AFRICA UNIVERSITY

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"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

MAC 202 INTERMEDIATE ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

APRIL/MAY 2019 (1)

LECTURER: I. RARAMI

DURATION: (3 HRS)

INSTRUCTIONS

Answer ALL questions

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

Use of a non programmable calculator is permissible.

Answer all questions in Answer Books provided

QUESTION ONE (25 MARKS)

a).The main aim of IFRS 15 is to recognize revenue in a way that shows the transfer of goods/services promised to customers in an amount reflecting the expected consideration in return for those goods or services. State and briefly explain the five step model the revenue recognition. **[15 Marks]**

b).Lima Ltd manufactures electrical motors. The normal capacity of the company is 50 000 units per annum. If the actual capacity of the company is:

(1) 70 000 units per year (very high level of production) or

(2) 40 000 units per year, calculate the fixed and variable overheads in the closing balance of finished goods and the overhead expense in the statement of profit or loss and other comprehensive income.

The following information is available:

i). Fixed overheads amount to R7 500 000 per annum.

ii). Variable production overheads amount to R200 per unit.

iii). The closing balance of finished goods is 15 000 units.

Assume that there was no opening balance. **[10 Marks]**

QUESTION TWO [15 MARKS]

a). The IFRS Framework acknowledges that a variety of measurement bases are used to different degrees and in varying combinations in financial statements, including:

i). Historical cost
ii). Current cost
iii). Net realisable value
iv). Present value.

Explain each of the above measurement bases. **[8 Marks]**

b). Explain the recognition criteria of the following financial statements elements. **[7 Marks]**
i). Liability
ii). Income
iii) Expenses

QUESTION THREE [35 MARKS]

The following Trial Balance was extracted from the books of Miracle Money (Pvt) Ltd on 31 May 2018.

	Debit	Credit
$1 Ordinary shares		1500000
General Reserves		63600
Profit and Loss Balance		67680
Inventory 1-June 2017	292665	
Purchases	1594383	
Sales		3256587
Premises at cost and provision	1440000	288000
Office Equipment at cost	186000	
Provision for depreciation-Office Equip		102000
Delivery Van at cost	93000	
Provision for Depreciation-Delivery Van		36000
Provision for bad debts		15360
Trade Payables		257055
Trade Receivables	580998	
Discount Received		48435
General Administration Expenses	798801	
Bad Debts	21600	
Bank		53400
General Distribution Expenses	678570	
Loss on sale of delivery van	2100	. .
	5688117	**5688117**

Additional Information

1. The authorised capital is 2 400 000 in ordinary shares of $1 each

2. Depreciation is to be provided as follows:

Delivery vehicles 20% per annum on cost
Office Equipment 10% per annum on cost
Premises 2,5% per annum on cost

It is company policy to charge a full year's depreciation on all assets held at the year end.

3. The Office Equipment costing $18 000 was bought during the year. A delivery van bought during the year ended 31 May 2016 for $21 000 was sold for $10500 on 1 January 2017. These transactions have already been correctly dealt with in the accounts. The premises are divided between distribution and administration in the ratio 3:2

4. At 31 May 2018, Inventory was valued as follows:

a). At net realisable value	$298260
b). At cost to the company	$285600

5. Provision for bad debts is to be provided as $1 758 for a specific debt plus 2,5% on the remainder of the debtors. The item is to be treated as an administration expense. $480 is owing for general distribution expenses and the general administration expenses include a prepayment of $2 760.

6. The directors recommended a transfer to general reserve of $30 000 and ordinary share dividend of 6%.

7. Corporation tax for the year on the profit from ordinary activities is estimated at
$52 200

NB: Apart from fixed assets purchase and disposal in Note 3 above, the rest of the transactions have not been taken into account.

You are required to prepare:

a) Statement of Comprehensive Income for the year ended 31 May 2018. **[20 Marks]**

b) Statement of Financial Position as at 31 May 2018 **[10 Marks]**

c) Statement of Changes in Equity **[5 Marks]**

NB : The statements should conform to the requirements of IFRS for SMEs and relevant International Accounting Standards.

QUESTION FOUR [25 MARKS]

The Statement of Financial Position of Dzidzai Dzidzai for the year ended 31 December 2017 and 31 December 2018 are given below:

		2017		2018
		$		$
Opening Capital		100000		111000
Add Net Profit		22000		25300
		122000		136300
Less Drawings		11000		13000
		111000		123300
Long term loans		21600		20000
		132600		**143300**
Fixed Assets				
Premises at cost	74500		74500	
Acc Depreciation	-	74500	-	74500
Vehicles at cost	38000		45000	
Acc Depreciation	17400	20600	15000	30000
Office Equip @ cost	21000		23000	
Acc Depreciation	6500	14500	9400	13600
		109600		118100
Current Assets				
Inventory	19800		16900	
Receivables	6700		8100	
Bank an Cash	3800		9010	
Prepayments	80		250	
	30380		34260	
Current Liabilities				
Payables	(7200)		(8900)	
Accrued Expenses	(180)	23000	(160)	25200
		132600		**143300**

Additional Notes

1. A delivery truck which had cost $16 000 and had an accumulated depreciation of $10000 was sold for $7500 during the year.

2. Some Office Equipment which had been bought for $5 500 was found to be unsuitable and was sold for $4 800. The equipment had not yet been depreciated.

3. No new capital was introduced.

Required:

a). Prepare a cash flow Statement in accordance with IFRS for SMEs and IAS No 7. Use the Indirect Method. **[20 Marks]**

b). Explain the difference between the direct and indirect method. **[5 Marks]**