



***"Investing in Africa's Future"***

**COLLEGE OF BUSINESS PEACE LEADERSHIP AND GOVERNANCE**

**NMAC 101: FOUNDATIONS OF ACCOUNTING 1**

**END OF FIRST SEMESTER EXAMINATIONS**

**NOVEMBER 2021**

**LECTURER: N. E CHIRIMA**

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### ***INSTRUCTIONS***

ANSWER TWO QUESTIONS USING MICROSOFT 97 – 2003 Document

MARKS ALLOCATED TO EACH QUESTION ARE SHOWN

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CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

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### Question One

- a) Mr. Buli is an accountant for a small local company. He has been basing his financial reporting on the accounting conceptual framework presented by the International Accounting Standard Board in 2001. You have been hired by the company as an intern.

You are required to write an e – mail to Mr. Buli, your immediate supervisor, advising him on the updated accounting conceptual framework, highlighting the differences between the two as well as the effect of these changes on usefulness of information included in financial reports. *15 marks*

- b) Che's staff bus which it is currently using to transport its staff to and from work every day. In the last board meeting, Che's board members resolved that the bus should be sold at its current cost value. Two buyers have showed willingness to buy the bus but no sale agreement has yet been made. Meanwhile, the staff bus is still being used while plans to purchase a replacement are underway.

You are required, ONLY with reference to the criteria of the accounting conceptual framework, to advise how the bus should be recognized in the current period's financial report. *7 marks*

- c) Dreams Galore Football Club acquired the Ball D'Ore ("The Golden Ball") - trophy holder for last season, Gabo – who is currently rated as the most expensive player. Football fans in the university cafeteria are arguing how this player should be recognized in the Club's financial report.

You are required, ONLY with reference to the criteria of the accounting conceptual framework, to present your argument on this issue. *7 marks*

- d) RC2, a racing car company is currently in the process of developing a race car model to meet the new restrictions on fuel flow and fuel load per race. A proto type has been developed after significant costs have been incurred for marketing, research as well as the development of the proto type. Currently, the proto – type is still at the testing stage. A ready market for the end product has already been identified.

You are required, ONLY with reference to the criteria of the accounting conceptual framework, to advise how the research, marketing and development costs should be recognized in the current reporting period. *7 marks*

- e) Fushie Loreine is a fashion designer who is currently working on a new contemporary teenage girls' sportswear line. Research on this new line has been completed and sketches prepared, presented and approved. The sportswear patterns have been produced but the first batch has not been approved as certain specifics required for the design were later identified. The second batch has been approved and is currently being used for the first mass production of the sportswear. The sportswear is targeting girls' sports academies and already 4 academies have placed contingent orders.

You are required, ONLY with reference to the criteria of the accounting conceptual framework, to advise how the research, marketing and development costs should be recognized in the current reporting period. *7 marks*

- f) Kowa Farm owns 80 oxen aged between five and eleven years, with an average weight of 3 200 kilograms. No active market exists for these oxen but their meat can be sold at a known price per kilogram. The farm is also a lumber producer with pine forests in different stages of growth. Forests that are left with 4 years or less to felling are sold to interested investors; a half deposit payment when the transaction is concluded and full settlement being made when felling starts. Currently, there is one hectare of felled timber whose sale is still under negotiation with an identified buyer.

You are required, ONLY with reference to the criteria of the accounting conceptual framework, to advise how the oxen and the timber should be recognized and measured in the current reporting period. *7 marks*

## **Question Two**

The 21<sup>st</sup> century has been characterized by dynamic changes, and the accounting profession has not been spared. Key drivers of change have been cited as globalization and technology; and these have been fuelled by the conditions which have been put in place to curb the COVID – 19 epidemic.

You are required to

- a) Select one company listed on your (African) country's stock exchange.
- b) Download the financial reports of that company for the past consecutive 5 years (the latest financial report should be for a financial year ending in 2020 or 2021).
- c) Prepare a report on the differences in information content in the financial reports. *20 marks*
- d) Comment on each of the differences noted in (3) specifying the reason for the changes and the extent to which these changes were necessary to ensure the objective of General Purpose Financial Reports is met. *30 marks*

**NOTE:** *Include the financial year ends considered, name of the country, stock exchange and the company as well as the web address and from which the financial reports have been obtained. Do not submit the downloaded financial reports.*

### **Question Three**

Rima Ltd is a small, family owned, agri – business operating in a VUCA environment. Currently Rima Ltd leases a farm on which intensive horticulture is practiced. The strategy has been to minimize administrative costs while reinvesting all profits towards the growth and expansion of the business through acquiring more farms as well as mechanizing to increase productivity. As such, Mr. Rima is wholly responsible for running the farm. Thus the company has no accounting department and transactions are recorded in Mr. Rima's diary. This year, Mr. Rima has noticed deterioration in his health and has agreed to hire a manager to assist him. You have successfully interviewed for the position and have been hired. However, on your first day of work as you are familiarizing with the company records and operations, you are presented with Mr. Rima's diary for use in capturing all business transactions and events. The tax regulator has visited the company requesting for information on the business' performance and have informed Mr. Rima that his diary is not acceptable. Mr. Rima has applied for a loan from the Agriculture Bank but it was denied on the basis of insufficient financial information.

You are required to prepare an internal memo to Mr. Rima:

- a) Presenting a cost/ benefit analysis of an accounting department within the company. *10 marks*
- b) Highlighting the weaknesses of the current record keeping, the risks it poses to the company as well as your recommendations. *15 marks*
- c) Advising Mr. Rima of the accounting process (and the accompanying documents/ reports) that will efficiently and effectively produce information that will be deemed useful by primary users. Where possible, include illustrations. *25 marks*

**END OF PAPER**

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