AFRICA UNIVERSITY
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"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

MAC 202: INTERMEDIATE ACCOUNTING 1

END OF SECOND SEMESTER EXAMINATIONS

NOVEMBER 2017

LECTURER: (I CHIBANDA)

DURATION: (3 HRS)

INSTRUCTIONS

ANSWER ALL QUESTIONS IN SECTIONS A & B

Credit will be given for logical, systematic and neat presentation

Show all working.

SECTION A

Each question carries 2 marks

1. What are the provisions for setting off when preparing financial statements?
2. Following question 1 above explain two examples where off setting is allowed.
3. Identify one common measurement base and fully explain it.
4. The IFRS have provisions relating to going concern. Comment on the requirements for this concept.
5. Explain provisions relating to preparation of financial statements where the financial year has been changed.
6. Identify and briefly explain the two categories of qualitative characteristics of information in financial statements.
7. In order for information to make a difference to users identify and explain the two values it must have.
8. What are the three conditions that must be met for an item to qualify as an asset?
9. For a transaction to be recognized in the financial statements what conditions must be met?
10. Identify and explain any two categories of costs that should be excluded from the cost of inventory.
11. Identify and explain one of the techniques used for measurement of inventory.
12. Explain any two purposes of the conceptual framework
13. How would you treat settlement discount in determining the cost of inventory?
14. What is considered a complete set of financial statements?
15. "Materiality is relative." Comment on this statement.

SECTION B

Question 1

Diamond Limited

Trial balance as at 31 December 2013

	DR	CR
	$	$
Ordinary share capital of $1 each		1,000,000
Share premium account		120,000
General reserve		48,000
Retained profits as at 31.12.2012		139,750
Inventory as at 31.12.2012	336,720	
Revenue		5,090,370
Purchases	2,475,910	
Returns outwards		121,220
Returns inwards	136,200	
Carriage inwards	6,340	
Carriage outwards	43,790	
Warehouse wages	410,240	
Salespersons' salaries	305,110	
Administrative wages and salaries	277,190	
Plant & machinery	610,000	
Motor vehicle hire	84,770	
Provision for depreciation: plant & machinery		216,290
General distribution expenses	27,130	
General administrative expenses	47,990	
Directors' remuneration	195,140	
Ordinary dividend	375,000	
Rents receivable		37,150
Trade accounts receivable & payable	1,623,570	304,570
Cash at bank and in hand	179,250	
Bills of exchange payable in February 2014		57,000
	7,134,350	7,134,350

NOTES

(a) Inventory at 31.12.2013 $412 780

(b) Plant & machinery is apportioned: distribution 60% and administrative 40%

(c) Accrue auditors fees $71 000

(d) Depreciate plant & machinery at 20% on cost

(e) Of the motor hire $55 000 is for distribution purposes

(f) Corporation tax on profits at a rate of 35% is estimated at $238 500 and is payable on 1.10.2014

(g) Pension contributions for staff amounted to $42 550 and NSSA contributions to $80 120. These figures are included in wages & salaries in the trial balance.

(h) Plant of $75 000 had been bought during the year.

(i) Directors remuneration has been as follows:- Chairman $46 640, Managing Director $51 500, Finance Director $46 000 and Marketing Director $43 000

(j) In addition each of the directors drew $2 000 as directors fees.

REQUIRED

(i) Statement of comprehensive income classifying expenses by function (20 marks)

(ii) Statement of Financial Position as at 31 December 2013 (10 marks)

Question 2

Specialist Limited manufactures school shoes. The normal production capacity of the plant is 600 000 pairs of school shoes per year. Due to an increase in local demand, abnormally high production volumes were reached for the financial year ending 31 December 2015 with the manufacture of $650 000 pairs of school shoes. There were 30 000 pairs of school shoes on hand at 1 January 2015 and 600 000 pairs of school shoes were sold during the year. No raw material inventory is maintained as purchases are matched to production demand.

The following information is available for the year ended 31 December 2015

	USD
Opening inventory (pairs of school shoes in USD)	240,000
Raw materials purchased	1,625,000
Auditors' remuneration	140,000
Directors' remuneration	148,000
Telephone	80,000
Advertising	260,000
Depreciation:-	
Plant	169,000
Equipment (25% factory : 75% administration)	50,000
Delivery vehicles	132,000
Furniture (25% factory : 75% administration)	36,000
Electricity and water - plant	60,000
Repairs and maintenance	
Plant (60% fixed)	170,000
Delivery vehicles	30,000
Cost of factory management	140,000
Consumable inventory used in production process	195,000
Wages	2,860,000
Salaries	350,000
Pension fund contributions	65,000
Medical aid fund contributions	415,000
Unemployment insurance fund contributions (UIF)	350,000

It is estimated that 60% of salaries and related contributions to pension fund, medical aid fund and UIF are attributable to management of the manufacturing activities.

Wages represent direct labour costs incurred in the production of school shoes. The estimated net realisable value exceeds the cost of the unsold inventory.

You are required to calculate the value of the closing inventory of Specialist Limited at31 December 2015 in compliance with the requirements of IFRS clearly showing the various categories of costs. **(20 marks)**

Question 3

The statement of financial position and additional information relating to Tinovimba Limited are as given below.

Tinovimba Limited

Statement of Financial Position as at 31 December

	2015	2014
ASSETS	**$000**	**$000**
Non-current assets		
Tangible assets	400	325
Intangible assets	230	180
Investments	-	25
	630	530
Current assets		
Inventory	120	104
Accounts receivable	400	295
Short term 90 day deposit	50	-
Cash on hand	10	4
	580	403
Total assets	**1,210**	**933**
EQUITY & LIABILITIES		
Equity		
Ordinary share capital of $1 each	200	150
Share premium account	160	150
Revaluation reserve	100	90
Retained profits	140	80
	600	470
Non-current liabilities		
Long-term loan	100	-
Deferred taxation	80	60
	180	60
Current liabilities		
Trade accounts payable	122	108
Bank overdraft	188	185
Taxation	120	110
	430	403
Total Equity & Liabilities	**1,210**	**933**

(a) During the year interest of $75 000 was paid & interest of $25 000 was received.
(b) The following information relates to tangible non-current assets

	2015	2014
	$000	**$000**
Cost	740	615
Accumulated depreciation	(340)	(290)
Net book value	400	325

(c) The proceeds of the sale of investments (non-current assets) were $30 000
(d) Plant with an original cost of $90 000 and a net book value of $50 000 was sold for $37 000
(e) Tax paid to ZIMRA during 2012 amounted to $110 000.
(f) Dividends of $80 000 were paid during 2012

REQUIRED :-

To prepare a statement of cash flows for the year ending 31 December 2015 in accordance with IAS 7 using the indirect method. (20 marks)