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-NOV/DEC 2016 PARA MTRE PAPER 1

LECTURER: MR R CHIHOWA

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 Debra Chako, a sole trader, whose financial year end is 31 December 2015

	DR ($)	CR ($)
Stock (1 January 2015)	15 000	
Drawings	12 000	
Debtors/ Creditors	25 000	36 000
Rent and Rates	15 000	
Advertising and Promotion	2 250	
Insurance	2 150	
Purchases/ Sales	95 200	150 000
Returns	920	890
Bad Debts written off	400	
5% Long Term Loan		50 000
Vehicle operating expenses	2 800	
Wages and Salaries	15 000	
Interest of loan	4 000	
Provision for Credit losses (1 January 2015)		580
Plant and Machinery at cost	70 000	
Plant and Machinery – provision for depreciation		7 000
Stationery	2250	
Capital		80 000
Motor Vehicles – Cost	25 000	
Motor Vehicle – Accumulated Depreciation		2 500
Bank		10 000
Land	50 000	
	336 970	**336 970**

The following was noted soon after year end:

1) Stock on 31 December 2015 had a cost value of $15 000 and a Net Realizable Value of $14 000. The company's policy is to value stock as per IAS 2 requirements.
2) The following expenses are to be accrued: wages $350 and Stationery $50.
3) At year end there was stationery worth USD250 left in stock.
4) Insurance paid of $2000 includes $130 paid for the financial year ending 31 December 2016.
5) Depreciation is to be provided on the following bases: Motor Vehicles 20% reducing balance method; Plant and Machinery 10% straight line; no depreciation on Land
6) Trade receivables includes an additional $150 debts which are known to be bad. The provision for credit losses is to be adjusted to include a specific provision of $150 and a general provision of 5%.

2

Required:

a) Prepare the Statement of Profit/ Loss and Other Comprehensive Income for the year ended 31 December 2015. [15 marks]

b) Prepare the Statement of Financial Position as at 31 December 2015. [10 marks]

c) Briefly explain the following concepts [10 marks]

      i.   Materiality

      ii.   Substance over form

      iii.   Accrual

      iv.   Prudence

      v.   Going concern

QUESTION 2 [25 marks]

a) From the following figures, compile account receivable and accounts payables ledger control accounts for the month.[22]

Balances on 1 December 2015		$
Accounts receivable ledger	Dr	45 256
Accounts receivable ledger	Cr	236
Accounts payables-	Dr	133
Accounts payables-	Cr	25 456
Total for the month to 31 December 2015		
Purchases		55 129
Sales		95 326
Purchases returns		1 126
Set-off		323
Bad debts written off		1 343
Discounts and allowances to customers		755
Cash received from customers		25 126
Cash discount received		2 578
Cash paid to creditors		26 425
Sales returns		125
Accounts payable debit balances as at 31 December 2015		10
Accounts receivable credit balances as at 31 December 2015		15

Additional notes

i.   Purchases includes USD1 500 cash purchases while sales includes USD 250 cash sales

b) Briefly explain the importance of the two control accounts [3 marks]

QUESTION 3 [20 marks]

The following information relates to Way Jojo, a sole trader.

December 2015	
1	**Assets:** Premises $10 000;Inventory $1 500;Account receivable: J Johns $500,Cash $5 500 , Bank $7 000 **Liabilities:** Accounts payables B Peters $500
2	Paid wages by cheque $320
3	Goods bought on credit from: B Peters $20 000; P Prones $1 500
5	Goods sold on credit: J Johns $5 500; B Johns $4 500
6	Paid for motors expenses $150 cash
12	Purchased a motor vehicle $1 500 by cheque
19	Cash sales $15 000
25	Goods returned to B Peters $1 000,P Prones $1 200
27	Way Jojo settled B Peters ' account by cheque less a cash discount of 2%
29	J Johns settled his account by cheque less 2% cash discount
30	Purchased a motor vehicle on credit from J Mani for $6 500
30	Cash purchases $5 000

Required:

a) You are to prepare the following for Way Jojo for the month ended 31 December 2015:
  i.   All the relevance books of prime entries   [5 marks]
  ii.   Sales Ledger   [3 marks]
  iii. Purchases Ledger   [3 marks]
  iv.   General Ledger   [4 marks]

b) A junior accountant argues that once the trial balance agrees all errors will have been eliminated. Explain to him using at least three errors that can still be there even though the trial balance agrees [5 marks]

QUESTION 4 [20 marks]

The following is a summary of a cash book as presented by J Jaji trading for month ending 31 December 2015.

	USD		USD
Receipts	1 200	Balance b/d	760
Balance c/d	660	Payments	1 100
	1 860		1 860

All receipts are banked and all payments are made by cheque

On investigation the following was discovered

1) Bank charges of $70 entered on the bank statement have not yet been entered in the cash book.
2) Cheques drawn amounting to $320 had not been presented to the bank for payment
3) Cheques received totaling $850 had been entered in the cash book and paid into the bank but had not been credited by the bank until 1 January 2016
4) A cheque for $60 for sundries had been entered in the cash book as a receipt instead of as a payment.
5) A cheque from B Kunei for USD90 had been returned by the bank because of there were no funds available and no entry has been made in the cash book.
6) A standing order for rent installment of USD170 on 29 December 2015 had not been entered in the cash book.
7) A cheque drawn for USD87 for stationery had been incorrectly entered in the cash book as USD78
8) The balance on the bank statement is not appearing clearly on the statement from the bank and it needs to be derived.

Required:

a) Show the adjustments required in the cash book
b) Prepare a bank reconciliation statement as at 31 December 2015
c) Briefly explain why it is necessary to prepare bank reconciliation statements every month.[5 marks]

END OF PAPER