



NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY
FACULTY OF SCIENCE AND TECHNOLOGY EDUCATION
DEPARTMENT OF SCIENCE, MATHEMATICS AND TECHNOLOGY EDUCATION
MASTER OF SCIENCE IN ACCOUNTING AND BUSINESS STUDIES
ADVANCED FINANCIAL REPORTING
PST6160

Main Examination Paper

Semester I

November 2024

This examination paper consists of 6 pages

Time Allowed: 3 hours
Total Marks: 100
Special Requirements: None
Examiner's Name: Lungisani Mpofu
External Examiner: Dr B Dlamini

INSTRUCTIONS

1. Answer all questions

MARK ALLOCATION

QUESTION	MARKS
1.	25
2.	25
3.	25
4.	25
TOTAL	100

Question One 25 Marks

(a) Explain whether the revaluation of land and buildings other than investment properties is compatible with the underlying assumptions of the accrual basis and going concern and provides relevant and reliable information. [7]

(b) You have been asked to assist Mr Kennedy, the accountant of XYZ Ltd ('XYZ'), in finalising the financial statements of XYZ for the year ended 30 December 2020. The outstanding issues on which he requires your assistance are explained below:

Mr Kennedy noticed during his analysis of the financial information of Carlton that the financial accountant of Carlton recognised a deferred tax asset of \$700 000 in their financial statements ended 31 December 2020 (you may assume the deferred tax asset amount was correctly calculated). The deferred tax asset originated due to an assessed tax loss in the 2019 financial year. Mr Kennedy is, however, of the opinion that the deferred tax asset must be reversed since the ZIMRA will not reimburse the deferred tax asset to Carlton. Mr Kennedy raised this issue with you and asked your opinion in this regard.

Through further inquiries and inspection of the detailed budget of Carlton that was presented to you, you noticed that Carlton will have sufficient future taxable profits as it is expected that (highly probable) Carlton will become profitable within the next six months.

Required

Write a memo to Mr Kennedy, the accountant of XYZ Ltd, in which you discuss, in terms of *The Conceptual Framework for Financial Reporting*, whether the deferred tax asset may be recognised as an asset in Carlton Beer Ltd's financial statements for the year ended 31 December 2020. [10]

(c) State and explain the major differences in the 1989 Framework, 2010 Conceptual Framework and 2018 framework. [8]

Question Two 25 Marks

(a) Explain how financial instruments are classified, recognised and measured in accordance with IAS 32 Financial instruments: presentation, IFRS 9 Financial instruments. [12]

(b) Explain (including calculations as appropriate) how the following financial instruments should be dealt with in the financial statements.

(i) An entity, Vimbai issues three debt instruments, each with a nominal value of \$200,000 redeemable in three years. The effective interest rate for all three instruments is 10%.

- The first is issued at par, has a coupon rate of 0% and is redeemable at a premium of \$66,200.

- The second is redeemable at par, has a coupon rate of 0% and is issued at a discount of \$49,737.

- The third has a coupon rate of 2%, is issued at a discount of \$10,000 and is redeemable at a premium of \$39,650. [9]

(ii) An entity, Vicky buys an equity instrument for trading purposes at a cost of \$300,000 and incurred transactions costs of a further \$30,000. At the first reporting date the asset had a fair value of \$400,000. Shortly after the year-end the asset is sold for its then market value of \$450,000. [4]

Question Three 25 Marks

ABC Ltd for many years operated a defined benefit scheme. At 1 January 2021 the fair value of the pension scheme asset were estimated to be \$260 million and the present value of the scheme liabilities were \$200 million. The total present value of future refunds and reductions in the future contributions assets ceilings was \$20 million on the 1st of January 2021

The table below provides details of the scheme for the year ended 31 December 2021 when there was curtailment of the scheme

Discount rate of the good quality corporate bonds	5%
	\$M
Current service costs	30
Cash Contributions	21

Benefits during the year	25
Scheme curtailment (31 December 2021)	28
Payment to employees as settlement for curtailment (31/12/2021)	16

At 31 December 2021 the fair value of the pension scheme assets was estimated to be \$242 million and the present value of the scheme liability were \$195 million. The total present value of future refunds and reductions in future contributions (asset ceilings) was \$25 million at 31 December 2021.

ABC Ltd intends all new employees to be offered a defined contribution rather than a defined benefit Scheme. Contributions of \$0.5 million were paid into a defined contribution scheme for new employees over the last 3 months of the year.

Required

Draft a report to the management of ABC Ltd addressing the following

- (i) how the defined benefit and defined contribution scheme will be accounted for in the year ended 31 December 2021. [15]
- (ii) the major differences between a defined benefit scheme and a defined contribution Scheme. [10]

Question Four [25Marks]

On the first day of the accounting period, Robby granted 50 employees 500 share options each. The terms of the scheme state that the options vest if the employees work for Robby for two years. On the grant date, it was estimated that ten employees would leave over the two years.

The fair value of each option was \$2 on the grant date and \$3 at the end of the accounting period.

By the end of the accounting period, ten of the employees had left and five more are expected to do so in the next year

Required:

- (a) Explain, with calculations, the correct accounting treatment of this remuneration scheme. [9]
- (b) The accountant of CDE was not sure on how the following items will be treated in the financial statements for deferred tax purposes

(i) At the end of the reporting period, a CDE has plant with a cost of \$200 000 and accumulated depreciation of \$40 000. For tax purposes, the ZIMRA has permitted a tax allowance of \$62 000 on the plant.

(ii) Recognises a debit account (Dividends receivable) in the statement of financial position for dividends of \$72 000 receivable from a listed investment. Dividends are not taxable.

(iii) A CDE's trade receivables balance at the end of the reporting period amounted to \$86 000.

(iv) CDE capitalised development costs of \$320 000 during the year. An amount of \$50 000 was recognised as an amortisation expense. Assume ZIMRA will allow the capitalised cost to be written-off over a period of 4 years as a tax allowance.

(v) During the year, CDE incurred costs of \$20 000 in cash and immediately recognised it as an expense. Assume ZIMRA allows such costs to be deducted over three years on a 50/30/20 basis.

(vi) CDE received a 12% long-term loan of \$800 000 at the beginning of the year. At the end of the reporting period, no capital has been repaid and no interest has been paid.

(vii) CDE recognised the following items at the reporting date:

Water and electricity accrual	\$8 000
Leave Pay accrual	\$9 000

The expenditure for the water and electricity is deductible for tax purposes during the current year as it actually incurred. CDE has an unconditional obligation to pay for the consumption of such items (even though the cash payment may only occur in the following period).

(viii) The leave pay accrual was created for the first time in the current year, and ZIMRA only allows the expense when it is paid in cash to employees (i.e. during the next period)

(ix) At the reporting date, a CDE created a current liability of \$380 for subscriptions received in advance. The subscriptions are taxed immediately because they have been received in cash by the company.

(x) A CDE's trade receivables balance at the end of the reporting period amounted to \$74 000 after an allowance for credit losses of \$12 000. Assume ZIMRA allows a deduction of 25% of the doubtful debts (credit losses)

Required

Discuss how the above will be treated in the Financial Statements of CDE Ltd for tax purposes. [16]

END OF QUESTION PAPER