



“Investing in Africa’s future”

COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE (CBPLG)

FOUNDATIONS OF ACCOUNTING 1 – NMAC 101

END OF FIRST SEMESTER EXAMINATIONS

NOVEMBER/DECEMBER 2019

LECTURER: N. E CHIRIMA

DURATION: 3 HRS

INSTRUCTIONS

SECTION A IS WORTH 40 MARKS. SECTION B IS WORTH 60 MARKS.

ANSWER SECTION A ON THE GRID PAPER PROVIDED

ANSWER SECTION B IN THE AFRICA UNIVERSITY ANSWER BOOLET PROVIDED

WORK WRITTEN IN PENCIL IS DEEMED TO BE ROUGH WORK

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR

QUESTION 1 [25 marks]

The balances listed below were extracted from the records of Bhule and Sons, a Sole trader on 30 June 2019:

| | |
|--|------------------|
| Revenue | \$530 650 |
| Purchases | \$298 400 |
| Returns Inwards (Sales Returns) | \$1 880 |
| Delivery vehicles (at Net Book Value) | \$19 230 |
| Factory Plant and Equipment (at Net Book Value) | \$24 000 |
| Land | \$50 000 |
| Buildings (at Net Book Value) | \$300 000 |
| Selling and Marketing Expenses | \$66 420 |
| Administrative Expenses | \$18 710 |
| Rent received | \$12 000 |
| Unlisted Investments | \$30 000 |
| Other Income | \$1 500 |
| Inventory at 1 July 2015 | \$24 680 |
| Debtors | \$15 690 |
| Creditors | \$34 700 |
| Distribution Costs | \$44 280 |

| | |
|----------------------------------|-----------|
| Cash | \$410 |
| Bank Overdraft | \$4 820 |
| Capital | \$150 000 |
| Retained Earnings at 1 July 2015 | \$160 030 |

The following transactions and events occurred on 30 June 2019, after the above balances had been extracted:

1. Bhule and Sons received \$1 460 from a credit customer on the 30th of June 2016.
2. Inventory was valued based on IAS 2 requirements. At the close of business, the inventory net realizable value was computed as \$29 170 and its cost value was \$29 172.
3. An electricity bill for \$ 1 500 relating to the factory for the three months ended 30 June 2015 was received. The bill was paid in July 2019.
4. Depreciation is to be provided for as follows:

%

| | | |
|-----------------------------|----|-------------------------|
| Delivery vehicles | 20 | Straight Line Method |
| Factory plant and equipment | 10 | Reducing Balance Method |

5. Income tax for the financial year was estimated at \$38 100.

Required:

In accordance with IAS 1 *Presentation of Financial Statements*, prepare for Bhule and Sons

- a. A Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019 [10 marks]
- b. A Statement of Financial Position as at 30 June 2016 [10 marks]
- c. Briefly outline three limitations inherent in Financial Reports. [5 marks]

QUESTION 2 [25 Marks]

*Roberts Manufacturing Statement of Profit or Loss and Other Comprehensive Income for
Year Ended December 31, 2015*

(Dollars in Thousands)

| | | |
|---|-----------|---------------------|
| Sales | | \$2,400 |
| Cost of goods sold: | | |
| Materials | \$1,000 | |
| Labour | 600 | |
| Heat, light, and power | 89 | |
| Indirect labour | 65 | |
| Depreciation | <u>80</u> | <u>1,834</u> |
| Gross profit | | \$ 566 |
| Selling expenses | | 175 |
| General and administrative expenses | | <u>216</u> |
| Earnings before interest and taxes (EBIT) | | \$ 175 |
| Interest expense | | <u>35</u> |
| Earnings before taxes (EBT) | | \$ 140 |
| Taxes (40%) | | <u>56</u> |
| Net income (NI) | | <u><u>\$ 84</u></u> |

Roberts Manufacturing Statement of Financial Position

December 31, 2015

(Dollars in Thousands)

| | | | |
|----------------------|-----------------------|------------------------------|-----------------------|
| Cash | \$ 200 | Accounts payable | \$ 205 |
| Receivables | 245 | Notes payable | 425 |
| Inventory | <u>625</u> | Other current liabilities | <u>115</u> |
| Total current assets | \$1,070 | Total current liabilities | \$ 745 |
| Net fixed assets | 1,200 | Long-term debt | 420 |
| | <u> </u> | Ordinary Share Capital | <u>1,105</u> |
| Total assets | <u>\$2,270</u> | Total liabilities and equity | <u>\$2,270</u> |

Required:

Based on the Financial Statements presented, compute:

- | | |
|----------------------------|------------------|
| a) Net Profit Percentage | [5 Marks] |
| b) Gross Profit Percentage | [5 Marks] |
| c) Quick Ratio | [5 Marks] |
| d) Interest Cover | [5 Marks] |
| e) Debt to Equity Ratio | [5 Marks] |

QUESTION 3 [25 Marks]

- Outline the qualitative characteristics of useful information, based on the accounting conceptual framework. **[10 marks]**
- Bevy Ltd's financial year ended on 30 September 2019. On 15 October 2019, it came to light that a customer owed \$4 500 and had been declared insolvent. The financial report

for the year ended 30 September 2019 is in the process of being prepared. The marketing and sales manager has strongly advised that the \$4 500 must not be included as an allowance for credit losses for the year ended 30 September 2019, although the amount is material.

With reference only to the conceptual framework, explain to the marketing and sales director why the valuation adjustment and expense should be reflected in the financial statements.

[15 marks]

QUESTION 4 [25 Marks]

P Ltd has the following inventory transactions during November 2019:

Date

- 1 Inventory on hand: 20 units – 14@\$1, 80 each and 6 @ \$2 each
- 5 Purchased 60 units @\$3 each
- 10 Purchased 35 units @ \$4 each
- 11 Sold 30 units @ \$7 each
- 15 Purchased 40 units @ \$5 each
- 19 Sold 50 units @ \$8 each
- 22 Purchased 100 units @ \$4 each
- 30 Sold 60 units @ \$8 each

On 30 November it was determined that the normal selling price had dropped to \$5 per unit as a competitor had entered the market. Normal selling expenses amount to \$1 per unit

You are required to compute the cost of sales and the value of inventory at 30 November 2019 using:

- a. FIFO
- b. Weighted Average Cost Method

Disclose the above information in the Statement of Profit or Loss and Other Comprehensive Income extract for the month ended 30 November 2019 in compliance with the requirements of IFRS.

END OF PAPER