MANICALAND STATE UNIVERSITY OF APPLIED SCIENCES

FACULTY OF AGRIBUSINESS MANAGEMENT AND APPLIED SOCIAL SCIENCES

DEPARTMENT: APPLIED ACCOUNTING SCIENCES

MODULE: FINANCIAL ACCOUNTING 1B

CODE: ACCT 121

SESSIONAL EXAMINATIONS

APRIL 2024

DURATION: 3 HOURS

EXAMINER: MRS J MATUTE

INSTRUCTIONS

1. *Answer **All** questions*
2. *This question paper contains 5 questions*
3. *Each question carries 20 marks*

Additional material(s): *Non-programmable calculators*

Question 1 [20 marks]

The following information relate to the financial statements of Nokutenda Ltd for the year ending 31 December 2023.

(a) A rights issue was made on 1 February 2024 to finance the acquisition and furnishing of office buildings. The full issue of $1 200 000 (for $12 per share) was taken up. The directors concluded an "option to purchase" in respect of office building during the October 2019. The rights issue was approved by the directors on 15 November 2023.

(b) An invoice dated 27 December 2023 for $60 000 was received from Munashe Ltd and included in creditors at the statement of position date. Goods listed on the invoice were delivered on 04 January 2024 and are included in the inventory figure at $60 000 at the statement of financial position date. A positive creditor's circulation was carried out and the Directors of Munashe Ltd confirmed the amount outstanding on 31 December 2023. However, the invoice from Munashe Ltd contain a calculation error and the correct amount for the goods should in fact be $80 000.

Additional information

a) Share capital

Authorised share capital	$
1 000 000 Ordinary shares of $1 each	1 000 000
Issued share capital	
600 000 Ordinary share capital of $1 each	600 000

b) Purchasing price and furnishing costs of office buildings are estimated by the board of directors at $ 1,200,000.

c) Assume a tax rate of 40% and the company provides for deferred tax comprehensively on the statement of financial position method.

Required:

a) Identify each post-balance sheet event as adjusting or non-adjusting (2 marks)

b) Briefly discuss the effects of the above-mentioned event on the financial statements on 31 December 2023. (8 marks)

c) Provide an extract from the financial statements of Nokutenda Ltd on 31 December 2023, disclosing the results of the discussion in b above to comply with IAS 10. (10 marks)

Question 2 [20 Marks]

Explain the following terms in accordance with *IAS 10 Events after the reporting date*

a. Date of authorization (4 marks)

b. Adjusting events (4 marks)

c. Non-adjusting events (4 marks)

d. Declared or proposed dividends (4 marks)

e. Going concern (4 marks)

Question 3 [20 marks]

Matiki Ltd sold 500 standard drums of cotton paste control chemicals to a customer in Rusape for a contractually agreed amount of $500 000. This is Matiki's first sale in Rusape and the region is experiencing significant economic difficult. Matiki believes that the economic conditions will improve in future and that by establishing a trading relationship now with the customer, sales volumes will be enhanced. However, for the first contract, Matiki does not expect that the customer will be able to pay full amount of the contractually agreed price. Consequently, Matiki determines that it expects to offer 50%.

Required:

a) Looking at the above-mentioned scenario, how much will be accounted for under IFRS 15 by Matiki Ltd? Briefly motivate your answer. (10 marks)

b) What is the core principle of IFRS 15? (5 marks)

c) IFRS 15 applies when there is a contract with a customer what are the 5 criteria which must be satisfied for there to be a contract with a customer in terms of IFRS 15? (5 marks)

Question 4 [20 marks]

Cupcake Limited and Muffin Limited are distributors of food to small supermarkets around the country. They have both been successful over the past few years; each has its own unique business model and operates in different ways. The following analysis has been prepared for each company:

	Cupcake Ltd	**Muffin Ltd**
Average inventory holding period	58 days	26 days
Average collection period for accounts receivables	60 days	19 days
Average payment period for accounts payable	45 days	47 days
Gross profit %	40 %	15 %
Operating profit %	10 %	10 %
Return on investment (ROI)	18 %	16%
Return on equity (ROE)	32 %	22 %

Required:

In so far as possible with the information given, describe the differences in the business models adopted by each of the above companies. Your answer should focus on

a) Inventory holding period

b) Collection period for accounts receivables and payment period for accounts payable

c) Gross profit % and Operating profit %

d) Return on investment (ROI) and Return on equity (ROE) (20 marks)

Question 5 [20 marks]

A business incurs the following costs about the construction of a new facility and the introduction to the market of its output:

	$000
Site preparation	400
Net income while site is used as car park prior construction	(50)
Materials used, inclusive of $0.3m VAT	2 000
Labour costs, inclusive of $0.5m incurred when a labour dispute meant that no	
construction work was conducted	4000
Testing facility processes	300
Sale of by-products produced during testing process	(60)
Consultancy fees: installation and assembly	500
Other Professional fees	450
Opening of facility	100
Overheads incurred:	
• Construction	800
• General	600
Relocation of staff to facility	350
Cost of dismantling the facility at the end of the useful life	3 000

Additional Information

a) The company VAT Tax return number is EXDT567432
b) The present value of the Dismantling costs of the facility was correctly measured at $750,000

Required:
Identify the total cost of the facility in accordance with IAS 16. (20 marks)

END OF EXAMINATION