



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

NMAC202: INTERMEDIATE ACCOUNTING 1

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER 2024

LECTURER: Mr R. CHIHOWA

TIME: 3 HOURS

INSTRUCTIONS

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

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION 1 (25 Marks)

- a) A multinational corporation, World over company, operates in various countries including the Zimbabwe, Germany, and Japan, each with distinct accounting standards. The discrepancies in financial reporting have made it difficult for investors to assess World over company's overall performance. The CFO is advocating for the adoption of International Financial Reporting Standards (IFRS) across all subsidiaries to streamline reporting and enhance transparency.
- i. Discuss the benefits for harmonization of financial reporting standards in the context of World over company. **(5 marks)**
- ii. Identify and describe the challenges World over company might face during the transition to IFRS. **(4 marks)**
- iii. What are the major sources of regulation affecting financial reporting? **(3 marks)**
- b) A newly established company is preparing its first set of financial statements. The management team is struggling to understand how to structure their financial reporting and what principles to follow. They seek guidance on the conceptual framework of accounting to ensure their financial statements are compliant and provide useful information to stakeholders.
- i. Explain the purpose of the Conceptual Framework in financial reporting? **(5 Marks)**
- ii. Reflect on the potential consequences if it fails to adhere to the principles outlined in the conceptual framework. **(4 Marks)**
- iii. What are some criticisms or limitations of the Conceptual Framework in its current form? **(4 Marks)**

QUESTION 2 (25 Marks)

- a) On 1 March 2024, Alex's Electronics receives an order from a customer for a home theater system and 12 months of technical support. The details of the order are as follows:
- Home Theater System Price:\$800,Technical Support Price:240,Total Payment Received Upfront:\$1,040
 - Delivery Date of Home Theater System: 1 March 2024, Technical Support Period: 12 months, starting from the delivery date, Reporting Period: Alex's reporting period is the calendar year, ending on 31 December 2024.

Required:

Use the Five-Step Model for revenue recognition under IFRS 15 to identify the contract, identify the separate performance obligations within each contract, determine the transaction price (show calculations), allocate the transaction price to the performance obligations in the contract, recognise revenue when (or as) a performance obligation is satisfied **(25 marks)**

QUESTION 3 (25 Marks)

On 1 July 2023, Tich Supplies purchases a batch of eco-friendly building materials for \$30,000. The company incurs the following additional costs:

Freight Costs: \$1,200, Import Duties: \$600, Handling Costs: \$400, Storage costs (necessary for production) \$100, Costs of preparing inventory for sale (such as packaging) \$50, Abnormal wastage costs \$20, General storage costs \$5, Administrative Overheads \$10 and Selling Costs \$15

By 31 December 2023, Tich sells part of its inventory. The remaining inventory consists of 500 units with the following details: Cost per Unit: \$20 and Net Realizable Value (NRV) per Unit: \$15

- i. Calculate the total cost of the inventory that Tich Supplies will recognize under IAS 2. **(10 marks)**
- ii. Determine the carrying amount of the remaining inventory at 31 December 2023 according to IAS 2. **(10 marks)**
- iii. If Tich Supplies needs to write down the inventory to its net realizable value, calculate the total write-down amount. **(5 marks)**

QUESTION 4 (25 Marks)

STRIVE COMPANY

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	\$'000
Revenue	4,000
Cost of sales	<u>3,100</u>
Gross profit	900
Other income: interest received	30
Distribution costs	50
Administrative expenses	240
Finance costs	<u>70</u>

Profit before tax	470
Income tax expense	141

Profit for the year	329
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STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	<u>2023</u>	<u>2022</u>
	\$'000	\$'000
Assets		
Non-current assets		
Property, plant and equipment	400	300
Intangible assets	260	210
Investments	40	40
	<u>660</u>	<u>550</u>
<u>Current assets</u>		
Inventories	150	102
Receivables	340	338
Short-term investments	50	
Cash in hand	10	5
	<u>550</u>	<u>445</u>
Total assets	<u>1210</u>	<u>995</u>
<u>Equity and liabilities</u>		
<u>Equity</u>		
Share capital (\$1 ordinary shares)	250	200
Share premium account	150	140
Revaluation surplus	100	90
Retained earnings	250	170
Total equity	<u>750</u>	<u>600</u>
<u>Non-current liabilities</u>		
Long-term loan	150	60
<u>Current liabilities</u>		
Trade payables	90	120
Bank overdraft	90	95
Taxation	130	120
	<u>310</u>	<u>335</u>
Total liabilities	460	395
Total equity and liabilities	<u>1,210</u>	<u>995</u>

The following information is available.

(a) The proceeds of the sale of non-current asset investments amounted to \$50,000.

- (b) Fixtures and fittings, with an original cost of \$80,000 and a net book value of \$40,000, were sold for \$30,000 during the year.
- (d) 50,000 \$1 ordinary shares were issued during the year at a premium of 20c per share.
- (e) The short-term investments are highly liquid and are close to maturity.
- (f) Dividends of \$30,000 were paid during the year

The following related to PPE	\$000	\$000
	31.12.2023	31.12.2022
Cost	800	600
Accumulated depreciation	400	300
Netbook value	400	300

Required:

- Prepare a Statement of Cash flows for the year to 31 December 2023 using the format laid out in IAS 7. **(17 Marks)**
- Discuss the importance of cash flow statements in financial reporting. **(4 Marks)**
- List and briefly describe the components of a complete set of financial statements as outlined in IAS 1 **(4 Marks)**

END OF EXAMINATION