



"Investing in Africa's Future"

COLLEGE OF BUSINESS AND MANAGEMENT SCIENCES

ACC1201 FOUNDATIONS OF ACCOUNTING 2

SECOND SEMESTER EXAMINATIONS

APRIL 2026

LECTURER: DR N E CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

ANSWER **ALL QUESTIONS** FROM THIS PAPER

MARKS ALLOTTED TO EACH QUESTION ARE SHOWN

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

QUESTION 1 25 marks

Theta Ltd has recently prepared its financial statements. The auditors noticed the following:

1. Revenue was recognized before the sale was complete.
2. Inventory was reported at historical cost, although market value had dropped significantly.
3. Comparative figures for prior years were presented inconsistently due to changes in presentation format.

Required:

- a) Explain which qualitative characteristics of financial reporting are affected in each case. *15 marks*
- a) Suggest corrective action for each issue in line with the Conceptual Framework. *10 marks*

QUESTION 2 25 marks

- a) Clearly distinguish between cash and cash equivalents, giving two examples of each. *(4 marks)*
- b) Explain the inter-relationship between the Statement of Cash Flows, the Statement of Financial Position, the Statement of Profit or Loss and Other Comprehensive Income as well as the Statement of Changes in Equity. *(5 marks)*
- c) The following information relates to BR Ltd for the year ended 31 December 2025

BR Ltd
Statement of Profit or Loss and Other Comprehensive Income
As at 31 December 2025

Item	\$
Profit before tax	75,000
Depreciation of plant and equipment	15,000
Amortisation of patents	5,000
Impairment loss on equipment	8,000
Profit on sale of motor vehicle	6,000
Finance costs	12,000

BR Ltd
Comparative Statement of Financial Position (Extracts)
As at 31 December 2025

	31 Dec 2025 (\$)	31 Dec 2024 (\$)
Trade receivables	48,000	42,000
Inventory	64,000	58,000
Trade payables	36,000	40,000
Accrued operating expenses	10,000	8,000
Prepaid operating expenses	5,000	7,000
Income tax payable	14,000	10,000

Additional Information

1. All changes in working capital are related to operating activities.
2. Finance costs were paid in cash.
3. Income tax paid during the year = 20,000.
4. Depreciation, amortization and impairment are included in profit.
5. Profit on sale of motor vehicle is non-operating.

In accordance with IAS 7, you are required to prepare an extract of the Statement of Cash Flows showing the net cash flow from (to) operating activities. *16 marks*

QUESTION 3 25 marks

BB Ltd prepares financial statements in accordance with IFRS. During the year ended 31 December 2025, the following matters arose:

1. BB Ltd changed its inventory valuation method from FIFO to weighted average. The directors believe that the new method provides more reliable and relevant information. Opening inventory at 1 January 2025 increased by \$30,000 as a result of the change.
2. On 1 January 2025, the company revised the remaining useful life of its machinery from 8 years to 5 years due to heavier than expected usage. The carrying amount of the machinery at that date was \$200,000.

Required:

- a) Explain, with reference to IAS 8, how each of the above matters should be accounted for in the financial statements of BB Ltd. *12 marks*
- b) Calculate the revised annual depreciation charge for the machinery from 1 January 2025. *4 marks*
- c) State two disclosure requirements relating to the change in inventory valuation method. *4 marks*
- d) Explain why IAS 8 requires different treatments for changes in accounting policies, changes in estimates, and errors. *5 marks*

QUESTION 4 25 marks

- a) Describe how the International Ethics Standards Board for Accountants (IESABA) complements other boards under the International Federation for Accountants Committee (IFAC). *5 marks*
- b) Explain why sustainability reporting is important for primary users. *10 marks*
- c) Identify and briefly describe the four key areas of disclosure under IFRS S1. *4 marks*
- d) Explain the three scopes of greenhouse gas (GHG) emissions required under IFRS S2. *6 marks*

END OF EXAMINATION