



Claremont  
Business School  
*Unlocking Unlimited Possibilities*

an associate college of



MIDLANDS  
STATE UNIVERSITY

**FACULTY OF BUSINESS SCIENCES  
DEPARTMENT ACCOUNTING SCIENCES**

**DIPLOMA IN ACCOUNTING AND FINANCE**

**FINAL EXAM ASSESSMENT**

**ACA013: FINANCIAL REPORTING 1**

**DURATION 3 HOURS**

**DATE: NOVEMBER 2024**

**INSTRUCTIONS TO CANDIDATE:**

1. This paper has THREE (3) Sections
2. Section A,B,C are **compulsory**.



## SECTION A

Answer ALL the questions from this section – 30 marks

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1. Which of the following is NOT a characteristic of useful financial information according to the conceptual framework?
  - A. Relevance
  - B. Faithful representation
  - C. Complexity
  - D. Understandability
  
2. The recognition criteria for assets include all of the following EXCEPT:
  - A. The asset is expected to bring future economic benefits.
  - B. The asset's cost can be measured reliably.
  - C. The asset is acquired through a legal contract.
  - D. The asset is probable of future economic benefits.
  
3. What is the primary disadvantage of historical cost accounting?
  - A. It provides real-time data.
  - B. It may not reflect current market conditions.
  - C. It is overly complex.
  - D. It is inconsistent with international standards.
  
4. The International Accounting Standards Board (IASB) is responsible for:
  - A. Regulating local tax laws
  - B. Setting International Financial Reporting Standards (IFRS)
  - C. Auditing financial statements
  - D. Enforcing company law
  
5. Which of the following best describes a "cash generating unit"?
  - A. An individual asset expected to generate cash flows.
  - B. A group of assets that are collectively used in generating cash flows.
  - C. A segment of a business that generates revenue.
  - D. A financial instrument that generates cash flows.
  
6. Which method of measurement represents an asset's value based on current market conditions?
  - A. Historical cost
  - B. Fair value
  - C. Value in use
  - D. Current cost
  
7. Under IFRS, how should an impairment loss be allocated to the assets of a cash generating unit?
  - A. Equally among all assets
  - B. Based on the carrying amount of each asset
  - C. To the asset with the highest carrying amount
  - D. To the asset that has been impaired



8. Which of the following is NOT a requirement for capitalising subsequent expenditure on a non-current asset?

- A. The expenditure enhances the asset's value.
- B. The expenditure increases the asset's useful life.
- C. The expenditure is related to routine maintenance.
- D. The expenditure improves the asset's performance.

9. Which of the following is a role of the IFRS Advisory Council (IFRS AC)?

- A. Setting accounting standards
- B. Reviewing and advising on the IASB's strategy and priorities
- C. Regulating local financial markets
- D. Enforcing compliance with IFRS

10. A "rights issue" in the context of company capital structure refers to:

- A. Issuing new shares to existing shareholders at a discount
- B. Offering shares to new investors
- C. Issuing debt securities to raise capital
- D. Buying back company shares from the market

11. What is the main purpose of disclosure notes in financial statements?

- A. To provide additional information about the company's performance
- B. To simplify the presentation of financial statements
- C. To replace detailed financial statements
- D. To avoid the need for external audits

12. In the context of revenue recognition, what does "performance obligation" refer to?

- A. The agreement to deliver goods or services
- B. The entity's duty to recognize revenue over time
- C. The promise to transfer goods or services to a customer
- D. The obligation to fulfil a contract with a customer

13. Which of the following is a characteristic of faithful representation in financial reporting?

- A. Consistency
- B. Relevance
- C. Completeness
- D. Understandability

14. When accounting for leases, which of the following is an exemption from recognition criteria for lessees?

- A. Leases with a term of less than 12 months
- B. Leases involving real estate
- C. Leases for low-value assets
- D. Leases with an indefinite term



15. Which accounting treatment should be applied to research and development expenditure according to relevant standards?

- A. Capitalise all research costs and expense development costs
- B. Expense all research and development costs
- C. Capitalise development costs only if they meet certain criteria
- D. Expense all development costs and capitalise research costs

## SECTION B

**Answer ALL the questions from this section – 30 marks**

### Question 1

When Impala commenced trading as a car hire dealer on 1 January 2001, he purchased business premises at a cost of \$50,000. For the purpose of accounting for depreciation, he decided the following.

- (a) The land part of the business premises was worth \$20,000; this would not be depreciated.
- (b) The building part of the business premises was worth the remaining \$30,000. This would be depreciated by the straightline method to a nil residual value over 30 years.

After 5 years of trading, on 1 January 2006 Impala decides that his business premises are now worth \$150,000, divided into:

	\$
Land	75,000
Building	<u>75,000</u>
	150,000

He estimates that the building still has a further 25 years' useful life remaining.

### Required

- (a) Calculate the annual charge for depreciation for the first five years of the building's life and the carrying amount of the land and building as at the end of each of the first five years. **(10 marks)**
- (b) Demonstrate the impact the revaluation will have on the depreciation charge and the statement of financial position value of the land and building. **(10 marks)**
- (c) Distinguish between capital and revenue expenditure (Give examples). **(5 marks)**
- (d) What details about a non-current asset might be included in an asset register? **(5 marks)**



## SECTION C

Answer ALL questions – 40 marks

### Question 1

An entity has incurred the following expenditure during the current year:

- i. A brand name relating to a specific range of chocolate bars, purchased for \$200,000. By the year end, a brand specialist had valued this at \$250,000.
- ii. \$500,000 spent on developing a new line of confectionery. \$150,000 was spent on researching the product, before management gave approval to fully fund the project.
- iii. Training costs for staff to use a new manufacturing process. The total training costs amounted to \$100,000 and staff are expected to remain for an average of 5 years.

#### Required

- (a) Explain the accounting treatment for the above issues. (10 marks)
- (b) Differentiate between purchased intangibles and internally generated intangibles, and provide examples. (10 marks)

### Question 2

The following figures relate to inventory held at the year end.

	Product A	Product B	Product C
	\$	\$	\$
Cost	20	9	12
Selling price	30	12	22
Modification cost to enable sale	0	2	8
Marketing costs	7	2	2
Units held	200units	150units	300units

#### Required

- (a) Calculate the value of inventory held. (10 marks)
- (b) What does the cost of inventories consist of, and could you briefly explain how the FIFO and AVCO inventory valuation methods work? (10 marks)

END OF EXAMINATION