



"Investing in Africa's Future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE

NMAC 101 – FOUNDATIONS OF ACCOUNTING 1

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2022

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DURATION: 3 HOURS

INSTRUCTIONS

Answer **ALL** questions

Answers are to be presented clearly and neatly.

Answer each question on a new page.

QUESTION ONE [35 MARKS]

The following trial balance has been extracted from the books of Noto, a sole trader.

Trial Balance as at 31 December 2021

	DR (\$)	CR (\$)
Sales/ Purchases	82 350	149 078
Carriage	5 144	
Drawings	7 800	
Rent	6 622	
Stationary	3 001	
Advertising	1 330	
Salaries	16 420	
Bad Debts	877	
Allowance for Receivables		130
Receivables/ Payables	12 120	6 000
Distribution costs	15 000	
Selling and marketing expenses	10 000	
Interest	3 000	
Cash	177	
Bank Acc 1	1 002	
Bank Acc 2		1 471
Inventory as at 31 Dec 2020	11 927	
Land	100 000	
Property, Plant and Equipment		
Cost	58 000	
Accumulated Depreciation		10 000
Vehicles		
Cost	26 000	
Accumulated Depreciation		13 091
Capital		93 000
Long Term Loan (10%)		60 000
Retained Income		28 000
	<u>360 770</u>	<u>360 770</u>

The following additional information is available:

1. Inventory on 31 December 2021 had a cost value of \$13 551 and a Net Realizable Value of \$12 515. The company's policy is to value inventory as per IAS 2 requirements.
2. \$1 000 of the carriages are carriage outwards.
3. Noto used \$830 worth of stock for personal use. No adjustments were effected.
4. The agreed policy for the business is to depreciate all assets, except for land, at 10% per annum on cost fully in the year of acquisition but no depreciation is charged in the year of disposal.

5. On the 30th of December 2021 a vehicle, which had been acquired for \$7 800, was disposed for \$4 500 – (the amount being transferred into bank account 2 directly) - at a loss of \$650. No entries had been made for this transaction.
6. The long term loan was acquired on 30 June 2018. Interest on the loan is paid each year on the 30th of June.
7. A 5% allowance on receivables policy has been approved by the firm's board.

REQUIRED

- a) Prepare Noto's Statement of Comprehensive Income for the year ended 31 December 2021. **[15 marks]**
- b) Prepare Noto's Statement of Financial Position as at 31 December 2021. **[10 marks]**
- c) Outline Limitations inherent in audited general purpose financial reports prepared in accordance with IFRS. **[10 marks]**

QUESTION TWO [30 MARKS]

- A. An enterprise in the chemical industry causes contamination to the environment from time to time. It operates in a country where there is no environmental legislation. However, the company has a widely published policy in which it undertakes to clean up all contamination that it causes. The company has a record of honoring this published policy.
 - i. Indicate whether the enterprise has a present obligation for the cleaning up costs **[3 marks]**
 - ii. Motivate whether the cleaning up costs should be recognized. **[7 marks]**
- B. A company's year ended 30 September 2021. On 15 October 2021, it came to light that a debtor owing \$45 000 and has been experiencing financial problems for a number of months has been declared insolvent. The Financial Statements for the year ended 30 September 2021 have not been prepared yet and the accountant does not want to include the \$45 000 as an allowance for credit losses as at 30 September although the amount is material. The auditors however insist that it should be done.

By only referring to the criteria of the Framework, explain why one should agree with the auditors' requirement that the valuation adjustment and expense should be reflected in the Financial Statements. **[10 marks]**

- C. Z Ltd has disclosed the model of motor vehicle driven by its directors in its financial statements over the past few years.

Explain with reference to qualitative characteristics of Financial Statements whether the information is useful. **[10 marks]**

QUESTION THREE [35 MARKS]

April	
1	Inventory on hand: 14 units at \$1, 80 each and 6 units at \$2 each
5	Purchased 60 units at \$3 each
10	Purchased 35 units at \$4 each
11	Sold 30 units
15	Purchased 40 units at \$5 each
19	Sold 50 units
22	Purchased 100 units at \$4 each
30	Sold 60 units

Selling price during April amounted to \$6 per unit. On 30 April, a competitor entered the market forcing the price to drop down to \$5 per unit. Normal selling expenses amount to \$1 per unit.

Required:

- i. Compute the cost of sales using
 - a. FIFO [7 marks]
 - b. AVCO [7 marks]
- ii. Disclose the above information in an extract of the Statement of Profit or loss and other comprehensive income. [5 marks]
- iii. On 31/12/2016, 2 000 units of product were on hand. The cost per unit is \$300 and the selling price \$500. On 31/12/2020 the marketing director of Ajax informed the board that a competitor would introduce a similar product on the market on 1/01/2021 at \$200 per unit. The board decided to reduce the price of their product to \$200 per unit as from 1/01/2021. The competitor liquidated on 31/12/2021 and Ajax increased its selling price to \$500 per unit. On 31/12/2021; 1 200 units of the product were on hand.
Compute the value of inventory on hand as at 31/12/2021. [5 marks]
- iv. R Ltd has the following information relating to inventory available:

Units manufactured	10 000 units
Production cost per unit	\$500

Selling price per unit	\$600
Units on hand 31/12/2016	6 000 units
Units on hand 31/12/2017	5 700 units

On 31/12/2021 import duties were scrapped off enabling the importation of the product at \$380 per unit which can be sold at \$450/ unit

Compute the value of inventory held on 31/12/2021?

[5 marks]

- v. Define inventory as per IAS 2, specifying the items specifically excluded from this definition.

[6 marks]

END OF PAPER