AFRICA UNIVERSITY
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"Investing in Africa's future"

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE (CBPLG)

FOUNDATIONS OF ACCOUNTING 2 – MAC 102
END OF FIRST SEMESTER EXAMINATIONS
NOVEMBER/ DECEMBER 2019
LECTURER: N. E CHIRIMA
DURATION: 3 HRS

INSTRUCTIONS
Answer ALL questions

Marks are shown at the end of each question

All working is to be shown clearly in the Africa university answer booklet

Anything written in pencil is deemed to be working.

Credit will be awarded for neatly presented work

QUESTION 1 [20 marks]

The accountant of Peta Ltd presented the following Statements to the Executive Directors of the company:

Peta Ltd
Comprehensive Statement of Income
For the year ended 30 April 2019

	2019 $000
Gross Profit	44,700.00
Other Income	1,030.00
	45,730.00
Operating Expenses	22,490.00
Profit before Interest and Tax	23,240.00

Peta Ltd
Statement Of Financial Position
As at 30 April 2019

	2018	2019
ASSETS	**$000**	**$000**
Non - Current Assets	***10,100.00***	***5,100.00***
Current Assets	***27,210.00***	***31,670.00***
Inventory	18,600.00	24,000.00
Receivables	8,200.00	6,900.00
Bank	410.00	770.00
Total Assets	***37,310.00***	***36,770.00***
EQUITY AND LIABILITIES		
Equity	***21,410.00***	***22,020.00***
Ordinary Share Capital	17,210.00	21,410.00
Retained Earnings	4,200.00	610.00

Long Term Liabilities		
Loan	10,000.00	7,500.00
Current Liabilities	***5,900.00***	***7,250.00***
Payables	5,900.00	7,200.00
Bank Overdraft	-	50.00
Total Equity and Liabilities	**37,310.00**	**36,770.00**

The directors were surprised to see one of their bank accounts had an overdraft when the company had made a profit. The accountant has asked you, as his assistant, to:

a. Briefly explain the relationship between liquidity and profitability. [8 marks]
b. Prepare a statement which reconcile this year to last year's cash and cash equivalent balances given that: [12 marks]
   i. Receivables 2018 = $8, 8 million
   ii. Receivables 2019 = $7, 7 million
   iii. A noncurrent asset was sold for $3, 82 million. There were no other disposals and no acquisitions.

QUESTION 2 [25 marks]

The Trial Balance extracted from the books of Atong Plastic Manufacturers as at 31 December 2017 was as follows:

	$000	$000
Leasehold Property at valuation 1/01/2017	50,000.00	
Plant and Equipment at cost	76,600.00	
Plant and Equipment - Accumulated depreciation 1/01/2017		24,600.00
In tangible assets - 1/01/2017	20,000.00	
Intangible assets - accumulated amortization 1/01/2017		6,000.00
Closing Inventory 31/12/2016	20,000.00	
Receivables	43,100.00	
Payables		23,800.00
Bank		1,300.00
Revenue		300,000.00
Purchases	204,000.00	
Distribution Costs		

	14,500.00	
Administrative Expenses	22,200.00	
Preference Dividend Paid	800.00	
Interest on loan paid	200.00	
Research Expenses	8,600.00	
Ordinary Dividend Paid	6,000.00	
Ordinary Shares at 20c each – 1/01/2017		50,000.00
10% redeemable preference shares of $1 each		20,000.00
Retained Earnings 1/01/2017		24,500.00
10% Loan		5,800.00
Leasehold property revaluation reserve		10,000.00
	466,000.00	**466,000.00**

You are given the following additional information:

i. Inventory at 31 December 2017 was valued at a cost of $28 million. Included in this balance were goods that had cost $5 million. These goods had become damaged during the year and it is considered that following remedial work the goods could be sold for $1, 5 million after incurring transport costs.

ii. Depreciation for the year to 31 December 2017 is to be charged as follows:

   a. Plant and equipment 5% on carrying amount (reducing balance)

Depreciation expense is to be apportioned 20% to Cost of Sales and the remaining is to be shared equally between Distribution and Administration expenses.

iii. Intangible assets are to be amortized at 10% per year

iv. Income tax of $170 000 is to be provided for the year to 31 December 2017.

v. Leasehold property is to be revalued to $78 million.

vi. Transfer $20 000 to the general reserve.

vii. At the beginning of the year, a bonus issue of 1 share for every two held was issued. The accountant omitted this transaction completely.

viii. An ordinary dividend of 5c per share has been proposed by the accountant. The bonus issue shares are not eligible for dividend payment.

You are required to prepare for external use

a. Atongo Plastic Manufacturing's Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017. [10 marks]

b. Atongo's Statement of Changes in Equity for the year ended 31 December 2017. [8 marks]

c. Atong's Statement of Financial Position as at 31 December 2017. [7 marks]

Clearly show all your workings.

QUESTION 3 [20 marks]

a. Compare and contrast the characteristics of a Company and a Partnership [8 marks]

b. Illustrate how these characteristics affect the preparation, presentation and disclosure in their Financial Reports. [12 marks]

QUESTION 4 [15 marks]

HaMa Ltd has spent $5 million during the year ended 31 December 2018 on the development of new timber felling equipment. The first prototype has been rejected for safety reasons. Further development work over a period of 6 months, at a cost of $1, 25 million will be needed before the equipment can be marketed. An additional 6 months and marketing costs are needed before income will be earned from the equipment. The additional costs have not been budgeted for. All the development costs will be recovered from the profits earned over a period of five years.

	$000
Total Assets	20,800.00
Liabilities	12,500.00
Revenue	80,600.00
Profit for the year	10,400.00

Required:

Referring only to the criteria of the Framework (Definitions, Recognition criteria and qualitative characteristics of useful information), justify how you will treat the development costs $5 million in the financial statements of HaMa Ltd as at 31 December 2018. [15 marks]

END OF PAPER