ZiCA

Competence, Integrity and Virtue

Zambia Institute of Chartered Accountants

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EXAMINATION ANSWERING TECHNIQUES VIRTUAL MEETING
FINANCIAL REPORTING
(D 8 & CA 2.1)

- **Presenter: Boniface Musonda**
- **Cell: 260 955/ 66/ 77- 959410**
- **Email: bonimuso@yahoo.co.uk or bonimuzo@gmail.com**

25th November, 2025

I ♥ Accounting

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1.O Introduction

- **The Examination Answering Techniques will aid you** to be **better equipped** in **answering** **future** examination questions.
- You can **possess all the necessary knowledge** and **yet fail an exam!!!**.
- **FACT: PASS RATE IS NOT REGULATED BY ZICA!!!.**
- **The focus of ZICA is to graduate a Competent and Ethical Accountants.**
- **Have a positive attitude and** let your **past** make you **better** not **bitter.**

1.2 Overall performance of candidates

		CA 2.1	D8			
JUNE. 2025	**Highest mark obtained in this paper**	89%	73%			
	Lowest mark obtained in this paper	1%	10%			
	Overall pass rate in this paper	38.1	39.5%			
SEPT. 2025	**Highest mark obtained in this paper**	69%	58%			
	Lowest mark obtained in this paper	8%	10%			
	Overall pass rate in this paper	33.3	15.3%			

1.3 Area of focus based on previous exams sitting

- 1. Application of **accruals concept/Accrual-based accounting**.
- 2. Calculation of **goodwill.**
- 3. Understanding of **consolidation processes**.
- 4. Preparation of **financial statements**.
- 5. Calculation **of depreciation**.
- 6. Knowledge of standards such as **IAS7**, **IFR3** and **IFRS9.**
- 7. Examination **time management**.
- 8. **General examination preparation** tips.

2.0 Examination format

(a) D8: Section A (**two compulsory questions**) & **Section B** (Attempt **two questions** out of three) - **25 marks for each.**

(b) CA 2.1 : Section A (**One compulsory** question – **40 marks**) & **Section B** (Attempt **three questions** out of **four**)- **20 marks for each**.

- You are **advised** to attempt **required number** of questions.

3.0 HIGHLY EXAMINED AREAS/ITEMS

- **Group Financial Statements/Consolidation.**
- **Financial Statements for single entity/Published/Company.**
- **Statement of Cash flow (IAS 7).**
- **The IASB's, Conceptual framework (2018).**
- **Ratio Analysis.**
- **Hot areas/standards include:**
    - **Financial Instruments (IAS 32, IFRS 9).**
    - **Revenue from contracts with customers (IFRS 15).**
    - **Fair Value Measurement (IFRS 13).**
    - **Leases (IFRS 16).**
    - **Income Taxes (IAS 12).**
    - **Standards relating to group (IFRS 3, IFRS 10, IFRS 11, IFRS12, IAS 27 and 28).**
    - **Non current Assets (IASs 16, 20, 23, 38,36,40 and 41).**
    - **Provisions and Contingencies (IAS 37).**
    - **Reporting Financial Performance (IASs 1, 2, 8, 10, 21, 33 and IFRSs 1, 5, 8).**

4.0 Effective examination techniques/preparation tips

Examination Techniques/preparation tips can be split into three parts:

- **Well Before the Exam**
- **Just Before the Exam**
- **During the Exam**

4.1.0 Well Before the Exam

- **4.1.1 Know and cover the whole the syllabus;** The **examination questions are derived** from the **detailed syllabus**.
- **4.1.2 Read the Chief examiner's reports***;* comments from **markers** are **really useful** as they let you **know** what examiners were **looking for**, and **common mistakes** which were made by students.
- ***4.1.3 Practice Past Exam Questions*'.**
- **4.1.4 Organize and form sizeable study groups (Physical or virtual).**
- **4.1.5 Interest is everything, Study, study, study (very, very important).**

4.2 Just Before the Exam

4.2.1 Avoid too much last minute preparation.

- **Don't tire yourself** just before the exam, you will need a lot of **energy and alertness** during the exam.
- **Print** examination docket and examination malpractice **at least a day** before the examination.
- Reach the **examination venue in good time** to settle before the exam begins.
- Be ready to answer **any part of the syllabus.**

4.3 During the Exam

- **Time Management;** allocate **1.8 minutes** per mark**,** stick to **time allocation.**
- Ensure **required number of** questions are attempted.
- **Question selections**: It's often **best to start** working on the question you're most **comfortable and confident** with.
- Present your work **neatly**.
- **Avoid unprofessional comments** e.g. Only God alone!!, God bless the marker, I am an Orphan, I was sick, I had run out of time, I did not study this topic, I had a funeral ……… **You will just waist your precious time on such comments.**

4.3 During the Exam

- Attempt **every part** of every question (**attempt does not mean finish**).
- **Don’t** do **calculations** in your **head**/ on a **calculator**.
- Write **everything down** to avoid losing marks.
- The **marker** is not there to **think** for you.

5.0 The common mistakes exhibited by students

- **5.1 Question One –** Consolidation/Group (SOFP:) (September 2025, CA 2.1)
- The **lowest score was 0.5** whilst the **highest was 32.5.**
- It was encouraging seeing most candidates attempt to do their **workings** and **posting as many entries as possible** to those workings.
- The **challenges included:**
- (i) The **fair value adjustment** of land and buildings were to be treated as **temporary differences**. The majority **expressed ignorance and never included this in the net assets working at all**.
- (ii) The Goodwill working led to a **bargain purchase (negative goodwill),** but most candidates **had no idea of accounting treatment** for negative goodwill as they **went on capitalizing (presented under non current assets) . Future candidates are reminded that bargain purchase** gets **credited to group retained earnings and is not subject to impairment loss**.

Continuation of Question One

- Most candidates were **discounting the deferred consideration** that was provided **in its discounted form 'fair value'.**
- Candidates needed to realize that the **cost of capital was provided for the sake of unwinding** the **discount and not discounting**.
- Many candidates **failed to realize that the balance** of the item **investments in Farmers**' nest **separate financial statements** was a **financial asset** that needed to be **derived by** subtracting all the recorded investments by Farmers nest (**Reconciliation of the cost of investment)**.
- While most candidates included the **contingent consideration** in the computation of goodwill, **they hardly included it in the consolidated statement of financial** position.

Continuation of Question One

- It was **further disappointing to note** that **the due diligence costs** that were wrongly included as **part of the cost of investment , instead of** being subtracted group **retained earnings.**
- There were also few candidates that struggled to deal with **cash in transit** which needed to **reduce receivables and increase cash balance**.
- In selected cases, **consolidation was done by adding all** assets, liabilities and equity **for the three entities**, parent, subsidiary and associate.
- Another **small proportion of candidates were consolidating subsidiaries by applying parent's interest (proportionate) in the subsidiary's assets, liabilities and equity.**
- Most candidates could not correctly calculate the **share capital arising from share exchange consideration and hardly even added their calc**ulated amounts to share capital figure in **the consolidated statement of financial** position.
- Lastly on the **theory part (b) of the question, hardly** were the candidates **explaining the application** of **IFRS 3 Business Combination** and its application on **contingent liabilities** that exist in subsidiary companies on acquisition date, and how they ought to be accounted for.
- **Future candidates** are **reminded to thoroughly study the theory parts** of consolidation topic

5.0 The common mistakes exhibited by students

- **5.2 Question Two – Published/Company (SEPTEMBER 2025, CA 2.1)**
- A **pass rate of 64% was recorded**. The highest score was **19.5** out of 20 marks while the **lowest was 0.**
- **The most common mistakes**:
- Candidates **expensed equity dividends** paid in the statement of profit or loss. **Equity dividends paid is an appropriation item**, therefore should be charged **directly to equity** (retained earnings). **(Please Revise IAS 32)**
- Failure to identify that **revaluation was at the end of the financial period**, hence failed to **calculate revaluation loss correctly.**
- Some candidates omitted **over-provision of income tax** for the previous year, when determined **the tax credit for the year**. Furthermore, **net taxable temporary difference of K15 million** was treated as a **deferred tax liability**.
- For **future examinations** you are reminded **that deferred tax is a tax on temporary difference** (**i.e. temporary difference must be multiplied by the income tax rate**). Therefore, **deferred tax liability** should have been computed as follows; **K15 million x 30%= K4.5 million**.
- Failure to present **12% redeemable preference shares under non-current liabilities**. **(Please revise IAS 32)**
- **Picking of wrong figures from the trial balance**. Candidates of **future sittings are reminded** to **pay attention to the question to avoid repetition of these mistakes (Please buy and carry a ruler)**
- Candidates did not show **all necessary workings by simply dropping compound** figures in the statement of profit or loss without showing how these were derived.

5.0 The common mistakes exhibited by students

- **5.3 Question Three – IFRS 9, (SEPTEMBER 2025, CA 2.1)**
- A pass rate of **15%** was recorded.
- The **highest score was 14 out of 20 marks** while the **lowest was 0.**
- **Common mistakes that were** made by the candidates:
- Most candidates who attempted this question failed to correctly **outline the classification** of financial assets as stipulated in IFRS 9.
- A good number of candidates attempted to calculate the carrying amounts of the investment in GRZ **Bond using amortized cost method.**
- **The amounts were incorrect in most cases because the candidates subtracted transaction costs** from the principal amounts of both instruments. The **costs were to be added to the initial carrying amount government bond instead.**
- Most candidates failed to calculate the initial carrying amount of **the financial liability** as most candidates failed to **deduct the issue costs** incurred. This resulted in wrong **amounts of finance costs.**

5.0 The common mistakes exhibited by students

- **5.4 Question Four – IAS 7 and RATIOS (SEPTEMBER 2025, CA 2.1)**
- **A pass rate of 57%** was recorded. The **highest score was 18.5** out of 20 marks **while the lowest was 0.**
- **Common mistakes included:**
- **Miscalculation of the amount of cash spent to acquire additional non-current assets because accounts prepared omitted the amount of revaluation gain of the asset.**
- **The calculation of cash flow from issue of equity shares incorrect in all cases because the bonus issue entry was not considered.**
- **The calculation of dividend paid was incorrect because the bonus issue amount was omitted from the retained earnings account.**
- **Transfer of excess depreciation from the revaluations account to retained earnings account was also omitted, leading to wrong calculations of dividends paid.**
- **Candidates failed to calculate the correct amounts of cash flows for the lease liability, development costs and income tax.**

5.0 The common mistakes exhibited by students

- **5.5 Question five – IAS 8, IFRS 15, IASB's CONCEPTUAL FRAMEWORK (SEPTEMBER 2025, CA 2.1**
- The general performance on this question was **very poor**. A **pass rate of 5.13%** was recorded. The **highest score was 12.5 out of** 20 marks while **the lowest was 0**.
- **Common mistakes:**
- Most candidates **demonstrated their lack of understanding of IFRS 15**.
- Candidates **wrongly recognized** the **entire amount** attributable to the **servicing**.
- The amount attributable to the **servicing was supposed to be recognized over the three years** the plant had to be serviced (**straight line basis**).
- Some candidates wrongly stated that changes in **accounting policy** must be applied **prospectively.**
- Demonstrated **ignorance** of the **revised (March 2018) conceptual framework** for financial Reporting.
- Candidates are advised to understand **each area of the syllabus (including theory part)** to increase their chances of passing.

5.0 The common mistakes exhibited by students

- <u>**5.6 Question One – Consolidation/Group (SEPTEMBER 2025, D8)**</u>
- The general performance on this question **was fair**. The **lowest mark recorded was 0** while the **highest was 22 out of 25 marks.**
- **Most candidates failed to appreciate the fact that the subsidiary was acquired 8 months, usually (unless otherwise specified), all incomes and expenses accrue evenly over the reporting period.**
- **Further, a handful of candidates were applying 75% on the incomes and expenses of the subsidiary with worst cases adding the incomes and expenses of the Associate to the consolidated amounts.**
- **Several candidates struggled to get the share of post-acquisition profit for the year of Subsidiary to use in the NCI for profit or loss computation. Always remember to split profit for the parent and NCI.**
- **Most candidates struggled to calculate goodwill correctly as they could not discount the deferred consideration correctly.**
- **Impairment loss was not shared between the Parent and NCI (full goodwill method)**
- **Future candidates are reminded to read through examiners' reports of previous examinations to learn about common mistakes by past candidates.**

5.0 The common mistakes exhibited by students

- **5.7 Question Two – Published/company (SEPTEMBER 2025, D8)**
- The general performance on this question **was very poor**. The lowest mark recorded **was 0 while the highest was 16.**
- The following were the **major challenges observed.**
- **Some knowledge gap was noticed on the issue of IFRS 16's treatment of ROUA.**
- **The additional cost of K2 million was usually omitted from the initial measurement of the Right of Use asset. This led to incorrect depreciation amounts and carrying amounts of Right of Use Asset at the reporting date. Future candidates are urged to master the accounting standards thoroughly.**
- **Almost all candidates expressed ignorance on the required accounting treatment for the sale and leaseback asset under IFRS 16 which did not meet the requirements of IFRS 15 for sale.**
- **Students of presented the bank balance as an overdraft when the balance was a debit and not credit in the trial balance.**
- **Calculation of the depreciation on the Property Plant and Equipment was a challenge for few of the candidates.**
- **The other shortcoming was a few candidates that did not show any workings for this question and opted to do workings on calculator and transfer from calculator to final**

5.0 The common mistakes exhibited by students

- **5.8 Question Three – IAS 7 (SEPTEMBER 2025, D8)**
- A pass rate of 34.5% was recorded. The lowest mark recorded was 0 while the highest was 25 out of 25.
- Weaknesses observed:
- Disposal proceeds of the financial asset was a serious challenge to calculate to many.
- Most candidates failed to calculate dividends paid using a retained earnings account.
- It was heart warming to see most candidates managing to calculate the tax paid figure.
- There was a lack of knowledge of the proper IAS 7 layout/format.
- Many students could not distinguish between cash flows from operating, investing, and financing activities.
- Many candidates failed to deal with movement in payables as they could not adjust the payables figures for the accrued interest.

5.0 The common mistakes exhibited by students

- **5.9 Question Four –IFRS 15, IAS 37, IAS 20 & IPSASB (SEPTEMBER 2025, D8)**
- **A pass rate of 40.9% was recorded. The lowest mark recorded was 0 while the highest was 21 out of 25.**
- **Mistakes/Challenges:**
- **There was much evidence of lack of understanding of revenue and capital grants (IAS 20).**
- **Provisions and Contingencies (IAS 37): Poorly answered.**
- **Objectives of Private Sector Entities were fairly attempted, though many students confused these with the objectives of IPSASB.**
- **Future DA8 candidates are urged to seriously go down to understanding accounting standards and other theory parts of the syllabus.**

5.0 The common mistakes exhibited by students

- **5.10 Question Five – IAS 21, Conceptual framework, measuring performance of public sector (SEPTEMBER 2025, D8)**
- **A pass rate of 13.5% was recorded. The lowest mark recorded was 0 while the highest was 25 out of 25.**
- **Mistakes/Challenges:**
- **Measurement Bases part was poorly answered; most candidates confused**
- **measurement bases with elements of financial statements.**
- **Monetary vs. Non-Monetary Items (IAS 21): Weakly attempted, with many candidates going off-topic.**
- **Measuring Performance of Public Sector Entities: Poorly answered; most candidates confused public sector with private sector performance measures.**

5.1 Most common mistakes/challenges – Published

- **Failure to identify elements of financial statements in a Trial balance/Redrafting.**
- **Failure** to obtain **easy marks** when you are given a **trial balance/draft financial statements to be redrafted** (**each correct entry, ½ mark**).
- **Figures from additional** information/Notes requires **double entry**.
- **Confusing under/over provision** of current tax (**DU+; CO- in P/L**).
- **Wrong** computation of **interest/unwinding** of interest (**coupon rate versus effective rate**).
- **Wrong accounting for accumulated** depreciation and computation of **depreciation charge**.
- **Current asset** ***(Bank - if on debit side).***
- **Retained earnings normally credit balance, except few limited cases, debit balance!! – Check CA 2.1 March 2022, question 2).**
- **Follow through principle** when marking for **quantitative** papers**, e.g. wrong profit (in the SPL) added to retained earnings (in SCIE/SOFP)**.
- **Hint/Clue!!** Every **correct** entry **normally** counts for **1/2 mark** (**Very, very important**).

5.2 Most common mistakes/challenges – Group/Consolidation

- The **computation** and **accounting treatment** of **unrealised profits** on intra-group sales (**Confusing profit margin and profit mark-up**).
- **Proportionate consolidation instead of full consolidation (line by line accounting) or equity accounting (single line accounting).**
- **Remember: Subsidiary- Full** consolidation & **Associate/Joint venture- Equity method**).
- **Capitalising acquisition costs instead of expensing**, according to **IFRS 3, acquisition costs should be expensed**.
- **Ignoring group structure**. "Candidates lost **two marks** for not showing the group structure" – **Examiners report.**
- **Including subsidiary's share capital** in consolidated statement of financial position.
- **Assets and Liabilities**, **time-apportioned** (**Grave Error).**
- **Sharing impairment losses (parent & NCI) under partial method.**
- **Ignoring contingent liabilities, internally developed intangible assets.**
- **NCI: watchout; date of acquisition (policy), SP/l & OCI (attributable), SOFP (as at), SCIE (movement), SOC (Cashflow-Dividends paid).**

6.1 An extract CA 2.1 September 2025 (Quest. 1 b).

- Farmers' Nest is in the process of accounting for **the acquisition** of another **subsidiary, Hope Plc**, and has identified a number **of issues** when reviewing the fair values of Hope's assets.
- **One of the issues** relates to a **legal suit by one of Hope's customers** for allegedly supplying faulty goods and the customer is claiming damages amounting to **K8 million.** Hope's legal team has advised that, based on precedence, it is very unlikely that the court will award damages to the customer. **The fair value of the contingent liability** in respect of the claim has been assessed by the Directors of Farmers' Nest at **K2.2 million**, based on the very low probability that the customer succeeds. **Hope has correctly applied IAS 37** Provisions, Contingent Liabilities and Contingent Assets in preparing **its (separate) financial statements** by treating the suit as a **contingency liability.**

Required:

- **Discuss** how the above transaction should be treated in the **consolidated statement** of financial position of Farmers' Nest Plc. (6 marks)

Suggested answer for CA 2.1 Sep 2025 (Question 1 b).

- **IFRS 3 Business Combinations** requires that **all business combinations must be accounted for using the Acquisition Accounting Method.** Acquisition accounting requires that the **acquirer in a combination must recognize the identifiable assets and liabilities acquired with the acquiree entity at their fair values.** Any difference between the aggregate **of the cost of acquisition and the value of non-controlling on their initial measurement, and the fair value of identifiable net assets acquired must be recognized as consolidation goodwill.**
- **In general, any asset or liability acquired** with an entity whose **fair value can reliably be measured by the directors must be treated as an identifiable asset or liability of the acquired entity and hence recognized as part of the identifiable net assets acquired.**
- With regard to the **contingent liability** on acquisition of Hope, it must be emphasized in the first instance that the **IAS 37 recognition criteria is different from that in IFRS 3**. The contingent liability was **not recognized by Hope in its separate financial statements** because according to **IAS 37**, it is not probable that economic benefits would be transferred. In respect of **IFRS 3, it is only enough** that the directors could **reliably measure the fair value of the contingency for it to be recognized**.
- The **contingency would therefore be recognized as being among the identifiable net assets** of Hope on its acquisition by Farmers Nest. It would initially be measured at its fair value **of K2.2 million** on the date of acquisition. This would give rise to a **fair value loss on liabilities (increasing liabilities) and hence a reduction in the fair value of net assets acquired.**
- The **overall effect would be to increase the goodwill** on acquisition and a potential increase on post-acquisition profits from Hope. Any changes in the **contingent liability subsequently would be reported in profit or loss.**

6.2 An extract CA2.1 Sept 2025 (Question 2 b).

- An extract of **Trial balance to** Laitan Plc for the year ended **31st Dec. 2024**

	Debit K'000	Credit K' 000
Deferred Tax		5,000
Interim **preference dividend paid**	1,200	
12% **Redeemable** preference shares		10,000
Income Tax		6,200
Ordinary dividends paid	5,200	

- **Additional Information:**
- The Directors **have estimated that K5.95 million** would have to be paid as tax on the **current year's taxable** profits. The **balance on the current tax account** in the trial balance represents an **under/over estimation** of tax in the year to 31 December 2023. Laitan **estimates** that there is a **net taxable temporary difference** on its net assets **at** 31 December 2024 equal to **K15 million**. The company is liable to income tax at a rate of **30%.**
- **Required: Prepare** for Laitan Plc: (a) SPL & OCI (b) SCIE (c) SOFP … **31st December 2024**

Suggested answer for CA 2.1 September 2025 (Question 2).

	K'000	
• (a) SP/L	K'000	
• Operating profit	114,970	
• Finance cost/ preference dividends (K10,000 x 12%)	(1,200)	
• Profit before tax	113,770	
• Income tax income/credit	750*	
• Proft for the year	114,520	
(b) SOCIE Movement in equity		
(c) SOFP		
Non-current liability :		
Deferred Tax	4,500	
12% preference shares	10,000	
Current Liabilities: current tax	5,950	
• * Income taxes: estimate for the year		5,950
Over provision		(6,200) (DU+. CO -)
Decrease in the deferred tax liability (30% x K15,000=4500 -5000)		(500)
Income tax credit (Income)		(750)

6.3 An extract CA 2.1 Sept 2025 (Question 3 a).

- (a)
- Briefly **outline** the **classification of financial assets** for measurement purposes in accordance with **IFRS 9 Financial Instruments**.
- (6 marks)

Suggested answers for CA 2.1 Sep 2025 (Question 3 a).

- a)
- In **general, all financial assets are classified** as Fair Value Through Profit or Loss (FVTPL) items. However, the following exceptions may apply:
- **Equity instrument** assets not for trading can be classified as **FVTOCI upon making an irrevocable election to that effect.**
- Debt instrument assets with **contractual terms** that give rise on specified dates to cash flows that are **solely payments of principal and interest** on the principal amount outstanding must be classified as:
- 1. **Amortised cost items** where the **business model is to hold** the assets till maturity; or
- 2. **FVTOCI** items where the business model is to hold the **assets till maturity or sell before maturity.**
- Assets must be classified at initial measurement and reclassification is only allowed if there is a change in the business model.

6.4 An extract CA 2.1 Sept 2025 (Question 5 b).

- The **Directors of Hunga Plc are preparing** financial statements for the year **ended 31 December 2024**. A number of **concerns have arisen** as the company is finalising the draft financial statements for the period.
- (b) On **1 January 2023**, Hunga **delivered equipment to a customer** as a sale of trading inventory. The customer was **invoiced K2.5 million** which was immediately settled in full on that date. In addition to delivery of the equipment, Hunga **agreed to service the equipment** for the customer **free of charge over** a period of **three (3) years** commencing **1 January 2023.** Servicing this type of equipment is normally invoice at **K0.6 million** (ignore discounting and compounding). In accounting for the transaction in its financial statements for the year ended **31 December 2023,** Hunga reported **the whole invoice amount of K2.5** million as revenue for that year. **Subsequently, after financial statements for the year to 31 December 2023 were published**, the Directors of Hunga have **realised that the transaction was not properly accounted for in accordance with IFRS 15 Revenue** from Contracts with Customers. They have identified that **IAS 8 must apply in correcting** the past **year's error in preparing financial statements for the year to 31 December 2024.**
- They have therefore asked **you to advise** them on how **to apply the IAS 8 requirements in correcting this prior period error.** You must also **show the entries required to correct the error as at 1 January 2024** and the financial statement extracts in respect of the year to 31 December 2024. (8 marks)
- **Required:**

Advise the Directors of Hunga Plc **addressing their concerns**.

6.4 An extract CA 2.1 Sep 2025 (Question 5 b).

- IAS 8 **requires that prior** period errors are corrected **retrospectively** by **adjusting opening balances** in the year of **correction for the cumulative** effect of the error and by **restating the previous amounts (comparatives)** as reported in the **period of correction.**
- In this case, the directors made an error in preparing financial statements for the year to **31 December 2023** by **not correctly applying IFRS 15**. The delivery of the plant and the commitment to service the same constituted **two performance obligations in accordance with IFRS 15**. The total invoice amount (transaction price) must have been **allocated to the two performance obligations** and the amounted to each obligation recognised as revenue at the point the obligation was met or over the periods the obligation was met. In this case, only the amount allocated to **the delivery of the plant should have been recognised at date of delivery**. The amount attributable to the servicing was supposed to be recognised over the three years the plant had to be serviced (straight line basis).

6.4 continuation.

- With the above in mind, of the total invoice amount, Hunga should have recognised a deferred revenue liability at 31 December 2023 equal **to K0.4 million (ie 0.6*2/3**) in respect of the servicing for **the next 2 years.** The required entries to correct a **past error** as at 1.1.2024 are therefore:

	K'000
Dr Retained earnings	400
Cr Deferred Revenue liability	400

- In **addition, revenue for the year to 31 December 2023 as a comparative** in the financial statements for the year to **31 December 2024 would be reduced by K0.4 million.**
- In the year to **31 December 2024, Hunga must report revenue in respect of servicing for that year equal to K0.2 million (ie 0.6/3)**. The required entries are to **debit deferred revenue and credit revenue.**
- The deferred revenue liability to report in the statement of **financial position at 31 December 2024 would be K0.2 million (ie 0.6*1/3)**. This would be recognised as revenue upon servicing in the third **year (ie y/e 31 December 2025**).

6.5 An extract CA 2.1 Sep 2024 (Question 3 a).

- **Required: Briefly explain** the accounting requirements **for lessors** in accordance with IFRS 16 Leases. (6 marks)
- **Suggested answers**
- IFRS 16 requires lessors to account for leases in **accordance to the nature** of the lease, that is, whether **finance or operating lease.**
- **A finance lease** is one that transfers **substantially all economic benefits and risks relating to ownership** of the asset from the lessor to the lessee. In determining whether the lease transfers substantially all economic benefits and risks relating to ownership of the asset to the lessee, the **commercial substance of the contract must be considered.** Any lease that is not a finance lease must be an operating lease.
- Finance Lessors must **derecognise assets** leased out under finance leases and instead recognise an investment in the finance lease. The investment in finance lease is initially measured at the initial investment in the lease which includes all the cash flows incurred to avail the asset to the lessee.
- Subsequently, **the investment in the finance lease is measured at amortised cost using the interest rate implicit in the lease. Finance income** is reported in profit and loss statement.
- **Operating lessors** must **continue to account for ownership of the asset under lease** as per applicable accounting standard, for example IAS 16 Property, plant and equipment.
- The total minimum lease payments (MLPs) receivable must be recognised as income in the profit and loss statement over the lease term on a straight line basis.

Sample of a marking key CA 2.1 Sep 2024 (Quest. 3 a).

- a)
- Point — Marks
- Explanation of:

Point	Marks
Accounting dependant on nature of lease	½
Identification of types of lease	1
Definition of finance lease and operating lease	1
Accounting for finance lease	2
Accounting for operating leases	1 ½
TOTAL AVAILABLE	6
MAXIMUM AWARD	6

6.6 An extract DA 8 Sep 2025 (Question 4 i).

- (i) **Explain the relative advantages** of **accruals accounting** over cash basis in preparing financial statements according to the *Conceptual Framework for Financial Reporting*. (4 marks)
- (vi) As part of the re-organization of the operations, there would be redundancies to be paid of K 80,000 and remaining employees would have to be retrained at a cost of K 25,000. (2 marks)

Required:

- **Explain** how the matters above will be reported in the financial statements, in the event of a **re-organisation, according to IAS 37** *Provisions: Contingent Liabilities and Contingent Assets*:

Suggested answer DA 8 Sep 2025 (Question 4 a i &vi).

- (i) Financial statements prepared on **an accruals basis** also account for and reports **transactions** on credit, such as unpaid arrears of obligations rather than keeping them as notes only.
- **Financial statements are comprehensive** in that they provide **balances** of **non-current assets**, what customers **owe** and what the entity **owes** suppliers.
- **Reported profit** is from **all activities** captured throughout the organization, including losses arising from loss in value of non-current assets. For this reason, financial statements **prepared on an accruals basis are more informative and more reliable,** because they are more **representative** of **performance** than financial statements prepared **on a cash basis**.
- Reports prepared on the cash basis **fall short in all these areas**, although they are **administratively quicker**, more **objective and cheaper.** They are **easy to understand** than those prepared on an **accrual basis.**

Suggested answer DA8 Sep 2025 (Question 4 a vi).

- A **provision** according to **IAS 37 *Provisions***: *Contingent liabilities and Contingent Assets*, is a **liability of an uncertain amount or timing**. A liability is recognized when there is a **present obligation** or a constructive obligation and it is highly **probable** that an outflow of economic benefits will flow out of the entity, and the amount involved can be **measured reliably**. The following will be accounted for as follows:
- The amount of redundancies of **K 80,000 will be accrued as a provision arising on the reorganization**. The amount of **K 25 000 to be spent on training will be charged as an expense when it is actually spent**, since training can be done even when there is no reorganization.

6.7 An extract DA8 Sept 2025 (Question 5 a).

- a
- (i) State three **(3) purposes of the IASB Conceptual Framework**. (3 marks)
- (iii) With reference to **IAS 21, explain the difference between monetary and non-monetary items**, providing appropriate examples. (4 marks)

Suggested answer DA8 September 2025 (Question 5 a).

- purpose of the IASB framework
- **(i)Provide a Conceptual Foundation**: It establishes the concepts that underlie the preparation and presentation of financial statements, ensuring consistency across accounting standards.
- **Guide Standard Setting**: It helps the International Accounting Standards Board (IASB) in developing and interpreting accounting standards, ensuring they align with fundamental principles.
- **Enhance Transparency and Comparability**: By promoting consistency in accounting practices, it enhances the transparency and comparability of financial statements across different entities and countries.
- **Assist in Financial Statement Preparation**: The framework offers guidance for preparing financial statements, helping entities apply accounting standards and deal with situations not covered by specific standards.
- **Support Decision-Making**: It provides useful information for investors, creditors, and other users of financial statements to make informed decisions regarding the financial position and performance of entities.

Continuation Suggested answer DA8 September 2025 (Question 5 a).

- **(iii) Monetary and non-monetary items**
- In accordance with IAS 21, monetary items are assets and liabilities that are **fixed in terms of currency amounts** and are **affected by changes in exchange rates.** Examples include cash, **receivables, and payables,** where their value in the functional currency fluctuates with exchange rate changes.
- On the other hand, **non-monetary items are assets and liabilities that are not fixed in terms of currency amounts** and are not **affected by exchange rate fluctuations.** These items are generally measured **at historical cost or fair value. Examples include property, plant, and equipment, inventory, and equity investments, whose value remains unaffected by** changes in exchange rates.
- The key distinction is that monetary items are subject to exchange rate variations, while non-monetary items are not.

6.8 An extract D8 March 2024 (Question 1).

- On **1 April 2020**, Mtondo Plc acquired **80%** of the equity shares in Kachele Plc (**Equity shares of K1 each, for Mtondo Plc and Kachele Plc, 300,000 and 270,000 respectively**) for cash consideration of **K144,000** and through **share exchange** of **1 share for every 2** shares held in Kachele, when the **retained earnings** of Kachele stood at **K110,000.** The **market price** of each of Mtondo Plc's shares at the date of acquisition was **K2.**

Additional information:

Note1. At the date of acquisition, the fair values of Kachele Plc's assets were equal to their carrying amounts with an **exception of**:

- A non-depreciable piece of **land** with a carrying amount of K250,000 that had a fair value of K260,000.
- **Plant and machinery** with a carrying amount of K150,000 and a Fair value of K155,000. The estimated future economic life of plant and machinery at 1 April 2020 was four years (straight line depreciation).
- At the date of acquisition, Kachele Plc. had an **internally generated Brand name**. The directors of Mtondo Plc estimate the **Fair Value** of this Brand name to be **K20,000** with a useful life of **4 years**.
- The **Fair value** non-controlling interest at 1 April 2020 was K108,000.

Note 2. Only the **cash consideration** had been **recorded** by Mtondo Plc.

Note 7. At **31 March 2023**, goodwill in Kachele Plc had been **impaired** by K15,000.

Required: Show an extract for goodwill, equity shares and share premium at **31 March 2023 .**

Suggested solution (extract)

	'K'	'K'
• **Goodwill on acquisition of Kachele**		
• Purchase consideration:		
• Cash		144,000
• Share exchange (80% x 270,000/2 x 1 x K2)		216,000
• Non controlling interest @ acquisition		108,000
		468,000
• Less net assets of Kachele at acquisition:		
• Share capital	270,000	
• Pre-acquisition retained earnings	110,000	
• **Fair value adjustments:**		
• Land	10,000	
• Plant and machinery	5,000	
• Brand name	20,000	(415,000)
• **Gross Goodwill**		**53,000**
• Less impairment loss		(15,000)
• **Net goodwill**		**38,000**

Equity shares of K1 each (300,000+108,000 W8) 408,000 & Share premium (W8) 108,000.

6.9 An extract CA 2.1 March 2024 (Question 4).

- (a) **IAS 10 *Events after the Reporting Period***, provides the guidance for accounting for transactions that occur after the reporting date but before financial statements are authorized for issue to the shareholders.
- **Required:**
- (i) **Define adjusting** and **non-adjusting events**, giving two (2) examples for each.
- (4 marks)
- (ii) Distinguish between **accounting treatment for adjusting** events from that of non-adjusting events. (4 marks)
- (b) IAS 23 *Borrowing Costs*, deals with the treatment of borrowing costs, often associated with the borrowing of funds for construction of qualifying assets.
- **Required:**
- Define '**borrowing costs'** and '**qualifying asset**' in accordance with IAS 23 *Borrowing Costs*. (3 marks)

Suggested solution (extract)

- **Adjusting events** – those that provide further evidence of conditions that existed at the reporting date or which call into question the going concern status of an organization. **Examples include:**
- Irrecoverable debts arising after the reporting date
- Evidence of impairment of assets, e.g sale of inventory at less than the cost, ie allowances for inventories due to evidence of net realizable value having fallen after the reporting date.
- Discovery of fraud and error
- Amounts received or receivable in respect of insurance claims which were being negotiated with the insurance company at the reporting date.
  - Completion of a court case entered into before the reporting date
  - Determination of sale or purchase price of assets sold or purchased before the year en

Suggested solution (extract)

- **Non adjusting events** –those that are indicative of conditions that arose subsequent to the reporting date. **Examples include:**
- A major business combination after the reporting date.
- Announcement of discontinuance of operation
- Major purchase or disposal or revaluations of non current assets
- Destruction of a major production plant by fire
- Announcement of major restructuring
- Abnormally large changes after the reporting date in foreign exchange rates
- Issue of shares or loan notes
- Announcement of changes in tax rates
- Dividends declared after the reporting date but before financial statements are authorized.
- Acquisition or disposal of subsidiary after the year end.

Suggested solution (extract)

- Accounting treatment for adjusting events is that adjustment for amounts involved in the financial statements to be effected before financial statements are authorized.
- Accounting treatment for non adjusting events is that the transactions should be disclosed by note if they are of such importance that non disclosure would affect the ability of the users of financial statements to make proper evaluation of their decisions**.**
- The note to disclose the nature of the event and its financial effect on the company should be included. Disclosure is made if events are material.

(b)

- *Borrowing costs* are Interest and other costs incurred by an entity in connection with the borrowing of funds. Examples of borrowing costs may include:
    - Interest on bank overdrafts or loans
    - Amortization of discounts or premiums
    - Finance charges on finance leases
    - Ancillary costs, such as..
    - Exchange differences arising from foreign currency borrowings
- *Qualifying asset.* An asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

6.10 An extract CA 2.1 December 2021 (Question 1).

- Statements of profit or loss and other comprehensive income **for the year ended 31 December, 2021.**
- **Peace** Ltd acquired **60%** of the share capital of **Sadness** Ltd on **1st April 2021**.
- On **1st October 2021**, Peace acquired **30%** interest in **Joy** Ltd for K40 million.

	Peace Ltd K'000	Sadness Ltd K'000
Revenue	325,200	60,000
Cost of sales	(291,600)	(48,000)
Gross profit	33,600	12,000
Distribution costs	(4,000)	(2,400)
Administrative expenses	(7000)	(3,600)
Finance costs	(400)	-
Profit before tax	22,200	6,000
Income tax expenses	(6,200)	(2,000)

Sample of suggested answers and Marking key

	Marks
Revenue (K325,200 + (K60,000 x 9/12) – (K600 x 9 month))	**2 ½**
Cost of sales (K291,600+ (K48,000 x 9/12) – K5,400 + K240 + K200)	**3**
Distribution costs (K4,000 +(K2,400 x 9/12)	**1 ½**
Administrative expenses(K7,000 + (K3,600 x 9/12) + K1,000	**2**
Finance costs (K400 + (K2, 700 x 10% x 9/12)	**2**
Profit from Associate (3/12 x 27, 000 x 30% - 1, 000)	2
Income tax expenses (K6,200 + (K2,000 x 9/12)	**1 ½**
Gain on revaluation of property (K3,000 + K1,200)	**1**
Shareholders of the parent	**½**
Non-controlling interest (K4,000 x 9/12 – K1000 – K200 x 40%)	**2 ½**
Total comprehensive income attributable to:	
Shareholders of the parent	**½**
Non- controlling interest (K720 + (K1,200 x 40%)	**1 ½**

Available marks **20 ½**

Maximum marks **18**

7. Conclusion.

- Every **correct entry normally** counts for **1/2 mark and a valid point/comment counts 1 mark** (**Very, very important**).
- Even if the **candidate reaches the wrong conclusion**, **marks will be awarded** for the **discussion.**
- **One important thing** you need to know is that the **entire syllabus is examinable** and therefore you should **never specialise in a few topics** – on account of **trends in past papers (you are not the examiner)**.
- **If you specialise on certain topics, you are taking a very big risk.**
- You should **take note** that important areas of the syllabus where students **don't perform well are frequently re-examined**.
- **No marks are given for totals or balancing. Mark(s)** are given for **individual entries**.
- **Don't** do calculations in your **head**/ on a **calculator**.
- Write **everything down** to avoid losing marks. The marker is not there to **think** for you.
- **No negative marking.**
- Ensure that you **read the examiner's comments from recent exams** on the ZICA website.
- Candidates are **advised not** to take the **increase** in the examinations **sittings for granted.**
- **Candidates** should ensure that they have **completed the syllabus, revised and worked through series of questions before registering for the examinations.**
- **Time management: 3 hours = 180 minutes and 100 marks (= 180/100)=1.8 minutes per 1 mark.**
- **In conclusion**, good exam technique is not just about **what you know**, but how you **apply your knowledge** in the **exam itself**.

END OF PRESENTATION

- **Important message/Good news for you!!**
- **Believe in yourself**: yes, there is a **lot to learn** and it is a **challenge**. But thousands have **succeeded before** and **you can too!!.**
- **You will only achieve what you fight for. Losers ask "can we do it? Can we pass FR?" winners ask "how can we do it? How can we pass FR?"**.
- **Success is a matter of decision, commitment, planning, preparation, execution and recommitment.**
- Let your **past** make you **better** not **bitter.**
- **PLAN** while others are **playing.**
- **STUDY** while others are **sleeping.**
- **DECIDE** while others are **delaying.**
- **PREPARE** while others are **daydreaming.**
- **PERSIST** while others are **quitting.**

WISHING YOU THE BEST IN YOUR EXAMINATIONS

THANK YOU AND GOD BLESS YOU!!!

#ZICAMUNOBE!!!

Testimony/Question Time !!!