"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC102: FOUNDATIONS OF ACCOUNTING 2

END OF SECOND SEMESTER EXAMINATIONS

APRIL 2023

LECTURER: N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

ANSWER ***ALL*** QUESTIONS on the Africa University answer booklet provided

MARKS ALLOTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION ONE

A manufacturing company was heavily affected by the lockdown measures taken to curb the spread of the COVID-19 epidemic and as a result the timely presentation of its financial report has been affected. The company's draft financial report for the year ended 31 March 2021 has just been circulated to the firm's directors and is to be published on the 15th of May 2023. The managing director raises the following concerns:

i. Considering that the financial report is to be presented two years after the financial year end, the information is now irrelevant and thus it is better for the company to concentrate on preparing the report for the current year. She considers it a waste of time and resources to prepare and present outdated information. With reference to the International Accounting Standards Board's accounting conceptual framework, explain to the managing director why the financial report for the year ended 31 March 2021 is being prepared and presented despite the delay.

[5 marks]

ii. She notices that there are three financial statements reporting on the performance of the company. She is bewildered as she does not understand the difference between these three statements and asks why it is necessary to include all three in the financial report. With reference to components of a financial report as outlined by the International Accounting Standards Board's accounting conceptual framework, explain the difference between the three financial statements reporting on performance. [10 marks]

iii. Part of the company's machinery has been out of use since the beginning of the epidemic. Lock down measures resulted in a suspension of all production activities. When lockdown measures were lifted, the machinery had been made redundant by the emergence of new, improved and efficient technologies; therefore it proved cost ineffective to run the outdated machinery. The managing director notices that this machinery is recognized in the financial report under Non-current assets and has been depreciated in line with the company's policy. The managing director is querying why the redundant machine, and its accompanying depreciation, has been recognized in the financial report. With reference to the International Accounting Standards Board's conceptual framework, motivate whether (and how) the redundant machine is to be recognized in the financial report for the year ended 31 March 2021. [8 marks]

iv. The company does not normally pay bonuses for its employees. However, although still outstanding, the company had promised a 13th cheque to its employees for the calendar year ended 31 December 2021. No communication confirming whether the promise will be fulfilled has been made by management. Basing on the International Accounting Standards Board's accounting conceptual framework, determine whether this information should be disclosed in the financial report for the year ended 31 March 2021. [7 marks]

QUESTION TWO

Jut Ltd, a timber toy production company incorporated in March 2021 and whose financial year end is 31 December, started operations on January 1 2022. Although Jut Ltd currently buys all its timber for toy production, it wishes to produce its own timber in the near future. In this regard, the company bought land which it is in the process of developing has acquired timber plantations which are at various growth stages. On 31 December 2022, the following balances appeared in their financial books:

	$000
Inventory of raw timber 1/1/2022	21,000.00
Inventory of finished toys 1/1/2022	38,900.00
Work In Progress 1/1/2022	13,500.00
Salaries	174,000.00
Construction Costs	225,000.00
Royalties	7,000.00
Carriage Inwards	3,500.00
Purchases	270,000.00
Production Department Property Plant and Equipment (PPE)	230,000.00
Administration Department Property Plant and Equipment (PPE)	12,000.00
Plantations	350,000.00
Land	287,675.00
Land Development Costs	2,500.00
General Plant expenses	31,000.00
Utilities	21,200.00
Commission on Sales	11,500.00
Rent	12,000.00
Insurance	4,200.00
General Administration Expenses	13,400.00
Bank Charges	2,300.00
Discounts allowed	4,800.00
Carriage Outwards	5,900.00
Sales	1,000,000.00
Receivables	142,300.00
Payables	64,000.00
Bank	16,800.00
Cash	1,500.00
Preference Dividend	6,000.00
Issued Ordinary Share Capital (50c par value)	357,800.00
10% Preference Share Capital (Redeemable)	120,000.00
5% 10 year loan	100,000.00
8% 1 year loan	10,000.00
10% Debentures	250,000.00
Interest on 10 year loan	2,500.00
Interest on 1 year loan	800.00
General Reserve	8,000.00
Share Premium	1,500.00
Incorporation expenses	25.00

The following information is also to be taken into consideration:

1. Inventory is to be valued in line with International Accounting Standard 2 (IAS 2) requirements. As at 31 December 2022, information available on inventory is as follows:

Inventory	**Cost value $000**	**Selling Value $000**	**Selling Expenses $000**
Finished wooden toys	*40 000*	*41 500*	*3 400*
Wooden toys in progress	*1 000*	*N/ A*	*N/ A*
Raw timber	*24 000*	*24 200*	*100*

2. Included in general plant expenses are import duties relating to inventory of finished toys purchased amounting to $2 million.
3. Salaries and wages attributable to: Direct Wages 25%, Indirect Wages 10%, Administration Salaries 35%, Marketing Salaries 30%
4. Non – current assets are recognized and measured in accordance with International Accounting Standard 16 (IAS 16). The following information is available for Non Current Assets.

	***Cost Value* $000**	***Depreciation Policy***
Land	*287 675*	*Not to be Depreciated*
Plantations	*350 000*	*5% per annum SLM*
Production Department PPE	*250 000*	*8% per annum SLM*
Administration Department PPE	*15 000*	*20% per annum SLM*

5. Rent, utilities and insurance are to be apportioned: Plant ½, administration ⅓ and marketing ⅙.
6. Included under the line item purchases are purchases of finished toys bought for resale amounting to $3, 2 million.
7. The following has not been taken into consideration:

	Accrued	**Prepaid**
Salaries and Wages	*$1, 2 million*	-
Utilities	*$820 000*	*$750 000*
Insurance	-	*$250 000*

8. The 8% 1 year loan was acquired on 30 June 2022. The 5% 10 year loan was acquired on 1 March 2022. The Debentures were issued on 30 October 2022.
9. Company policy is to transfer 5% of any profit made during the financial year to the general reserve.
10. A rights issue was made on 1 November 2022 of 2 shares for every 5 currently held. The rights issue price was $2 while the share was trading at $4.

11. A dividend of 5c per share was declared for all shares in issue as at 30 September 2022.

In line with the requirements of International Accounting Standard 1 (IAS 1), you are required to prepare Jut Ltd's

i. Manufacturing Statement for the year ended 31 December 2022 [5 marks]
ii. Statement of Financial Position as at31 December 2022 [10 marks[
iii. Statement of Comprehensive Income for the year ended 31 December 2020 [13 marks]
iv. Statement of Changes in Equity for the year ended 31 December 2020 [7 marks]

QUESTION THREE

You are given the following information pertaining to Kash Ltd for the year ended 31 December 2022.

Kash Ltd		
Statement of Financial Position		
As at 31 December	2021	2022
	$000	**$000**
ASSETS		
Non - Current Assets	***$ 10,100.00***	***$ 27,730.00***
PPE	$ 15,400.00	$ 8,200.00
Accumulated Depreciation	$ (5,300.00)	$ (3,100.00)
long term investment	$ -	$ 22,630.00
Current Assets	***$ 27,210.00***	***$ 31,620.00***
Inventory	$ 18,600.00	$ 24,000.00
Receivables net of allowance	$ 8,200.00	$ 6,900.00
Cash and Bank	$ 410.00	$ 720.00
Total Assets	**$ 37,310.00**	**$ 59,350.00**
Current Liabilities	***$ 5,900.00***	***$ 7,200.00***
Payables	$ 5,900.00	$ 7,200.00
Non Current Liabilities	***$ 10,000.00***	***$ 7,500.00***
10% Loan	$ 10,000.00	$ 7,500.00
Equity	***$ 21,410.00***	***$ 44,650.00***
Ordinary Share Capital	$ 17,210.00	$ 17,210.00
Retained Earnings	$ 4,200.00	$ 27,440.00
Total Liabilities and Equity	**$ 37,310.00**	**$ 59,350.00**

You are also given the following additional information:

Additional Information 1

Profit for the Year was $6 million after:	000
Depreciation	$ 1,800.00
Increase in allowance for doubtful debts	$ 200.00
Profit on sale of PPE	$ 620.00

Additional Information 2

Equipment was sold for $3 820 000

As per the requirements of International Accounting Standard 7 (IAS 7), you are required to prepare a Statement of Cash Flows for Kash Ltd for the year ended 31 December 2022. [20 marks]

QUESTION FOUR

N, K and H formed a partnership on 1 January 2023. After the first three months of trading, the following financial information is available for the partnership's report for the quarter ended 31 March 2023:

	$		$
N's capital	*100 000*	*N's drawings*	*5 200*
K's capital	*50 000*	*Salary paid to H*	*4 500*
H's capital	*25 000*	*Salary paid to K*	*3 000*
Net operating Profit after interest and tax	*23 875*	*Loan from K*	*15 000*

You are also told that the partners are to share profits/ losses in the same ratio as their capital injections. Drawings attract monthly interest of 1% while interest on capital is at 5% per annum; both accrue on a monthly basis. The loan from K was taken on 1 February 2023 and is accruing interest at 10% per annum.

You are required to prepare:

1. NKH firm's capital account for the three months period ended 31 March 2023. [7 marks]

2. An appropriation statement for NKH firm for the three months period ended 31 March 2023.

[8 marks]

END OF PAPER