



"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC 102: FOUNDATIONS OF ACCOUNTING 2

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2022

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 1 [20 possible marks]

- a. Outline the functions of a Stock/ securities exchange. 3 marks
- b. Discuss the advantages as well as disadvantages of
 - i. a country having a stock exchange platform 4 marks
 - ii. a company being listed on the stock exchange 4 marks
 - iii. you, as an individual, investing on the stock exchange 4 marks
- c. Explain the financial reporting requirements on listed companies, specifying how these requirements affect the qualitative characteristics of useful information as is required by the accounting conceptual framework. 5 marks

QUESTION 2 [20 possible marks]

- a. You have been recruited as an attaché by a sole trader, Mr. Khumalo, whose business is expanding rapidly. He needs more capital to finance the business expansion and he approaches you for advice since your transcript clearly shows that you have done foundations of accounting courses. He is considering three alternatives:

Alternative 1: getting into a partnership with his brother who is capable of bringing the needed capital into the business. However, his brother does not have the time to be actively involved in the running of the business.

Alternative 2: incorporating the business into a private company whereby ownership will be closed to his immediate family.

Alternative 3: incorporating the business into a public company and listing it on the stock exchange.

You are required to advise Mr. Khumalo on the best alternative to choose after analyzing the benefits and costs of each alternative. 9 marks

- b. At the end of the financial year, the accountant presents the financial report for the year to Mr. Khumalo. Mr. Khumalo does not understand the report and he asks you to explain to him:

- i. The purpose and contents of each of the financial report components 5 marks
- ii. The objective of preparing financial reports 1 marks
- iii. The difference between profitability and liquidity as his Statement of Comprehensive Income is showing a profit after tax of \$70 000 and his bank and cash balance is a negative \$1 200. 5 marks

You are required to prepare a report to Mr. Khumalo explaining number i – iii above.

QUESTION 3 [35 possible marks]

You are presented with the following information:

MUZUMBANI Plc Ltd
 Draft Trial Balance
 Year Ended 31 December 2021

	DR	CR
	\$	\$
10% preference share capital		100,000.00
Ordinary Share Capital par value \$0.25		800,000.00
5% Debentures		300,000.00
Share Premium		100,000.00
General Reserve		50,000.00
Land	120,000.00	
Property, Plant and Equipment	1,699,200.00	
Provision for Depreciation 31/12/2020		177,650.00
<u>Inventory 31/12/2020:</u>		
Finished goods	79,512.00	
Work in progress	19,000.00	
Raw Materials	21,000.00	
Purchases of finished goods/ Revenue	547,100.00	1,377,700.00
Raw materials purchased	43,000.00	
Direct factory wages	39,000.00	
Preference dividend payable		10,000.00

Marketing Expenses	24,700.00	
Machinery repairs and maintenance	13,600.00	
General factory expenses	7,600.00	
Administration Expenses	405,000.00	
Distribution Expenses	56,950.00	
Debenture Interest Paid	7,500.00	
Receivables/ Payables	200,100.00	113,700.00
Bank	5,400.00	
Retained Income		259,612.00
	3,288,662.00	3,288,662.00

Additional Information

- Inventory has been valued as follows as per the requirements of International Accounting Standard 2
 - Finished goods \$85 700
 - Raw Material \$28 000
 - There was no work in progress
- Land was revalued at \$133 000 after the revaluation exercise carried out on the 15th of December 2021.
- The company policy is to depreciate PPE on a straight line basis annually at 5%
- The following have been erroneously omitted:

	Prepaid	Accrued
Marketing Expenses	\$1 200.00	
Administration Expenses		\$560
Distribution Expenses	\$789	\$120
Machinery Repairs and Maintenance	\$1 400	

5. A debt of \$1 500 written off during the financial year ended 31 December 2020 was recovered on the 30th of December 2021. The recovery has not yet been accounted for.
6. A general provision of 10% of outstanding receivables is to be made for the year
7. On the 1st of June, 200 000 shares are successfully issued at \$5. 50 per share. All the money received being banked in the company's account. This issue has not yet been accounted for.
8. A rights issue of 1 share for every 10 currently held is successfully made on the 30th of October 2021. The rights issue price is \$5 per share while the shares are trading at \$7 each. The rights issue has not yet been accounted for.
9. The preference shares are cumulative and irredeemable. Last year, the company failed to honor its dividend payment, and this is to be paid in the 2021 financial year.
10. Tax amounting to \$28 000 is to be provided for.

You are required to prepare Muzumbani Ltd's:

- a. Manufacturing Statement for the year ended 31 December 2021 5 marks
- b. Statement of Financial Position as at 31 December 2021 12 marks
- c. Statement of Comprehensive Income for the year ended 31 December 2021 13 marks
- d. Statement of Changes in Equity for the year ended 31 December 2021 5 marks

QUESTION 4 [25 possible marks]

Mona Ltd

Statement of Financial Position

As at 31 December

2020

2021

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ASSETS

Non - Current Assets

PPE	\$ 10,100.00	\$ 27,730.00
Accumulated Depreciation	\$ 15,400.00	\$ 8,200.00
long term investment	\$ (5,300.00)	\$ (3,100.00)
	\$ -	\$ 22,630.00

Current Assets

Inventory	\$ 27,210.00	\$ 31,620.00
	\$ 18,600.00	\$ 24,000.00

Receivables net of allowance	\$ 8,200.00	\$ 6,900.00
Cash and Bank	\$ 410.00	\$ 720.00

<i>Total Assets</i>	<u>\$ 37,310.00</u>	<u>\$ 59,350.00</u>
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LIABILITIES

Current Liabilities

Payables	<u>\$ 5,900.00</u>	<u>\$ 7,200.00</u>
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Non Current Liabilities

10% Loan	<u>\$ 10,000.00</u>	<u>\$ 7,500.00</u>
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EQUITY	<u>\$ 21,410.00</u>	<u>\$ 44,650.00</u>
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Ordinary Share Capital	\$ 17,210.00	\$ 17,210.00
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Retained Earnings	\$ 4,200.00	\$ 27,440.00
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<i>Total Liabilities and Equity</i>	<u>\$ 37,310.00</u>	<u>\$ 59,350.00</u>
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You are also given the following additional information:

Note 1

Profit for the Year was \$6 million

after: 000

Depreciation	\$ 1,800.00
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Increase in allowance for doubtful debts	\$ 200.00
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Profit on sale of PPE	\$ 620.00
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Note 2

Equipment was sold for \$3 820 000

You are required to prepare a Statement of Cash Flows for Mona Ltd For the year ended 31 December 2021 25 marks

END OF PAPER