AFRICA UNIVERSITY

A United Methodist-Related Institution

"Investing in Africa's Future"

COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE

NMAC101: FOUNDATIONS OF ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2023

LECTURER: N. E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

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

Show ALL working in the Africa University answer booklet provided

DO NOT tear any pages from the Africa University answer booklet

MARKS ALLOTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR

QUESTION ONE (20 maximum possible marks)

a) State the objective of general purpose financial reports in accordance with the accounting conceptual framework 1 mark

b) Compare and contrast the information provided by the three financial statements reporting the financial performance of an entity. 10 marks

c) Outline the information needs of each of the three primary users. 3 marks

d) With reference to the accounting conceptual framework describe the criteria used to determine the usefulness of information provided by financial reports to its users. 6 marks

QUESTION TWO (20 maximum possible marks)

a) Volatile, uncertain, complex and ambiguous (VUCA) are descriptive words that have gained popularity when describing the 21st Century. With reference to the four key drivers of change in the 21st century outline the reporting developments that have unfolded to date. 10 marks

b) Explain the fundamental ethical principles to be observed by accountants according to the International Ethics Standards Board for Accountants (IESBA) framework. 10 marks

QUESTION THREE (20 maximum possible marks)

a) M and K Limited purchased inventory for its grocery shop from South Africa. The invoiced amount for the inventory was $15 000 before considering a 10% discount. Value added tax amounted to $1 500. Import duty of $1 220 was paid for the inventory which had to be temporarily warehoused at the border at a fee of $350. Total transport costs to the company's retail outlet were $800. A rebate of $100 was awarded by the tax authority. At the retail premises the goods had to be repackaged into smaller units. Packaging material cost $750.

In accordance with the requirements of International Accounting Standard (IAS) 2, you are required to compute the value at which M and K Limited will initially recognize the inventory. (Clearly show all your working) 8 marks

b) As at 30 September 2023 the inventory card for Kutama Holdings reflected the following:

1 October 2022	Balance brought down	20 units at \$5 each
25 November 2022	Purchased	70 units at \$2 each
2 December 2022	Sold	45 units at \$7 each
8 February 2023	Sold	37 units at \$7 each
28 May 2023	Purchased	16 units at \$6, 50 each
3 August 2023	Purchased	10 units at \$6, 75 each
25 August 2023	Purchased	6 units at \$8, 00 each
15 September 2023	Sold	37 units at \$10 each

You are required to:

i. Compute the value of Kutama Holdings' closing inventory as at 30 September 2023 using the two subsequent inventory valuation methods in accordance with the requirements of IAS 2. (clearly show all your working) 6 marks

ii. Prepare Kutama Holdings' trading accounts using each of the two inventory values computed in (i) above. 4 marks

iii. Kutama Holdings wishes to minimize its taxable profit. Advice, based on your answer in (ii) on the inventory valuation method to be adopted by Kutama Holdings. 2 marks

QUESTION FOUR (15 maximum possible marks)

Dora Limited's policy states that an allowance for receivables should be made at 5% of the outstanding receivables amount at year end. The company's financial year end is 31 December. For the year ended 31 December 2019, Dora Limited had outstanding receivables of \$27 000, of these receivables worth \$500 proved to be irrecoverable.

During the year ended 31 December 2020, \$90 was recovered from a customer who had been written off as a bad debt in the previous financial year. Outstanding receivables amounted to $37 800 as at 31 December 2020. Excluded from this amount were bad debts amounting to $374.

Outstanding receivables amounted to $32 750 as at 31 December 2021. Excluded from this amount were bad debts amounting to $179 as well as $250 recovered from the previous financial year's bad debts.

On 1 January 2022, Dora Limited revised its receivables policy due to changes in the economy. The allowance for receivables was reviewed to 8% of outstanding receivables. Outstanding receivables amounted to $20 468, 75 as at 31 December 2022.

You are required to prepare the relevant ledgers for each of the above-mentioned year ends. 15 marks

QUESTION FIVE (25 maximum possible marks)

Dora Limited's trial balance for the year ended 31 October 2023 is presented below:

	DR USD 000	CR USD 000
Revenue		$ 210,820.00
Purchases	$ 108,680.00	
Inventory 1 November 2022	$ 9,410.00	
Carriage	$ 1,955.00	
Returns Inwards	$ 4,900.00	
Returns Outwards		$ 3,720.00
Salaries	$ 43,250.00	
Motor Expenses	$ 912.00	
Rent	$ 6,800.00	
Interest	$ 400.00	
Utilities	$ 318.00	
Land	$ 30,500.00	
Motor Vehicles	$ 14,400.00	
Accumulated Depreciation - Motor Vehicles		$ 850.00
Investment	$ 1,262.00	
Machinery	$ 25,000.00	
Accumulated Depreciation – Machinery		$ 1,450.00
Office Equipment	$ 1,560.00	
Accumulated Depreciation - Office equip		$ 120.00

Receivables	$ 23,200.00	
Payables		$ 14,100.00
Bank 1	$ 4,220.00	
Bank 2		$ 3,200.00
10% Long term loan		$ 6,000.00
Cash	$ 240.00	
Drawings	$ 29,440.00	
Capital		$ 43,827.00
Retained Earnings		$ 22,360.00
	$ 306,447.00	$ 306,447.00

Additional Information

1. Closing inventory is to be valued as per IAS 2 requirements. Inventory at hand as at 31 October 2023 was valued at $3.9 million. It was ascertained that it can be sold at $4.7 million after incurring selling expenses of $900 000.

2. The carriage amount included in the Trial Balance was made up of carriage inwards $1,115 million and carriage outwards $840 000.

3. The company's policy is not to depreciate land. All other assets are depreciated on a straight line basis at 10% per annum.

4. During the year, one of Dora Limited's best customers was declared insolvent. The customer had $90 000 owing. An allowance for doubtful receivables at 5% is yet to be included.

5. During the year, the owner, Mrs. Dora, took inventory valued at $1,5 million for personal use.

6. Interest on the long term loan accrues annually.

7. The following accruals and prepayments had not been adjusted for:

	Accrued	Prepaid
	USD 000	USD 000
Salaries	$ 6,500.00	

Motor Expenses	$ 120.00	
Rent		$ 1,200.00
Utilities	$ 200.00	$ 75.00

In accordance with the requirements of IAS 1, you are required to prepare:

a) Dora Limited's Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 October 2023. 12 marks

b) Dora Limited's Statement of Financial Position as at 31 October 2023. 9 marks

4 marks will be awarded for clearly laid out workings.

END OF PAPER