AFRICA UNIVERSITY

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COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

NMAC 202 INTERMEDIATE ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2019 (1)

LECTURER: I. RARAMI

DURATION: (3 HRS)

INSTRUCTIONS

Answer ALL questions in Section A and ANY 3 from Section B

The marks allocated to each question are shown at the end of the question

Show all your workings

Credit will be given for presentations that are neat, logical and grammatically well constructed.

SECTION A: [40 MARKS] COMPULSORY

1. Which body develops International Financial Reporting Standards?

A IASB
B IFRS Foundation
C IFRS IC
D IFRS Advisory Council

2. Which of the following are roles of the IASB?

(1) Responsibility for all IFRS technical matters
(2) Publication of IFRSs
(3) Overall supervision and governance of the IFRS Advisory Council
(4) Final approval of interpretations by the IFRS Interpretations Committee

A 2 only
B 1 and 2 only
C 1, 2 and 3
D 1, 2 and 4

3. The issue of a new IFRS means that:

(1) An existing standard may be partially or completely withdrawn
(2) Issues that are not in the scope of an existing standard are covered
(3) Issues raised by users of existing standards are explained and clarified
(4) Current financial reporting practice is modified

Which combination of the above will most likely be the result of issuing a new IFRS?

A 1, 2 and 3   B 2, 3 and 4   C 1, 3 and 4   D 1, 2 and 4

4. Which of the following are stages in the due process of developing a new International Financial Reporting Standard?

(1) Issuing a discussion paper that sets out the possible options for a new standard
(2) Publishing clarification on the interpretation of an IFRS
(3) Drafting an IFRS for public comment
(4) Analysing the feedback received on a discussion paper

A 1, 2 and 3   B 2, 3 and 4   C 1, 3 and 4   D 1, 2 and 4

5. Monksford is preparing its financial statements for the year ended 31 December 2016. Its draft trial balance shows the following balances:

	$
Income tax payable at 1 January 2016	2,091
Income tax paid in full settlement of 2015 liability	1,762

Income tax due for the year ended 31 December 2016 is estimated to be $2,584.
What is Monksford's income tax expense in its statement of profit or loss for the year ended 31 December 2016?

A $1,269 B $2,255 C $2,584 D $2,913

6. When reviewing the draft financial statements, the Finance Director of Harlequinne discovered that no provision had been made for consultancy fees incurred in respect of a proposed investment.

How will the profit and net assets reported in the financial statements be affected when the provision is made?

	Profit	Net assets
A	Increase	Increase
B	Increase	Decrease
C	Decrease	Increase
D	Decrease	Decrease (2 marks)

7. The draft 2016 statement of financial position of Vale reported retained earnings of $1,644,900 and net assets of $6,957,300. It was then discovered that several items in opening inventory had been valued at selling price. This resulted in a $300,000 overstatement of opening inventory. The closing inventory had been correctly valued in the draft 2016 financial statements.

What are the correct figures for retained profit and net assets in the statement of financial position for 2016?

	Retained earnings	Net assets
A	$1,644,900	$6,657,300
B	$1,644,900	$6,957,300
C	$1,944,900	$6,657,300
D	$1,944,900	$6,957,300 (2 marks)

8. The accountant of Verse is preparing the company's draft financial statements and must decide how the following items should be reported:

(1) Gain on revaluation of property

(2) Interest charge on long-term borrowings

Which items should be included in the calculation of total comprehensive income for the year?

A 1 only B 2 only C 1 and 2 D Neither 1 nor 2

9. A draft statement of cash flows contains the following calculation of net cash inflow from operating activities:

	$m
Operating profit	13
Depreciation	2
Decrease in inventories	(3)
Decrease in trade and other receivables	5
Decrease in trade payables	4
Net cash inflow from operating activities	21

Which of the following corrections need to be made to the calculation?
(1) Depreciation should be deducted, not added
(2) Decrease in inventories should be added, not deducted
(3) Decrease in receivables should be deducted, not added
(4) Decrease in payables should be deducted, not added

A 1 and 3 B 1 and 4 C 2 and 3 D 2 and 4

10. The following information was extracted from the statements of financial position of Abacus at 31 December 2016 and 31 December 2015:

	2016	2015
	$000	$000
Inventory	120	100
Receivables	175	140
Trade payables	215	175

What is the overall effect of the above on Abacus's cash flows in the year ended 31 December 2016?

A $25,000 outflow B $15,000 outflow C $15,000 inflow D $25,000 inflow

11. An extract from a statement of cash flows prepared by a trainee accountant is shown below:

	$m
Profit before taxation	28
Adjustments for:	
Depreciation	(9)
Operating profit before working capital changes	19
Decrease in inventories	3
Increase in receivables	(4)
Increase in payables	(8)
Cash generated from operations	10

Which of the following criticisms of this extract are correct?

(1) Depreciation charges should have been added, not deducted
(2) Decrease in inventories should have been deducted, not added
(3) Increase in receivables should have been added, not deducted
(4) Increase in payables should have been added, not deducted

A 1 and 3 B 1 and 4 C 2 and 3 D 2 and 4

12. A draft statement of cash flows contains the following calculation of net cash inflow from operating activities:

	$m
Operating profit	13
Depreciation	2
Decrease in inventories	(3)
Decrease in trade and other receivables	5
Decrease in trade payables	4
Net cash inflow from operating activities	21

Which of the following corrections need to be made to the calculation?

(1) Depreciation should be deducted, not added
(2) Decrease in inventories should be added, not deducted
(3) Decrease in receivables should be deducted, not added
(4) Decrease in payables should be deducted, not added

A 1 and 3 B 1 and 4 C 2 and 3 D 2 and 4

13. APM provides the following note property, plant and equipment in its statement of financial position:

	Cost	Depreciation	Carrying Amount
	$000	$000	$000
Opening balance	25	12	13
Additions	15		15
Depreciation		4	(4)
Disposals	(10)	(8)	(2)
Closing balance	30	8	22

There was a gain on disposal of $3,000.

What is the net cash outflow for investing activities relating to property, plant and equipment?

A $10,000 B $12,000 C $13,000 D $15,000

14. Which of the following items could appear in a company's statement of cash flows?

(1) Proposed dividends
(2) Rights issue of shares
(3) Bonus issue of shares
(4) Repayment of loan

A 1 and 3 B 1 and 4 C 2 and 3 D 2 and 4

15. The statements of financial position of Jurric at 30 April 2017 and 2016 include the following:

	2017	2016
	$	$
Inventory	193,885	164,843
Payables	62,887	87,996

How should the changes in these amounts be reflected in the statement of cash flows for the year to 30 April 2017?

	Change in inventory	Change in payables
A	Inflow	Inflow
B	Outflow	Outflow
C	Inflow	Outflow
D	Outflow	Inflow

16. At 31 May 2017 and 2016 Dron had the following balances:

	2017	2016
	$000	$000
Property, plant and equipment	2,110	1,945
Ordinary shares of $1	1,200	800
Share premium	760	500
Non-current loans	174	550

The depreciation charge for the year to 31 May 2017 was $270,000. There were no disposals of non-current assets during the year.

What figure should appear as the net cash flow from investing activities in the statement of cash flows for the year to 31 May 2017?

A $179,000 B $435,000 C $601,000 D $719,000

17. The following extract is from the financial statements of Pompeii at 31 October:

	2016	2015
	$000	$000
Equity and liabilities		
Share capital	120	80
Share premium	60	40
Retained earnings	85	68
	265	188

Non-current liabilities		
Bank loan	100	150
	365	338

What is the cash inflow from financing activities to be disclosed in the statement of cash flows for the year ended 31 October 2016?

A $10,000 B $27,000 C $60,000 D $110,000

18. Greenfinch has an operating profit which exceeds the net cash inflow from operating activities.

Which of the following changes over the year could have caused this difference?

A Trade payables increased
B Inventory decreased
C Prepayments decreased
D Trade receivables increased

19. During the year to 30 April 2017 Jaunty had purchased non-current assets which cost $687,000. The company financed the purchases by taking out loans totalling $597,000, and paying the balance in cash. In addition, non-current assets with a carrying amount of $75,000 were sold at a loss of $15,000.

What figure should appear for net cash used in investing activities in the statement of cash flows for the year to 30 April 2017?

A $537,000 B $627,000 C $672,000 D $687,000

20. At 1 November 2015 the non-current assets of Field had a carrying amount of $2,758,940. During the year to 31 October 2016, assets with a carrying amount of $273,790 were sold at a loss of $15,850, and new assets costing $568,900 were purchased.

What figure should appear for net cash used in investing cash flows in the statement of cash flows for the year to 31 October 2016?

A $257,940 B $295,110 C $310,960 D $568,900

SECTION B: [60 MARKS] ANSWER ANY THREE QUESTIONS

QUESTION ONE (20 MARKS)

a).The main aim of IFRS 15 is to recognize revenue in a way that shows the transfer of goods/services promised to customers in an amount reflecting the expected consideration in return for those goods or services. State and briefly explain the five step model the revenue recognition. **[10 Marks]**

b).Lima Ltd manufactures electrical motors. The normal capacity of the company is 50 000 units per annum. If the actual capacity of the company is:

(1) 70 000 units per year (very high level of production) or

(2) 40 000 units per year, calculate the fixed and variable overheads in the closing balance of finished goods and the overhead expense in the statement of profit or loss and other comprehensive income.

The following information is available:

i). Fixed overheads amount to R7 500 000 per annum.

ii). Variable production overheads amount to R200 per unit.

iii). The closing balance of finished goods is 15 000 units.

Assume that there was no opening balance. **[10 Marks]**

QUESTION TWO [20 MARKS]

a). The IFRS Framework acknowledges that a variety of measurement bases are used to different degrees and in varying combinations in financial statements, including:

i). Historical cost
ii). Current cost
iii). Net realisable value
iv). Present value.

Explain each of the above measurement bases. **[8 Marks]**

b). Explain the recognition criteria of the following financial statements elements. **[7 Marks]**

i). Liability
ii). Income
iii) Expenses

c). Define the terms Asset and Liability according to the new March 2018 conceptual framework. **[5 Marks]**

QUESTION THREE [20 MARKS]

The following Trial Balance was extracted from the books of Miracle Money (Pvt) Ltd on 31 May 2018.

	Debit	Credit
$1 Ordinary shares		1500000
General Reserves		63600
Profit and Loss Balance		67680
Inventory 1-June 2017	292665	
Purchases	1594383	
Sales		3256587
Premises at cost and provision	1440000	288000
Office Equipment at cost	186000	
Provision for depreciation-Office Equip		102000
Delivery Van at cost	93000	
Provision for Depreciation-Delivery Van		36000
Provision for bad debts		15360
Trade Payables		257055
Trade Receivables	580998	
Discount Received		48435
General Administration Expenses	798801	
Bad Debts	21600	
Bank		53400
General Distribution Expenses	678570	
Loss on sale of delivery van	2100	
	5688117	**5688117**

Additional Information

1. The authorised capital is 2 400 000 in ordinary shares of $1 each

2. Depreciation is to be provided as follows:

Delivery vehicles 20% per annum on cost
Office Equipment 10% per annum on cost
Premises 2,5% per annum on cost

It is company policy to charge a full year's depreciation on all assets held at the year end.

3. The Office Equipment costing $18 000 was bought during the year. A delivery van bought during the year ended 31 May 2016 for $21 000 was sold for $10500 on 1 January 2017. These transactions have already been correctly dealt with in the accounts. The premises are divided between distribution and administration in the ratio 3:2

4. At 31 May 2018, Inventory was valued as follows:

a). At net realisable value	$298260
b). At cost to the company.	$285600

5. Provision for bad debts is to be provided as $1 758 for a specific debt plus 2,5% on the remainder of the debtors. The item is to be treated as an administration expense. $480 is owing for general distribution expenses and the general administration expenses include a prepayment of $2 760.

6. The directors recommended a transfer to general reserve of $30 000 and ordinary share dividend of 6%.

7. Corporation tax for the year on the profit from ordinary activities is estimated at
$52 200

NB: Apart from fixed assets purchase and disposal in Note 3 above, the rest of the transactions have not been taken into account.

You are required to prepare:

a) Statement of Comprehensive Income for the year ended 31 May 2018. **[10 Marks]**

b) Statement of Financial Position as at 31 May 2018 **[8 Marks]**

c) Statement of Changes in Equity **[2 Marks]**

NB : The statements should conform to the requirements of IFRS for SMEs and relevant International Accounting Standards.

QUESTION FOUR [20 MARKS]

The Statement of Financial Position of Dzidzai Dzidzai for the year ended 31 December 2017 and 31 December 2018 are given below:

		2017		2018
		$		$
Opening Capital		100000		111000
Add Net Profit		22000		25300
		122000		136300
Less Drawings		11000		13000
		111000		123300
Long term loans		21600		20000
		132600		**143300**
Fixed Assets				
Premises at cost	74500		74500	
Acc Depreciation	-	74500	-	74500
Vehicles at cost	38000		45000	
Acc Depreciation	17400	20600	15000	30000
Office Equip @ cost	21000		23000	
Acc Depreciation	6500	14500	9400	13600
		109600		118100
Current Assets				
Inventory	19800		16900	
Receivables	6700		8100	
Bank an Cash	3800		9010	
Prepayments	80		250	
	30380		34260	
Current Liabilities				
Payables	(7200)		(8900)	
Accrued Expenses	(180)	23000	(160)	25200
		132600		**143300**

Additional Notes

1. A delivery truck which had cost $16 000 and had an accumulated depreciation of $10000 was sold for $7500 during the year.

2. Some Office Equipment which had been bought for $5 500 was found to be unsuitable and was sold for $4 800. The equipment had not yet been depreciated.

3. No new capital was introduced.

Required:

a). Prepare a cash flow Statement in accordance with IFRS for SMEs and IAS No 7. Use the Indirect Method. **[18 Marks]**

b). Explain the difference between the direct and indirect method. **[2 Marks]**