"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINSTRATION

FOUNDATIONS OF ACCOUNTING 2 – MAC 102

END OF FIRST SEMESTER EXAMINATIONS

April/ May 2019

LECTURER: N. E CHIRIMA

DURATION: 3 HRS

INSTRUCTIONS

ANSWER **ALL** QUESTIONS

MARKS ARE SHOWN AT THE END OF EACH QUESTION

ALL WORKING IS TO BE SHOWN CLEARLY IN THE AFRICA UNIVERSITY ANSWER BOOKLET. ANYTHING WRITTEN IN PENCIL IS DEEMED TO BE WORKING.

CREDIT WILL BE AWARDED FOR NEATLY PRESENTED WORK

START EACH QUESTION ON A NEW PAGE.

Answer ALL questions in the Africa University answer booklet. Show all working.

QUESTION 1 [25 Marks]

Conceptual Framework for reporting was revised by the IASB in March 2018, and the changes will be effective as from 1 January 2020 for preparers of Financial Reports. Outline the changes that have been made to the framework, indicating how the change will enhance the usefulness of information presented in General Purpose Financial Reports. 25 marks

QUESTION 2 [25 marks]

The Trial Balance extracted from the books of Atong Plastic Manufacturers as at 31 December 2018 was as follows:

	DR $000	**CR $000**
Revenue		62,600.00
Cost of Sales	45,000.00	
Distribution Costs	2,300.00	
Administration Expenses	3,500.00	
Finance Costs	200.00	
Tax Expense for the Year	3,100.00	
Property, Plant and Equipment	19,700.00	
Accumulated depreciation		3,300.00
Investments at 10%	2,000.00	
Inventory	4,300.00	
Trade Receivables	4,700.00	
Equity Shares at $1 each		10,000.00
Retained Earnings		6,300.00

10% Debentures		2,500.00
Trade Payables		3,400.00
Bank		1,700.00
Intangible assets	5,750.00	
Accumulated Amortization		750.00
	90,550.00	90,550.00

You are given the following additional information:

i. Depreciation on PPE for the year to 31 December 2018 is to be charged at 5% on a reducing balance method while intangible assets are to be amortized at 10% straight line method.

ii. Income tax of $165 000 is to be provided for the year to 31 December 2018.

iii. PPE is to be revalued to $27 million as at 31 December 2018.

iv. Transfer $70 000 to the general reserve.

v. At the beginning of the year, a rights issue of 2 shares for one was issued at 40c per share. Proceeds were directly deposited into a business bank account. The accountant omitted this transaction completely.

vi. An ordinary dividend of 5c per share has been declared and by the directors and authorized by the shareholders at the recently held AGM.

You are required to prepare for external use

a. Atongo Private Limited's Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018. [10 marks]

b. Atongo Private Limited's Statement of Changes in Equity for the year ended 31 December 2018. [8 marks]

c. Atongo Private Limited's Statement of Financial Position as at 31 December 2018. [7 marks]

QUESTION 3 [25 marks]

PART 1

Aka, Ashie and Archie contributed $520 000; $210 000 and $360 000 into "AAA" Partnership business. For the year ended 30 September 2018, the partnership has made a profit of $412 790. As at 30 September 2018, Aka's drawings amounted to $20 000 and Ashie's to $15 000. The partnership deed provides that:

1. Profits are to be shared by Aka, Ashie and Archie in the ratio 5:2:3.
2. Interest on partners' opening capital balance – 10%
3. Interest on closing Drawing balances – 15%
4. Ashie earns a salary of $1 500 per month for the administrative work she does for the partnership.

Appropriate the profits of "AAA" Partnership. [5 marks]

PART 2

Outline the characteristics of retail, manufacturing, "not for profit" and agriculture organizations, indicating how each characteristic influences recognition, measurement and disclosure in the yearend Financial Reports.

PART 3

TRIPPLE B'S Statement of Financial Position as at 30 September 2018

Non - Current Assets	**1,854,000.00**	**Liabilities**	1,170,000.00
Land	*360,000.00*	Payables	90,000.00
Buidling	*1,260,000.00*	Long Term Loan	1,080,000.00
Cost	1,440,000.00		
Accumulated Depreciation	(180,000.00)		
Equipment	234,000.00		
Cost		**Equity**	

	288,000.00		873,000.00
Accumulated Depreciation	(54,000.00)	Brown	315,000.00
		Blue	108,000.00
		Black	450,000.00
Current Assets	***189,000.00***		
Inventory	108,000.00		
Receivables	54,000.00		
Allowance for receivables	(9,000.00)		
Bank	36,000.00		
Total Assets	***2,043,000.00***	**Total Capital Employed**	***2,043,000.00***

Brown, Blue and Black; who share profits and losses in the ratio 2:1:3 decided to dissolve their partnership on 1 October 2018; following which inventory was sold for $72 000; $48 000 was collected from receivables and the remaining were written off as bad; equipment was sold for $192 000; Land and buildings were sold for $1,2 million – the buyer took over the long term debt which had been specifically for the acquisition of these two assets. Accounts payable were fully paid and a discount of 10% received. Dissolution costs amounted $5 000.

Show the accounting entries for the above realizations. [9 marks]

<u>QUESTION 4</u> [25 marks]

The following information has been extracted from the Financial Report of Liz Ltd, a company in the food retail business operating in Zimbabwe, for the year ended 31 March 2019

Liz Ltd

LIST OF BALANCES

Year Ended 31 March 2019

	2016 USD 000	2017 USD 000
Turnover (Credit Sales)	46 500	28 000
Cost of Sales	37 200	20 800
Operating Expenses	1 800	1 200
Tax Expense	1 500	1 000
Ordinary Dividend	300	300
Property, Plant and Equipment	54 600	41 500
Goodwill	3 000	----
Current Assets	44 000	36 000
Current Liabilities	27 300	24 500
Long Term Liabilities	3 600	----
Equity Shares at $1 each	46 000	40 000
Revenue Reserve	18 700	13 000
General Reserves	6 000	-----

Additional information

During the year to 31 March 2019 the company tried to stimulate sales by reducing the selling price of its products and by offering more generous credit terms to its customers.

You are required to:

i. Calculate six accounting ratios, specifying the basis of your calculations, for each of the two years to 31 March 2016 and 2017. [6 marks]

ii. From the information available to you, including the ratios calculated in part (i) above, comment on the company's results for the year to 31 March 2017 under the headings of "profitability" and "position". [19 marks]

END OF PAPER