



COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

COURSE TITLE: INTERMEDIATE ACCOUNTING 2: MAC 203

**END OF SEMESTER EXAMINATIONS
MAY 2019**

LECTURER: (MR KAZOMBA.S)

DURATION: (3 HRS)

INSTRUCTIONS

Answer **ALL** Questions from this paper

Start **each** question on a new page in your answer Booklet.

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

Show all your workings.

Credit will be awarded for logical, systematic and neat presentations.

QUESTION ONE**(25 Points)**

a) During the year ended 31 December 2017, MM Manufacturing decided to change its accounting policy for inventory valuation from FIFO to weighted average. Extracts from the financial statements for 2016 (final) and 2017 (draft) prior to this change were as follows:

	2016	2017 (draft)
	\$'000	\$'000
Sales	50 000	54 000
Cost of goods sold	(24 000)	(26 000)
Profit before taxes	26 000	28 000
Income taxes (@ 30%)	(7 800)	(8 400)
Profit for the period	18 200	19 600

The estimated values of MM's inventory under the FIFO and weighted average methods were as follows:

	31/12/15	31/12/16	31/12/17
	\$'000	\$'000	\$'000
FIFO	2 800	2 900	2 950
Weighted average	2 700	2 750	2 870

Required:

Show the impact of this change of policy on the statement of profit or loss for 2017, with the 2016 comparative. [15]

b) IAS 41 applies to agricultural activities:

Define with examples:

i) agricultural produce [3]

ii) biological transformation as applied in IAS 41.[3]

c) Jojo Pvt Ltd raises cattle, slaughters them at its abattoirs and sells the carcasses to the local meat market. Which of these activities are in the scope of IAS 41? [4]

QUESTION TWO**(25 Points)**

IAS 37 Provisions, contingent liability and contingent asset deals with the areas when and at what amount of provision to be recognised, provide definitions and discuss the accounting treatment by giving at least one example for the following:

- Provision
- Contingent liability
- Onerous contract
- Restructuring

- e) Contingent asset [25]

QUESTION THREE

(25 Points)

LEASE IN ADVANCE

Rental is paid on first day

The first rental is deemed all capital, and as a result, an accrual will be made for finance costs in year 1 and thereafter. In year 2, the amount of capital repaid will be the lease rental less accrued interest from year 1 paid in year 2 i.e. paid as part of year 2 rental

A lease rental of \$20 million was paid on 1 April 2015. It is the first of 5 annual payments in advance for the rental of an item of equipment that has a cash purchase price of \$80 million. The auditors have calculated the implicit rate in the lease as 12% per annum. The right of use is to be depreciated on a straight-line basis over the life of the lease.

Required:

- (a) Show the effect on the Statement of Profit and Loss and Statement of Financial Position for 31 March 2016- show all calculations. [22]
- (b) Calculate the interest charge for the remaining years of the lease (3)

QUESTION FOUR

(25 Points)

- a) IAS 19 applies to Employee Benefits such as short-term benefits:
- Explain the short-term period of the benefits. [2]
 - Give at least three examples of short-term employee benefits. [3]
 - Suggest and justify what an entity should recognise on the short-term benefits. [6]
- b) A company receives a 20% grant towards the cost of a new item of machinery, which cost \$100,000. The machinery has an expected life of four years and a nil residual value. The expected profits of the company, before accounting for depreciation on the new machine or the grant, amount to \$50,000 per annum in each year of the machinery's life.
- c) Required:

Show: When the grant is accounted for by reducing the asset cost.

- a) Statement of income or profit and loss extract for each year
- d) Statement of financial position extract for each year. [14]

END OF PAPER