



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP &
GOVERNANCE**

FOUNDATIONS OF ACCOUNTING 1 – NMAC 101

END OF FIRST SEMESTER EXAMINATIONS

January 2020

LECTURER: N. E CHIRIMA

DURATION: 3 HRS

INSTRUCTIONS

ANSWER ALL QUESTIONS IN THE AFRICA UNIVERSITY ANSWER BOOKLET PROVIDED

WORK WRITTEN IN PENCIL IS DEEMED TO BE ROUGH WORK

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION 1 [25 marks]

A Ltd had 400 items of inventory valued at \$22 each. They acquired and sold inventory as follows during the month of June 2018:

	PURCHASES	SALES
10 June 2018	300 items @ \$23 each	
14 June 2018		600 items @ \$30 each
20 June 2018	400 items @ \$24 each	
21 June 2018		400 items @ \$31 each
25 June 2018	500 items @ \$25 each	
28 June 2018		100 items @ \$32 each

- i. Define the term inventory as per IAS 2. (3 marks)
- ii. You are required to compute the value of A Ltd's inventory as at 30 June 2018 based on:
 - a) FIFO (4 marks)
 - b) Average Cost (4 marks)
- iii. Prepare A Ltd's Trading Statement based on inventory values obtained using each of the two methods in (i). (4 marks)
- iv. As a manager, explain which inventory valuation method you would use:
 - a. In a motor vehicle retail business (2 marks)
 - b. In a clothes retail business (2 marks)
- v. P Ltd is in the process of valuing inventory it purchased for \$100 000. It incurred \$30 000 transport costs to bring the inventory to its premises. The inventory had to be assembled at a cost of \$12 800. During this period, there was employee unrest and the assembling process was interrupted by employee strikes, during which period wastage and storage costs amounted to \$5000. Included is obsolete inventory with an estimated cost value of \$4 240 as well as damaged inventory with an estimated cost of \$4 650 which is being reworked for \$500 and is expected to be sold for \$1 200 after incurring transport costs of \$170.

You are required to compute the value of Inventory held by P Ltd. (6 marks)

QUESTION 2 [25 marks]

<i>Han and Sons Trial Balance</i>	DR		CR
<i>For the Year ended 31 October 2018</i>	\$000	-	\$000
Land at cost	100.00		
Buildings at cost	200.00		
Provision for depreciation - Buildings			70.00
Equipment at cost	150.00		
Provision for depreciation - Equipment			50.00
Motor Vehicles	175.00		
Provision for depreciation - Motor Vehicles			25.00
Opening Inventory	60.00		
Receivables/ Payables	100.00		25.00
Allowance for receivables			5.00
Bank			30.00
Purchases/ Sales	250.00		800.00
10% Loan			100.00
Loan interest paid	5.00		
Marketing Expenses	50.00		
Administration Expenses	130.00		
Distribution Expenses	160.00		
Capital			225.00
Retained Profits			50.00
	1,380.00		1,380.00

Additional Information

- i. Inventory was valued in accordance with IAS 2. Its cost valued was \$40 000 and net realizable value was \$ 40 500.
- ii. The allowance for receivables policy was reviewed to 5% of receivables.
- iii. Depreciation is to be charged AT 10% straight line method on all tangible non - current assets.
- iv. Accrual and Prepayments are as follows:

	Accrued	Prepaid
Marketing Expenses	\$12	\$3, 50
Administration Expenses	\$9, 50	\$15
Distribution Expenses	\$10	\$7

You are required to prepare:

- a) A Statement of Profit or Loss and Other Comprehensive Income for the year ending 31 October 2018 (8 marks)
- b) A Statement of Financial Position as at 31 October 2018 (5 marks)
- c) As a manager, tasked with making futuristic decisions for the organization, to what extent will historic accounting information be useful to you? (12 marks)

QUESTION 3 [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:	<u>1,834</u>
Gross profit	566
Operating expenses	<u>391</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) Current Ratio (5 marks)
- d) Quick Ratio (5 marks)
- e) Long term debt to equity ratio (5 marks)

QUESTION 4 [25 marks]

Part 1

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. (10 marks)

Part 2

You have recently been employed by J. T Ltd as the company's Managing Director. They are currently in the process of preparing their Financial Report for the year. To familiarize yourself with the company's operations and performance, you ask for a copy of the draft financial report that has been prepared. The report contains the following: Income Statement; Balance Sheet and Cash Flow Statement. The Balance Sheet has the following headings: Fixed Assets; Intangible Assets, Current Assets, Current Liabilities; Long Term Liabilities and Capital. Included in the Balance Sheet, under current liabilities, is a ten year loan whose agreement documents are on your desk and you are yet to sign them so as to finalize the agreement. Upon further enquiry, you find out that the accountant is on leave and the draft has been prepared by a recently recruited intern who is an accounting student at a local university.

Required By reference to the accounting conceptual framework only, prepare a report to the Accountant advising him on the corrections to be made to the Financial Report. (10 marks)

Part 3

SS Junior College, a recently established kindergarten has received a donation of 19 computers. The accounting clerk is not sure of the value to record for the computers.

Required: Explain which of the measurement criteria as provided by the accounting conceptual framework would be best for the accounting clerk to use in the abovementioned scenario? Support your answer. (5 marks)