



**AFRICA
UNIVERSITY®**
A United Methodist-Related Institution

“Investing in Africa’s Future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP & GOVERNANCE

NMAC 102: FOUNDATIONS OF ACCOUNTING 2

END OF SECOND SEMESTER EXAMINATIONS

MAY 2021

LECTURER: Ms N.E CHIRIMA

TIME: 7 HOURS

Instructions

Answer **ALL** questions

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

Question One

(NOTE: Prepare the financial statements in excel and then copy them onto your word document so that you submit one document for the exam. Do not submit the excel spreadsheet but submit the word document)

Jut Ltd, a timber toy production company incorporated in November 2019 and whose financial year end is 31 December, started operations on January 1 2020. 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 2020, the following balances appeared in their financial books:

| | \$000 |
|-------------------------------------|--------------|
| Inventory of raw timber 1/1/2020 | 21,000.00 |
| Inventory of finished toys 1/1/2020 | 38,900.00 |
| Work In Progress 1/1/2020 | 13,500.00 |
| Salaries | 100,000.00 |
| Construction Costs | 225,000.00 |
| Royalties | 7,000.00 |
| Carriage Inwards | 3,500.00 |
| Purchases | 270,000.00 |
| Production Department PPE | 230,000.00 |
| Administration Department 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 |

| | |
|---|--------------|
| Salaries | 74,000.00 |
| 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 (IAS) 2 requirements. As at 31 December 2020 is as follows:

| Inventory | @ Cost \$000 | Can be sold @ \$000 | Selling Expenses \$000 |
|----------------------------|-----------------------------|------------------------------------|---------------------------------------|
| Finished wooden toys | 40000 | 41500 | 3400 |
| Wooden toys in progress | 1000 | N/ A | N/ A |
| Raw timber | 24000 | 24200 | 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. 5% of the purchases relate to purchases of seed and chemicals used in the land preparations before, during and after the planting of timber.
5. Based on IAS 16, the company has decided to follow the revaluation model. The following information is available for Non-Current Assets

| | <i>Cost Value</i> | <i>Carrying Amount @ 31/12/2020</i> | <i>Fair Value @ 31/12/2020</i> | <i>Depreciation Policy</i> |
|----------------------------------|-----------------------|---|--|----------------------------|
| | \$000 | \$000 | \$000 | |
| Land | 287675 | 287675 | 300000 | Not Depreciated |
| Plantations | 350000 | 350000 | 370000 | 5% per annum SLM |
| Production Department PPE | 250000 | 230000 | 220000 | 8% per annum SLM |
| Administration Department PPE | 15000 | 12000 | 10000 | 20% per annum SLM |

6. Construction costs are expenses that have been incurred for a manufacturing plant being constructed as well as a warehouse for finished toys. Land development costs include

expenses incurred for land clearance, stumping, infrastructure development for example roads, sewers among others.

7. Rent, utilities and insurance are to be apportioned: Plant $\frac{1}{2}$, administration $\frac{1}{3}$ and marketing $\frac{1}{6}$.
8. Included under the line item purchases are purchases of finished toys bought for resale amounting to \$3, 2 million.
9. The following has not been taken into consideration:

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

10. The 8% 1 year loan was acquired on 30 June 2020. The 5% 10 year loan was acquired on 1 March 2020. The Debentures were issued on 30 October 2020.
11. Company policy is to transfer 5% of any profit made during the financial year to the general reserve.
12. A rights issue was made on 1 November 2020 of 2 shares for every 5 currently held. The rights issue price was \$2 while the share was trading at \$4.
13. A dividend of 5c per share was declared for all shares in issue as at 30 October 2020.

You are required to:

- a. Prepare Jut Ltd's
 - i. Statement of Financial Position as at 31 December 2020 *12 marks*
 - ii. Statement of Comprehensive Income for the year ended 31 December 2020 *18 marks*
 - iii. Statement of Changes in Equity for the year ended 31 December 2020 *10 marks*
 - iv. Report on its financial position as well as performance for the year ended 31 December 2020, including the formula and computations of ratios used in the report as an appendix/ annexure. (Maximum 1500 words). *30 marks*

Question Two

With reference to a business idea you wish to pursue in future, discuss the various forms of business you can follow – clearly outlining how each form of business’ accounting system and financial reporting is affected by its ownership structure as well as the nature of its operations (maximum 1500 words). *30 marks*

END OF EXAMINATION
