Share capital	8,000	8,000	8,000
Retained earnings	6,434	7,313	7,584
Non-current liabilities			
12% debentures	5,000	5,000	5,000
Current liabilities			
Trade payables	390	388	446
Bank	1,300	2,300	3,400
Taxation	897	1,420	1,195
Dividend payable	<u>1,600</u>	<u>1,696</u>	<u>1,800</u>
	<u>23,621</u>	<u>26,117</u>	<u>27,425</u>

Required

(a) Prepare a report for the managing director of RST CO commenting on the financial position and performance of the company. [20]

(b) State and explain other methods that can be used to analyse Financial Statements. [5]

Question Three 25 Marks

Bri Limited, situated at Belmont in Bulawayo, is a manufacturer of office furniture. The Chief Financial Officer provides you with the following information relating to the year ended 31 December 20.15:

Raw material

The cost of raw material purchased during the year was \$495 000 and the transport cost thereof was \$2 000. According to the stock count conducted, the cost of raw material was \$120 000 and \$90 000 on 31 December 20.14 and 31 December 20.15, respectively. However, the net realisable value of raw material as at 31 December 20.15 was \$80 000

Manufacturing

The manufacturing cost of fixed and variable overheads for the year ended 31 December 20.15 was \$250 000 and \$276 000, respectively. According to the stock count conducted, the cost of work in progress was \$82 500 and \$130 500 on 31 December 20.14 and 31 December 20.15, respectively. However, the net realisable value of work in progress as at 31 December 20.15 was \$100 000

Finished goods

According to the stock count conducted, the cost of finished goods was R220 000 and \$115 000 on 31 December 20.14 and 31 December 20.15, respectively. The net realisable value of finished goods as at 31 December 20.15 was \$110 000

Sales and distribution

3 000 units were sold at \$500 per unit during the year ended 31 December 20.15.

Required

1. Disclose the note on inventory to the financial statements of Bri Limited for the year ended 31 December 20.15 in accordance with the requirements of International Financial Reporting Standards. Comparative amounts are required. [6]
2. Prepare the statement of profit or loss and other comprehensive income of Bri Limited for the year ended 31 December 20.15 in accordance with the requirements of International Financial Reporting Standards. [12]

(b) On 1 January 2023 Nust Ltd held 200 units of finished goods valued at \$10 each. During the year the following transactions took place

Purchases

10 January 2023 300 units at \$10.85 each

20 January 2023 350 Units at \$11.50 each

25 January 2023 250 Units at \$13.00 each

Sales

14 January 2023 280 Units at \$18.00

21 January 2023 400 Units at \$18.00

28 January 2023 80 Units at \$18.00

Required

Determine the value of closing inventory at the end of January 2023 using

1 First in First out Method FIFO [3]

2 Average cost method AVCO [4]

Question Four 25 Marks

The following information was taken from the accounting records of Hawk-eye (Pvt) Ltd, a manufacturing company on 31 December 2014

Land at valuation additional information 1	800 000
Factory building at Cost (Additional information 1)	960 000
Motor vehicles at carrying amount 31/12/2013 Additional info 2& 3	420 000
Crane at Cost (additional information 1&2)	480 000
Equipment at cost (31/12/2013) (additional information 2&3)	360 000
Accumulated depreciation	
-Motor vehicles (31/12/2013)	280 000
-Crane (31/12/2013)	120 000

-Equipment (31/12/2013)	120 000
Inventory Additional information 4	390 000
Trade receivables	627 000
Bank Overdraft	168 000
Trade payables	195 000

Additional information The financial manager supplied you with the following information in respect of transactions that occurred during the 2014 financial year that must still be accounted for:

1. Land and buildings are owner occupied and consist of a factory building on Coventry road, Belmont. The land was acquired on 1 March 2013 for \$380 000. Factory buildings, at a cost of \$960 000, were erected during the current financial year. The company withdrew its crane from production for a period of 5 months during which it was used in the process of erecting the factory building. The withdrawal was not taken into consideration in determining the cost of \$960 000 for the erection of the building. The building was completed on 31 December 2014. The land was revalued on 31 December 2014 at net replacement value by Mr I Chati, an independent sworn appraiser.

2. Non-current assets are depreciated as follows:

- The crane was acquired on 1 October 2012. It is depreciated using the straight-line method over a period of 60 months.
- Equipment: 20% per annum using the reducing balance method.
- Vehicles: 20% per annum using the straight-line method.
- Buildings: 2% per annum using the straight-line method.

3. The following transactions in respect of non-current assets occurred during the year:

- On 30 June 2014 a delivery vehicle with a cost price of \$60 000, on which \$30 000 depreciation had already been written off at 1 January 2014, was sold for \$50 000. A

new delivery vehicle costing \$102 600 (VAT included at 15%) was purchased on the same date to replace the old vehicle. Hawk-eye (Pvt) Ltd is registered as a VAT vendor

- The company decided to buy additional equipment for the business. It was estimated that the equipment would have a residual value of \$10 000. The cost price of the equipment was \$150 000 1 July 2014(date of purchase).

4. Inventories at cost price on 31 December 2014 consist of the following:

- Raw materials \$140 000

- Work in progress \$200 000

- Finished goods \$50 000 At 31 December 2014,

the directors of the company determined that the net realisable value of the inventories was as follows: - Raw materials: 5% below cost - Work in progress: 5% above cost - Finished goods: 5% below cost

Required:

Prepare only the "Asset" section of the statement of financial position as well as the property, plant and equipment note (PPE note) thereto, of Hawk-eye (Pty) Ltd at 31 December 2014, in agreement with the requirements of International Financial Reporting Standards (IFRS) [25]