



“Investing in Africa’s Future”

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC 101: FOUNDATIONS OF ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

DECEMBER 2022 EXAMINATIONS

LECTURER: N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

Answer **all** questions.

Marks allotted to each question are shown.

Clear and neatly presented work will be awarded marks for presentation.

QUESTION ONE [20 possible marks]

K and Sons Draft Trial Balance for the year ended 31 December 2022

	DR (\$)	CR (\$)
Revenue		149,078,000. 00
	82,350,000. 00	
Purchases	92,875,000. 00	
PPE 1/01/2022	26,043,000. 00	
Administrative Expenses	7,144,000. 00	
Distribution Expenses	2,957,000. 00	
Marketing Expenses	1,500,000. 00	
Land		130,000 .00
Allowance for receivables	10,539,000. 00	
Receivables	177,000. 00	
Cash	4,577,000. 00	
Bank Acc 1		1,471,000 .00
Bank Acc 2	7,927,000. 00	
Inventory 1/ 01/ 2022		17,510,000. 00
Accumulated Depreciation 1/01/2022		43,000,000. 00
Share Capital		13,150,000. 00
10% Long Term Loan		6,750,000 .00
Payables		5,000,000 .00
Retained Earnings 1/01/2022		
	236,089,000. 00	236,089,000. 00

1. The company policy is to value inventory in accordance to International Accounting Standard
2. As at 31 December 2022 inventory was valued at \$750 000 using the First in First Out. As at that date, it was established that the inventory could be sold for \$810 000 but it would need repackaging amounting to \$40 000 and transport costs of \$43 000.
2. Depreciation is charged at 10% per annum on the carrying asset amount at the beginning of the financial period. Land is not depreciated.
3. The company has decided on a 5% allowance for receivables for the year.
4. The following need to be taken into consideration:

	Accrued Expenses	Prepaid Expenses
Administrative Expenses	\$125 000	\$72 000
Distribution Expenses	\$154 000	-
Marketing Expenses	-	\$165 000

5. The owner of the business took some goods worth \$400 000 for personal use on the eve of 30 December 2022. These have not been accounted for.

You are required to prepare Ku and Sons':

- a. Statement of Financial Position 7 marks
- b. Statement of Profit or Loss and Other Comprehensive Income 8 marks
- c. List the five components of a financial report. 5 marks

QUESTION TWO [30 possible marks]

The accounting profession is regulated at international as well as at national level.

1. Outline the need for regulating the accounting profession. 10 marks
2. List four objectives of the International Accounting Standards Board. 4 marks
3. Discuss the changes that have taken place in the accounting profession since 2001. 16 marks

QUESTION THREE [20 possible marks]

1. The manager of BC Ltd is insisting that the models of company's motor vehicles be included in the financial report for the year ended 31 December 2022. With reference to the accounting

conceptual framework, advice the company on whether to adhere to the manager's request, justifying your answer. 5 marks

2. On the 30th of September 2022, it came to light that one of the company's debtors had been declared insolvent. The debtor had an amount of \$450 000 outstanding which is material. The board members have expressed that the debtor be included as a receivable for the financial year ended 30 September 2022. The finance director is arguing that the amount should be written off as a bad debt expense. Referring to the requirements of the accounting conceptual framework, discuss how the \$450 000 should be treated. 8 marks

3. Cheng Ltd is developing a new toy car model. Market research has revealed that there is a high probability of the toy car gaining popularity on the market. Development costs amounting to \$730 000 have been incurred during the financial period ended 30 November 2022. Referring to the accounting conceptual framework, justify whether the development costs should be capitalized. 7 marks

QUESTION FOUR [30 possible marks]

At the close of business on 30 June 2021, MC Ltd had 600 inventory items valued at \$420 000. During the year ended 30 June 2022, the following inventory transactions took place:

PURCHASES			SALES		
Date	Quantity	Cost/ unit	Date	Quantity	Price/ unit
1/07/2021	300 units	\$700	16/10/2022	750 units	\$890
15/11/2021	500 units	\$850	15/06/2022	800 units	\$950
07/02/2022	350 units	\$900			
25/05/2022	400 units	\$900			

You are required to:

1. Compute the closing inventory as at 30 June 2022 in units and dollars using:

a. First In First Out (FIFO) 6 marks

b. Weighted Average Cost (AVCO) 6 marks

2. Prepare MC Ltd's extract of the Statement of Profit or Loss and Other Comprehensive Income using (i) FIFO (ii) AVCO 10 marks

3. Given that, as at 30 June 2022, it is established that the inventory on hand can be sold at \$970 per unit. To sell the inventory, MC Ltd is to first package it at a cost of \$10 per unit and transport costs of \$150 will have to be incurred.

- a. Compute the Net Realisable Value (NRV) of the inventory 4 marks
- b. Determine the closing value of the inventory using
 - i. FIFO and NRV 2 marks
 - ii. AVCO and NRV 2 marks

END OF PAPER