



"Investing in Africa's Future"

FACULTY OF MANAGEMENT AND ADMINISTRATION

FOUNDATIONS OF ACCOUNTING 1 – MAC 101

END OF FIRST SEMESTER EXAMINATIONS

JUNE 2017

LECTURER: N. E CHIRIMA

DURATION: 3 HRS

INSTRUCTIONS

SECTION A IS WORTH 40 MARKS. SECTION B IS WORTH 60 MARKS.

ANSWER SECTION A ON THE GRID PAPER PROVIDED

ANSWER SECTION B IN THE AFRICA UNIVERSITY ANSWER BOOLET PROVIDED

WORK WRITTEN IN PENCIL IS DEEMED TO BE ROUGH WORK

CLEAR AND NEATLY PRESENTED WORK WILL BE AWARDED MARKS FOR PRESENTATION

SECTION A [40 Marks]

Section A has 20 questions. Each question is worth 2 marks. Answer all questions on the answer grid paper provided (remember to write your student I. D). All working is to be made in the Africa University booklet provided.

1. Which three of the following answers are recognised as objectives of financial accounting?
 - A. To provide quantitative information, primarily financial in nature, about economic entities that is intended to be useful in making economic decisions and in making resolved choice among alternative courses of action
 - B. To measure the likely risks and returns associated with an enterprise
 - C. To support informed judgments and decisions by users
 - D. To provide information about the reporting entity's financial performance and financial position that is useful to present and potential investors for assessing the stewardship of the entity's management and for making economic decisions

2. The descending order in which current assets should be shown in the statement of Financial Position is
 - A. Stock, debtors, bank, cash
 - B. Cash, bank, debtors, stock
 - C. Debtors, stock, bank, cash
 - D. Stock, debtors, cash, bank

3. Suppliers' personal accounts are found in the
 - A. Nominal Ledger
 - B. General Ledger
 - C. Purchases Ledger
 - D. Sales Ledger

4. Company X buys goods on credit from one of its suppliers, company Y, How should this transaction be recorded in the books of company X?

	<u>ACCOUNT DEBITED</u>	<u>ACCOUNT CREDITED</u>
A	Company Y	Purchases
B	Company Y	Inventory
C	Purchases	Company Y
D	Inventory	Company Y

5. Within the statement of financial position, according to the International Accounting Standards, retained earnings are classified as:

- A. Non – Current Assets
- B. Current Assets
- C. Equity
- D. Current Liabilities

6. Clarkson received a cheque for \$600 from P. Green. He credited the \$600 to the account of P. Grey in error. He had made

- A. A compensating error
- B. An error of commission
- C. An error of complete reversal
- D. An error of principle

7. On 1 January 2012, Petit paid an insurance premium of \$1 250 for the 15 months to 31 March 2013. When he prepared his profit and loss account for the year to 31 December 2012, Petit debited only \$1 000 of the insurance premium to the account and carried the balance of \$250 forward to 2013. This was an example of the concept of

- A. Going concern
- B. Matching
- C. Prudence
- D. Realization

8. At 31 December, a company's trade receivables totalled \$60,000 and the allowance for doubtful receivables was \$2,000. The company decided to adjust its allowance for doubtful debts to five per cent based on previous experience.

What figure should be included in the statement of comprehensive income for doubtful debts for 31 December?

- A. \$5 000
- B. \$3 000
- C. \$2 900
- D. \$1 000

9. A company has just purchased furniture for £12,000. The furniture has an estimated useful life of four years; and the estimated residual value is £1,000. The company uses the straight-line method of depreciation

What would be the accumulated depreciation figure in the company's accounts at the end of the second year?

- A. \$2 750
- B. \$3 000
- C. \$4 000
- D. \$5 500

10. A company normally sells its products for \$20 per unit, which includes a profit margin of 25%. However, the selling price has fallen to \$15 per unit. This company's current inventory consists of 200 units purchased at \$16 per unit. Replacement cost has now fallen to \$13 per unit. Calculate the value of inventory at the lower of cost or net realizable value.

- A. \$2 550
- B. \$2 600
- C. \$2 700
- D. \$3 200

11. In the annual report, where would a financial statement reader find out if the company's financial statements give a fair depiction of its financial position and operating results?

- A. Notes to the financial statements
- B. Chief Executive Officer's Report
- C. Statement of Financial Position
- D. Auditor's report

12. Which of the following characteristics does not describe an asset:

- A. Probable
- B. Controlled by an entity
- C. Requires the payment of cash
- D. Result of a past transaction

13. Which of the following characteristics does not describe a liability:

- A. Result of a past transaction.
- B. Probable.
- C. Present obligation
- D. Must be legally enforceable

14. You are given the following information relating to rental income for the year ended 31 December 2015. During 2015, \$74 500 was received as rent.

As at 31 December 2015	2014	2015
	\$	\$
<i>Rent received in advance</i>	4 500	6 000
<i>Rent in arrears</i>	18 000	24 000

Rent for the year ended 31 December 2015 was:

- A. \$43 000
- B. \$70 000
- C. \$79 000
- D. \$106 000

15. G and Sons owns three trucks acquired as stated on the left. They depreciate their trucks at 25% per year, using the reducing balance method and time apportioning the year of acquisition.

DATE	COST
	\$
1 July 2013	48 000
1 January 2014	36 000
1 April 2016	60 000

What will be the depreciation to written off in the Statement of Comprehensive Income for the year ended 30 June 2016?

- A. \$25 969
- B. \$25 126
- C. \$22 219
- D. \$36 000

16. What is depreciation?

- A. The residual value of a fixed asset plus its original cost
- B. The cost of a replacement for a fixed asset
- C. The cost of an asset wearing away
- D. The part of the cost of the fixed asset consumed during the period of use by the business

17. In the accounting records, the non – current assets are normally recorded

- A. At cost
- B. At book value
- C. At scrap value
- D. At replacement value

18. Salvage value means

- A. cash to be paid when asset is disposed off
- B. estimated disposal value
- C. definite sale price of the asset

19. A company values its inventory using the FIFO method. At 1 May 2015 the company had 700 engines in inventory, valued at \$190 each. During the year ended 30 April 2016 the following transactions took place:

2015

1 July Purchased 500 engines at \$220 each

1 November Sold 400 engines for \$160,000

2016

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

20. 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

<u>Statement 1</u>	<u>Statement 2</u>
A. Correct	Correct
B. Correct	Incorrect
C. Incorrect	Correct
D. Incorrect	Incorrect

SECTION B [60 Marks]

Section B has 4 questions. Marks for each question are indicated. **Answer all** questions in the Africa University booklet provided.

QUESTION ONE [10 Marks]

The qualitative characteristics that make accounting information useful for decision-making purposes are as follows.

Relevance	Timeliness	Representational	faithfulness
Reliability	Verifiability	Comparability	Predictive value
Neutrality	Consistency	Feedback/ Confirmatory value	

Required:

Identify the appropriate qualitative characteristic(s) to be used given the information provided below.

- (a) Qualitative characteristic being employed when companies in the same industry are using the same accounting principles.
- (b) Quality of information that confirms users' earlier expectations.
- (c) Imperative for providing comparisons of a firm from period to period.
- (d) Ignores the economic consequences of a standard or rule.
- (e) Requires a high degree of consensus among individuals on a given measurement.
- (f) Predictive value is an ingredient of this primary quality of information.
- (g) Two qualitative characteristics that are related to both relevance and reliability.
- (h) Neutrality is an ingredient of this primary quality of accounting information.
- (i) Two primary qualities that make accounting information useful for decision-making purposes.
- (j) Issuance of interim reports is an example of what primary ingredient of relevance?

[10 marks]

QUESTION TWO [20 Marks]

The balances listed below were extracted from the records of Bhule and Sons, a Sole trader on 30 June 2016:

Revenue	\$530 650
Purchases	\$298 400
Returns Inwards (Sales Returns)	\$1 880
Delivery vehicles (at Net Book Value)	\$19 230
Factory Plant and Equipment (at Net Book Value)	\$24 000
Land	\$50 000
Buildings (at Net Book Value)	\$300 000
Selling and Marketing Expenses	\$66 420
Administrative Expenses	\$18 710
Rent received	\$12 000
Unlisted Investments	\$30 000
Other Income	\$1 500
Inventory at 1 July 2015	\$24 680
Debtors	\$15 690
Creditors	\$34 700
Distribution Costs	\$44 280
Cash	\$410
Bank Overdraft	\$4 820
Capital	\$150 000
Retained Earnings at 1 July 2015	\$160 030

The following transactions and events occurred on 30 June 2016, after the above balances had been extracted:

1. Bhule and Sons received \$1 460 from a credit customer on the 30th of June 2016.
2. Inventory was valued based on IAS 2 requirements. At the close of business, the inventory net realisable value was computed as \$29 170 and its cost value (using FIFO) was \$29 172.
3. An electricity bill for the \$ 1 500 relating to the factory for the three months ended 30 June 2015 was received. The bill was paid in July 2016.
4. Depreciation is to be provided on a reducing balance basis at the following annual rates

	%
Delivery vehicles	20
Factory plant and equipment	10

5. Income tax for the financial year was estimated at \$38 100.

Required:

In accordance with IAS 1 *Presentation of Financial Statements*, prepare for Bhule and Sons

- a. A Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2016 [9 marks]
- b. A Statement of Financial Position as at 30 June 2016 [8 marks]
- c. Briefly outline three limitations inherent in Financial Reports. [3 marks]

QUESTION THREE [10 Marks]

Roberts Manufacturing Statement of Profit or Loss and Other Comprehensive Income for Year Ended December 31, 2015

(Dollars in Thousands)

Sales		\$2,400
Cost of goods sold:		
Materials	\$1,000	
Labour	600	
Heat, light, and power	89	
Indirect labour	65	
Depreciation	<u>80</u>	<u>1,834</u>
Gross profit		\$ 566
Selling expenses		175
General and administrative expenses		<u>216</u>
Earnings before interest and taxes (EBIT)		\$ 175
Interest expense		<u>35</u>
Earnings before taxes (EBT)		\$ 140
Taxes (40%)		<u>56</u>
Net income (NI)		<u>\$ 84</u>

Roberts Manufacturing Statement of Financial Position

December 31, 2015

(Dollars in Thousands)

Cash	\$ 200	Accounts payable	\$ 205
Receivables	245	Notes payable	425
Inventory	<u>625</u>	Other current liabilities	<u>115</u>
Total current assets	\$1,070	Total current liabilities	\$ 745
Net fixed assets	1,200	Long-term debt	420
	<u> </u>	Ordinary Share Capital	<u>1,105</u>
Total assets	<u>\$2,270</u>	Total liabilities and equity	<u>\$2,270</u>

Required:

Based on the Financial Statements presented, compute:

- | | |
|----------------------------|-----------|
| a) Net Profit Percentage | [2 Marks] |
| b) Gross Profit Percentage | [2 Marks] |
| c) Quick Ratio | [2 Marks] |
| d) Interest Cover | [2 Marks] |
| e) Debt to Equity Ratio | [2 Marks] |

QUESTION FOUR [20 Marks]

The chief accountant of Gumbo Ltd has balanced the cash book for the year ended 31 March 2016. At that date the cash book showed a credit balance of \$4 560 as opposed to a debit balance on the same date in the previous year. The company has made a profit for the year ended 31 March 2016. When the monthly bank statement for the month of March was received it did not agree with the balance in the cash book so an investigation was made to establish the reasons for the difference. The following issues were revealed:

1. A cheque paid for advertising on 10 March 2016 for \$2 148 had been entered in the cash book as \$2 184.
2. On 20 March 2016 a debtor had informed the company that a direct transfer of \$1 330 had been remitted to Gumbo Ltd's account. This was in settlement of a sales invoice for \$1 400. The entry made in the cash book was \$1 400.
3. A standing order to a trade association for \$480 had been paid by the bank on 2 March 2016 but no entry appeared in the cash book.
4. Cheques amounting to \$12 444 had been sent to suppliers and entered in the cash book but had not yet been presented to the bank.
5. Cheques received from customers amounting to \$20 160 had been received by branches of the company, and entered in the cashbook. The bank had not credited these on the March 2016 statement.

You are required to:

- a) Adjust the cash book of Warton Ltd and bring down the correct balance to 31 March 2016. [8 marks]
- b) Prepare a bank reconciliation statement as on 31 March 2016 which clearly shows the original balance on the March bank statement. [5 marks]
- c) Briefly explain why a bank balance may be very low in spite of a company having made a profit. [4 marks]
- d) Explain why it is important to prepare a bank reconciliation statement. [3 marks]

END OF PAPER