



FACULTY OF MANAGEMENT AND ADMINISTRATION

**COURSE TITLE: MAC 101, FOUNDATIONS OF ACCOUNTING 1
[CONVENTIONAL PROGRAMME]**

SEMESTER 1: FINAL EXAMINATION-DECEMBER 2014

LECTURER: MS CHIRIMA

TIME: 3 HOURS

INSTRUCTIONS

Answer **ALL** questions. Total possible mark is **100**.

The marks allocated to each question are shown at the end of the question.

Credit will be awarded for logical, systematic and neat presentations.

SECTION A [40 Marks]

ALL 20 questions are compulsory and MUST be attempted

Please use the sheet provided on the inside of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question. DO NOT mark more than one option for each question.

Each question is worth 2 marks.

1 Which of the following calculates a sole trader's net profit for a period?

- A Closing net assets + drawings – capital introduced – opening net assets
- B Closing net assets – drawings + capital introduced – opening net assets
- C Closing net assets – drawings – capital introduced – opening net assets
- D Closing net assets + drawings + capital introduced – opening net assets

2 Which TWO of the following errors would cause the total of the debit column and the total of the credit column of a trial balance not to agree?

- (1) A transposition error was made when entering a sales invoice into the sales day book
- (2) A cheque received from a customer was credited to cash and correctly recognized in receivables
- (3) A purchase of non-current assets was omitted from the accounting records
- (4) Rent received was included in the trial balance as a debit balance

- A 1 and 2
- B 1 and 3
- C 2 and 3
- D 2 and 4

3 A company's income statement for the year ended 31 December 2014 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition.

What would the net profit be after adjusting for this error?

- A \$106,100
- B \$70,100
- C \$97,100
- D \$101,600

4 Xena has the following working capital ratios:

	2012	2013
Current ratio	1.2:1	1.5:1
Debtors Collection days	75 days	50 days
Creditors Payment days	30 days	45 days
Inventory turnover	42 days	35 days

Which of the following statements is correct?

- A Xena's liquidity and working capital has improved in 2013
- B Xena is receiving cash from customers more quickly in 20X9 than in 2012
- C Xena is suffering from a worsening liquidity position in 2013
- D Xena is taking longer to pay suppliers in 20X9 than in 2012

5 A company receives rent from a large number of properties. The total received in the year ended 30 April 2013 was \$481,200.

The following were the amounts of rent in advance and in arrears at 30 April 2012 and 2013:

	30 April 2012	30 April 2013
	\$	\$
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

What amount of rental income should appear in the company's income statement for the year ended 30 April 2013?

A \$486,500

B \$460,900

C \$501,500

D \$475,900

6 Which of the following statements is true?

A The interpretation of an entity's financial statements using ratios is only useful for potential investors

B Ratios based on historical data can predict the future performance of an entity

C The analysis of financial statements using ratios provides useful information when compared with previous performance or industry averages

D An entity's management will not assess an entity's performance using financial ratios

7 The following transactions relate to Rashid's electricity expense ledger account for the year ended 30 June 2014:

	\$
Prepayment brought forward	550
Cash paid	5,400
Accrual carried forward	650

What amount should be charged to the income statement in the year ended 30 June 2014 for electricity?

A \$6,600

B \$5,400

C \$5,500

D \$5,300

8 At 30 June 2013 a company's allowance for receivables was \$39,000. At 30 June 2014 trade receivables totaled \$517,000. It was decided to write off debts totaling \$37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.

What figure should appear in the income statement for the year ended 30 June 2014 for receivables expense?

A \$61,000

B \$52,000

C \$22,000

D \$37,000

9 According to IAS 2 *Inventories*, which TWO of the following costs should be included in valuing the inventories?

- (1) Carriage inwards
- (2) Carriage outwards
- (3) Depreciation of factory plant
- (4) General administrative overheads

- A 1 and 4
- B 1 and 3
- C 3 and 4
- D 2 and 3

10 Prisha has not kept accurate accounting records during the financial year. She had opening inventory of \$6,700 and purchased goods costing \$84,000 during the year. At the year - end she had \$5,400 left in inventory. All sales are made at a mark - up on cost of 20%.

What is Prisha's gross profit for the year?

- A \$13,750
- B \$17,060
- C \$16,540
- D \$20,675

11 The plant and machinery account (at cost) of a business for the year ended 31 December 2013 was as follows:

Plant and machinery – cost

	2013 (\$)		2013(\$)
1 Jan Balance b/f	240,000	31 Mar Transfer to disposal account	60,000
30 Jun Cash purchase of plant	160,000	31 Dec Balance c/f	340,000
	<hr/>		<hr/>
	400,000		400,000
	<hr/>		<hr/>

The company's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 31 December 2013?

- A \$68,000
- B \$64,000
- C \$61,000
- D \$55,000

12 The following bank reconciliation statement has been prepared by a trainee accountant:

	\$
Overdraft per bank statement	3,860
<i>Less:</i> Unpresented cheques	9,160
	<hr/>
	5,300
<i>Add:</i> Outstanding lodgements	16,690
	<hr/>
Cash at bank	21,990
	<hr/>

What should be the correct balance per the cash book?

- A** \$21,990 balance at bank as stated
- B** \$3,670 balance at bank
- C** \$11,390 balance at bank
- D** \$3,670 overdrawn

13 The IASB's *Framework for the Preparation and Presentation of Financial Statements* gives qualitative characteristics that make financial information reliable.

Which of the following are examples of those qualitative characteristics?

- (1) Accruals
 - (2) Comprehensible
 - (3) Going concern
 - (4) Comparable
- A** 1 and 2
 - B** 2 and 4
 - C** 2 and 3
 - D** 1 and 4

14 Thomas Ltd provides annually for depreciation of its non - current assets at the rate of 20% on cost. At 31 December 2011, the provision provided to date on one of its non – current assets amounted to \$8 000. The asset had cost \$12 000. The asset was sold on 30 April 2012 for \$2 200. In the profit and loss account for the year to 31 December 2012, the entries in respect of the asset will be

- A** Provision for depreciation nil; profit on sale \$1 800
- B** Provision for depreciation \$800; loss on sale \$1 000
- C** Provision for depreciation \$800; profit on sale \$1 000
- D** Provision for depreciation \$2 400; profit on sale \$600

15 A company values its inventory using the FIFO method. At 1 May 2013 the company had 700 engines in inventory, valued at \$190 each. During the year ended 30 April 2014 the following transactions took place:

2013

1 July Purchased 500 engines at \$220 each

1 November Sold 400 engines for \$160,000

2014

1 February Purchased 300 engines at \$230 each

15 April Sold 250 engines for \$125,000

What is the value of the company's closing inventory of engines at 30 April 20X6?

A \$188,500

B \$195,500

C \$166,000

D \$106,000

16 Amy is a sole trader and had assets of \$569,400 and liabilities of \$412,840 on 1 January 20X8. During the year ended 31 December 20X8 she paid \$65,000 capital into the business and she paid herself wages of \$800 per month.

At 31 December 20X8, Amy had assets of \$614,130 and liabilities of \$369,770.

What is Amy's profit for the year ended 31 December 20X8?

A \$32,400

B \$23,600

C \$22,800

D \$87,800

17 Are the following statements correct or incorrect?

(1) Discount received should be recorded on the debit side in the purchases ledger account

(2) Discount received should be recorded on the debit side in the cashbook

Statement 1 Statement 2

A Correct Correct

B Correct Incorrect

C Incorrect Correct

D Incorrect Incorrect

18 Which TWO of the following will be classified as non-current assets for a dealer in computer equipment?

(1) Computers for resale

(2) Vehicles for delivering computers

(3) Business capital

(4) Office furniture

A 1 and 2

B 2 and 3

C 2 and 4

D 3 and 4

19 A company's motor vehicles cost account at 30 June 2014 is as follows:

Motor vehicles – cost			
	\$		\$
Balance b/f	35,800	Disposal	12,000
Additions	12,950	Balance c/f	36,750
	<hr/>		<hr/>
	48,750		48,750
	<hr/>		<hr/>

What opening balance should be included in the following period's trial balance for Motor vehicles – cost at 1 July 2014?

- A \$36,750 Dr
- B \$48,750 Dr
- C \$36,750 Cr
- D \$48,750 Cr

20 Theta prepares its financial statements for the year to 30 April each year. The company pays rent for its premises quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was \$84,000 per year until 30 June 2013. It was increased from that date to \$96,000 per year.

What rent expense and end of year prepayment should be included in the financial statements for the year ended 30 April 2014?

Expense	Prepayment
A \$93,000	\$8,000
B \$93,000	\$16,000
C \$94,000	\$8,000
D \$94,000	\$16,000

SECTION B [60 Marks]

ALL 20 questions are compulsory and MUST be attempted

QUESTION 1 [25 MARKS]

The following trial balance has been extracted from the books of Seith, a sole trader.

Trial Balance as at 30 June 2014

	DR (\$)	CR (\$)
Sales/ Purchases	82 350	149 078
Carriage	5 144	
Drawings	7 800	
Rent	6 622	
Stationary	3 001	
Advertising	1 330	
Salaries	16 420	
Bad Debts	877	
Provision for Doubtful Debts		130
Debtors/ Creditors	12 120	6 000
Cash	177	
Bank Acc 1	1 002	
Bank Acc 2		1 471
Inventory as at 1 July 2013	11 927	
Equipment		
Cost	58 000	
Accumulated Depreciation		19 000
Vehicles		
Cost	26 000	
Accumulated Depreciation		13 091
Capital		44 000
	<u>232 770</u>	<u>232 770</u>

The following additional information is available:

1. Stock on 30 September 2013 had a cost value of \$13 551 and a Net Realizable Value of \$15 515. The company's policy is to value stock as per IAS 2 requirements.
2. \$2 000 of the carriages are carriage inwards.
3. Seith used \$630 worth of stock for personal use. No adjustments were effected.
4. A reconciliation of the September cashbook bank balance and the bank statement balance for Bank Acc 1 revealed that a direct transfer from a debtor (\$3 500) made on the 29th of September 2013 had not been recorded in the cashbook. Bank charges of \$800 have been levied but not recorded in the cashbook. A cheque of \$5 000 to a creditor had been returned marked "insufficient funds" – the returned cheque has been recorded in the bank statement but not in the cashbook.
5. The agreed policy for the business is to depreciate all assets at 10% per annum on cost fully in the year of acquisition but no depreciation is charged in the year of disposal.

6. On the 30th of June a vehicle, which had been acquired for \$7 800, was disposed for \$4 500 at a loss of \$650. No entries had been made for this transaction.

REQUIRED

- a) Prepare Seith's Statement of Comprehensive Income for the year ended 30 June 2014. **[10 marks]**
- b) Prepare Seith's Statement of Financial Position as at 30 June 2014. **[10 marks]**
- c) List and define the five elements of Financial Statements. **[5 marks]**

QUESTION 2 [20 MARKS]

At the close of business on 31 January 2014, the cash book of Stephen Crowther, a sole trader, showed that the balance of his cash at bank amounted to \$728. This did not agree with the balance as shown on his bank statement \$697 and the following matters accounted for the differences:

- a) The cheques, amounted \$22, \$46, \$39, drawn by Crowther during January had not yet been presented for payment.
- b) During January 2014 the bank had paid, under a standing order, office rent amounting to \$140, but this item had not yet been entered in the cash book.
- c) On 31 January 2014, Crowther had paid cash \$93 into his banking account. This item was in his cash book but did not appear on the bank statement.
- d) During January 2014 one of Crowther's debtors, Alfred Amos, had paid direct into Crowther's banking account the sum of \$64. This item is on the bank statement but has not yet been entered in the cash book.
- e) Also during January 2014 Crowther's bank had allowed him \$31 in respect of bank interest. This has not yet been entered in the cash book. \$20 Bank Charges were also appearing on the bank statement.

REQUIRED:

- 1) Update Stephen Crowther's cash book as at 31 January 2014. **[5 marks]**
- 2) Draw up the bank reconciliation statement at 31 January 2014. **[5 marks]**
- 3) List 5 reasons why the bank balance in the cashbook differs with the bank balance on the bank statement for the same period of time. **[5 marks]**
- 4) To what extent can users of financial statements rely on the information provided in these statements for decision making? **[5 marks]**

QUESTION 3 [15 MARKS]

- a) Outline and explain the qualitative characteristics of information to be disclosed in Financial Reports. **[5 marks]**
- b) Tyrell proves the accuracy of its sales and purchase ledgers by preparing monthly control accounts.

At 1 May 2012 the following balances existed in the company's accounting records, and the control accounts agreed:

	Debit	Credit
	\$	\$
Sales ledger control account	188,360	2,140
Purchase ledger control account	120 89	410

The following are the totals of transactions which took place during May 2012, as extracted from the company's records.

Credit sales	101,260
Credit purchases	68,420
Returns inwards	9,160
Returns outwards	4,280
Cash received from customers	91,270
Cash paid to suppliers	71,840
Cash discounts allowed	1,430
Cash discounts received	880
Irrecoverable debts written off	460
Contra settlements	480

At 31 May 2012 the balances on the customers and supplier personal accounts were extracted and totaled as follows:

	Debit balances	Credit balances
	\$	\$
Sales ledger	To be ascertained	2,680
Purchase ledger	90	To be ascertained

An initial attempt to balance the two ledgers showed that neither of them agreed with their control accounts. The differences were found to be due to the following:

- (i) A credit balance of \$680 had been omitted when listing the sales ledger personal accounts
- (ii) A contra settlement of \$500 had not been included in the totals of transactions prepared for the control accounts,
- (iii) A new employee had mistakenly entered five sales invoices into the purchases day book as if they had been purchase invoices and entered the amounts to new supplier personal accounts. The total of these invoices was \$1,360.
- (iv) A \$20 cash refund to a customer was made, and has not been included in the summary of transactions given above. The \$20 was entered to the customer's personal account as if it had been a cash receipt from the customer, and this resulted in a \$40 credit balance on the account, which was still outstanding at 31 May 2012.

When these errors had been corrected both control accounts agreed with the personal accounts.

REQUIRED:

Calculate the closing debit balance on the sales ledger control account and the closing credit balance on the purchase ledger control account together with the balance at 1 May 2012 on the list of balances for each ledger. **[10 marks]**

END OF PAPER