



FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 203, INTERMEDIATE ACCOUNTING 2

SEMESTER 1: FINAL EXAMINATION-NOVEMBER/ DECEMBER 2013

PARALLEL PROGRAMME

LECTURER: MS CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

Answer ALL Questions

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

Credit will be awarded for logical, systematic and neat presentations. Show all working.

QUESTION 1 [25 marks]

Chiko Ltd was incorporated on 20 December 2011. The accountant, a friend of yours, requested that you assist him with the calculation and disclosure of inventories in the Financial Statements for the year ended 31 December 2012.

The company manufactures and sells fodder for poultry. Three basic raw materials; namely bone meal, maize meal and a growth stimulant are mixed in a predetermined ratio and repacked in 10kg bags. No loss in kilograms occurs during the process.

The following cost information is available:

		<u>USD</u>
Purchases:	Bone Meal	13 515
	Maize Meal	16 350
	Growth Stimulant	11 630
	10 kg bags (packaging material)	1 790
Total variable production costs		8 400
Total fixed production costs		6 375
Selling and delivery costs		6 000

Additional Information:

- i. Closing inventories as at 31 December 2012 are as follows:

Bone Meal	450 kg
Maize Meal	750 kg
Growth Stimulant	300 kg
Finished Products	100 bags

- ii. Normal capacity of the plant for the period under review amounts to 850 bags.
- iii. The bone meal, maize meal, growth stimulants and finished products are valued on a FIFO basis and the 10 kg bags on a weighted average basis.
- iv. During the year the bags of fodder were sold at \$100 per bag. Due to the drought and the resulting shortage of mealies, it is anticipated that the cost per bag, as well as the selling price per bag, will increase by at least \$20 per bag.

- v. During the stock take on 31 December 2012 it was discovered that the closing inventories of growth stimulant were damaged and are not suitable for the manufacturing of fodder. A local trout farmer undertook to purchase the damaged growth stimulant at \$3, 00 per kg. Chiko Ltd is responsible for the delivery cost which is estimated at \$270.
- vi. The accountant of Chiko Ltd has already prepared the following schedule supporting the purchases:

PURCHASE OF INVENTORY SCHEDULE				
	DATE	Units Purchased (Kg)	Unit Price (USD/ Kg)	Total (USD)
Bone Meal				
1	17/ 09/ 2012	300 kg	\$5. 00	\$1 500. 00
2	25/ 10/ 2012	600 kg	\$5. 25	\$3 150. 00
3	15/ 11/ 2012	900 kg	\$5. 30	\$4 770. 00
4	01/ 12/ 2012	450 kg	\$5. 40	\$2 430.00
5	20/ 12/ 2012	300 kg	\$5. 55	\$1 665. 00
		<u>2 550 kg</u>	<u>\$5. 30</u>	<u>\$13 515. 00</u>
Maize Meal				
1	18/ 09/ 2012	500 kg	\$3. 50	\$1 750. 00
2	20/ 10/ 2012	1 000 kg	\$3. 75	\$3 750. 00
3	17/ 11/ 2012	1 500 kg	\$3. 90	\$5 850. 00
4	15/ 12/ 2012	1 250 kg	\$4. 00	\$5 000. 00
		<u>4 250 kg</u>	<u>\$3. 85</u>	<u>\$16 350. 00</u>
Growth Stimulant				
1	17/ 09/ 2012	200 kg	\$7. 00	\$1 400. 00
2	01/ 11/ 2012	800 kg	\$7. 10	\$5 680. 00
3	17/ 12/ 2012	700 kg	\$6. 50	\$4 550. 00
		<u>1 700 kg</u>	<u>\$6. 84</u>	<u>\$11 630. 00</u>
10 kg Bags				
1	25/ 09/ 2012	300 kg	\$1. 70	\$510. 00
2	13/ 10/ 2012	500 kg	\$1. 80	\$900. 00
3	30/ 11/ 2012	200 kg	\$1. 90	\$380. 00
		<u>1 000 kg</u>	<u>\$1. 79</u>	<u>\$1 790. 00</u>

REQUIRED:

State how inventories should be disclosed in the financial statements of Chiko Ltd for the year ended 31 December 2012 in order to comply with the requirements of IAS 2. Clearly show all workings.

[25 marks]

QUESTION 2 [25 marks]

You are given the following information relating to Siwale Ltd

Statement Of Financial Position as at 31 December:

	2011 \$	2012 \$
ASSETS		
Non Current Assets	105 000	70 000
Property, Plant and Equipment	135 000	90 000
Accumulated Depreciation	(30 000)	(20 000)
Current Assets	85 000	60 000
Stock	20 000	25 000
Debtors	30 000	20 000
Bank	35 000	15 000
Total Assets	<u>190 000</u>	<u>130 000</u>
EQUITY AND LIABILITIES		
Equity	147 500	95 000
Ordinary Share Capital, \$1 shares	60 000	50 000
Preference Share Capital, \$1 shares	30 000	25 000
Retained Earnings	57 500	20 000
Current Liabilities	42 500	35 000
Creditors	10 000	15 000
Dividends Payable	7 500	5 000
Tax Payable	25 000	15 000
Total Equity and Liabilities	<u>190 000</u>	<u>130 000</u>

Statement Of Comprehensive Income for the year ended 31 December 2012

	\$
Revenue	200 000
Cost of Sales	<u>(65 000)</u>

Gross Profit	135 000
Operating Expenses	(25 000)
Depreciation	(25 000)
Loss on sale of PPE	<u>(5 000)</u>
Profit before tax	80 000
Income tax expense	<u>(25 000)</u>
Profit for the period	<u>55 000</u>

Additional Information:

- i. During the year, an item of property and equipment was sold for \$5 000. This had cost \$25 000 and had been depreciated by \$15 000.
- ii. There was a bonus issue of ordinary shares to shareholders during the year on a one for five basis.
- iii. Dividends declared amount to \$7 500.

REQUIRED:

1. Prepare the Statement of Cash Flows for the year ended 31 December 2012 that complies with the requirements of IAS 7 using the indirect method. Show all workings clearly. Comparatives are not required. [20 marks]
2. Comment on the information revealed by the statement of cash flows. [5 marks]

QUESTION 3 [25 marks]

The following balances represent the statement of comprehensive income items extracted from the trial balance of Alpha Limited at 31 December 2012:

	\$
Sales	605 500
Inventory at 1 January 2008	54 800
Purchases	241 000
Distribution costs	73 800
Salaries of administrative staff	49 000
Salaries of selling and distribution staff	29 400
Depreciation of office equipment	1 900
Depreciation of delivery vehicles	3 000
Office rent	1 000
Management remuneration	43 000
Auditors' remuneration	650
Legal and accounting charges	300
Interest on debentures (paid)	850
Interest on bank overdraft (paid)	600
Other expenses	31 500
Dividend received	500
Interest received	400

Additional information:

1. Inventory at 31 December 2008 amounted to \$42 000.
2. Profit on disposal of a delivery vehicle during the year amounted to \$1 500.
3. Loss on disposal of office equipment during the year amounted to \$500.

Required:

Prepare the statement of comprehensive income for the year ended 31 December 2012 (as well as accompanying notes), to comply with the requirements of IAS1 as far as the information given permits. [25 marks]

Note:

- (i) Classify expenses by function.
- (ii) Comparative amounts and notes are not required.

QUESTION 4 [25 marks]

EITHER

- a) What does the abbreviation 'IASB' stand for? [2 marks]
- b) The IASB Framework acknowledges that general purpose financial statements cannot meet all of the information needs of all user groups all of the time, but argues that the provision of financial statements that meet the information needs of investors will also meet most of the information needs of the other user groups.

Required:

Discuss how the provision of general purpose financial statements that meet the information needs of investors will also meet most of the information needs of the other user groups. [23 marks]

OR

- a) Why is it necessary to have a regulatory framework for financial reporting? [5 marks]
- b) Why is it necessary for financial reporting to be subject to statutory control? [5 marks]
- c) Outline and explain the qualitative characteristics of useful information. [15 marks]

End of paper