



**AFRICA
UNIVERSITY**

(A United Methodist-Related Institution)

“Investing in Africa’s Future”

FACULTY OF MANAGEMENT AND ADMINISTRATION

COURSE TITLE: MAC 101, FOUNDATIONS OF ACCOUNTING

SEMESTER 1: FINAL EXAMINATION-NOVEMBER/DECEMBER 2013

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. Show working.

QUESTION 1 [35 marks]

The following Trial balance has been extracted for the books of Kuna, a sole trader, whose financial year end is 30 September 2013.

	DR (\$)	CR (\$)
Stock (1 October 2012)	25 000	
Drawings	18 500	
Debtors/ Creditors	22 776	10 238
Rent and Rates	12 800	
Advertising and Promotion	1 750	
Insurance	1 900	
Purchases/ Sales	99 817	202 000
Returns	187	208
Bad Debts written off	218	
15% Long Term Loan		65 000
Repairs to vehicle	1 581	
Vehicle operating expenses	2 575	
Wages and Salaries	45 012	
Interest of loan	3 750	
Provision for Doubtful Debts (1 October 2012)		1 500
Heating and Lighting	7 500	
Plant and Machinery at cost	63 260	
Plant and Machinery – provision for depreciation		17 925
Office Expenses	5 817	
Capital		88 000
Motor Vehicles - Cost	21 557	
Motor Vehicle – Accumulated Depreciation		11 317
Bank		7 812
Land	70 000	
	404 000	404 000

The following was noted soon after year end:

1. Stock on 30 September 2013 had a cost value of \$27 515 and a Net Realizable Value of \$25 515. The company's policy is to value stock as per IAS 2 requirements.

2. A reconciliation of the September cashbook bank balance and the bank statement balance 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.
3. Depreciate all assets at 10% per annum on cost.
4. Wages for the month of September 2013 (\$4 500) were paid on the 1st of November 2013.
5. \$1 900 for insurance was paid on 1 January 2013 for the calendar year.
6. An additional \$500 worth of debtors were written off as bad.
7. Debtors are to be provided for at 5% of outstanding debtors.

Required:

- a) Prepare the Statement of Profit/ Loss and Other Comprehensive Income for the year ended 30 September 2013. [15 marks]
- b) Prepare the Statement of Financial Position as at 30 September 2013. [10 marks]
- c) List and define the five elements of Financial Statements. [5 marks]
- d) To what extent can users of financial statements rely on the information provided in these statements for decision making? [5 marks]

QUESTION 2 [27 marks]

Joe started business on 1 June 2013 as a sole trader. During the first month of operation, the following took place:

June 2013	
1	Joe put \$50 000 cash into the business. A business account was opened and \$40 000 of this amount was banked.
8	Bought stock on credit from: TJ \$12 500; Pride \$11 115 and Julian \$11 200
10	Sold on credit to Rutendo \$11 700; Nelly \$12 600; Tapuwa \$11 800
15	Bought Stock on credit \$Pride \$ 12 000; Sam \$4 500
15	Returned goods to Pride \$700
19	Cash Sale \$5 000
19	Goods were returned by Rutendo \$200
25	Received \$11 300 from Rutendo (having allowed a \$200 discount) and \$11 600 from Nelly - cheques
29	Paid Pride \$20 000 (the difference with the amount owing being a discount received); TJ \$12 400(having received a discount of \$100) both by cheque
29	Joe gave the business his personal computer and printer worth \$1 500.
30	Salaries \$6 000 were paid cash.

Required:

- a) You are to prepare the following books for Joe for the month ended 30 June 2013:
 - i. Sales Ledger [2 marks]
 - ii. Purchases Ledger [3 marks]
 - iii. General Ledger [2 marks]
 - iv. 3 Column Cashbook [3 marks]
- b) Clearly identify the five stages in the accounting process as well as the documents used at each stage. [5 marks]
- c) Explain five (5) accounting concepts. [5 marks]
- d) What are the errors that a Trial Balance will fail to detect? Explain and illustrate each of these errors. [7 marks]

QUESTION 3 [20 marks]

A. The Following extracts have been taken from the books of a business owned by D Jekeseni for the month of March 2012.

<u>Purchases Day Book</u>				<u>Returns Outwards Day Book</u>			
March				March			
		\$				\$	
3	W Allen		480	14	W Allen		50
7	J Morris		270	29	T Sage		80
17	T Sage		410				
24	F Wild		650				

<u>Cash Book – Credit Side</u>				<u>General Journal</u>		
		Discount Received	Bank		DR	CR
9	T Sage	30	690	30	Creditor W Allen	180
18	F Wild	5	195		Debtor W Allen	180
24	J Morris	31	389		Being transfer from sales ledger to purchases ledger.	
27	W Allen	18	322			

It should be noted that the balances in the accounts of D Jekeseni on 1 March 2012 were as follows:

W Allen	\$360
J Morris	\$140
T Sage	\$720
F Wild	\$310

Required:

- D Jekeseni's Purchases ledger control account for the month of March. [6 marks]
- Advise D Jekeseni on two ways in which he might find the purchases ledger control account useful. [2 marks]

B. The following is a summary of a cashbook as presented by K and Sons for the month of October 2012:

	\$		\$
Receipts	1 469	Bal b/ d	761
Bal c/d	554	Payments	1 262
	<u>2 023</u>		<u>2 023</u>

All receipts are banked and all payments are made by cheque.

On investigation, you discover:

1. Bank charges of \$136 entered on the bank statement have not been entered in the cash book.
2. Cheques drawn amounting to \$267 had not been presented to the bank for payment
3. Cheques received totaling \$762 had been entered in the cash book and paid into the bank but were only credited by the bank on the 3rd of November
4. A cheque for \$22 for sundries had been entered in the cash book as a receipt instead of as a payment
5. A cheque received from K Jones for \$80 had been returned by the bank and marked 'No funds available'. No adjustment had been made in the cash book.
6. A standing order for a business rates installment of \$150 on 30 October had not been entered in the cash book
7. All rental income received is credited directly to the bank account. During October amounts totaling \$62 were credited by the bank but no entries had been made in the cash book.
8. A cheque drawn for \$67 for stationery had been incorrectly entered in the cash book as \$76.
9. The balance brought down in the cash book should have been \$711 and not \$761.

Required:

- i. Prepare the adjusted cashbook for the month of October 2012. [6 marks]
- ii. Prepare a bank reconciliation statement for the month of October 2012. [4 marks]
- iii. Why is it necessary to prepare a bank reconciliation statement? [2 marks]

QUESTION 4 [18 marks]

Martha and Manuel have the following stock records for the year ended 31 December 2012. They decide to value their stock using the IAS 2 requirements. The stock on hand as at 31 December 2012 can realize \$20 000 before considering selling expenses of \$2 500. They are still deciding on the method to use to determine the stock's cost value so that they achieve their aim of minimizing their profit for the year. As at 31 December 2011, there were 100 items in stock valued at \$10 each at cost.

BOUGHT		SOLD	
2012		2012	
1 February	750 items at \$25 each	15 April	1 100 items at \$60 each
3 April	500 items at \$50 each	30 August	550 items at \$77 each
1 July	800 items at \$55 each	1 November	250 items at \$77 each
30 November	1 000 items at \$60 each	21 December	920 items at \$77 each

Required:

- a) In terms of units, what was the closing stock on 31 December 2012? [1 mark]
- b) What is the value of closing stock using each of the three stock valuation methods? [6 marks]
- c) What is the Gross Profit for each of the three methods? [3 marks]
- d) Which method would you recommend Martha and Manuel to use? [1 mark]
 - a. Why would you recommend this method? [2 marks]
- e) What is the effect of (1) the Straight Line Method and (2) the Reducing Balance Method on a company's profits over an asset's useful life? Illustrate your answer. [4 marks]
 - a. Which of the two would you recommend for (1) a motor vehicle and (2) a building? [1 mark]

END OF PAPER