REFORMED CHURCH UNIVERSITY

FACULTY OF COMMERCE

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

FINANCIAL ACCOUNTING 1B

HACC 116

PART 1 SEMESTER 2

TOTAL MARKS [100]

DATE: JUNE 2024

Time: 3 Hours

INSTRUCTIONS

1. This paper has ***six (6)*** questions
2. Answer question ***one (1)*** and ***any*** other ***three (3)***
3. Each question carries ***25 marks***
4. Start each question on a new page

QUESTION 1

Extracts from the financial statements of January Ltd are as follows:

Operating profit	$80,000
Investment income	$12,000
Finance costs	$(10,000)
Profit before tax	$82,000
Tax	$(32,000)
Profit for the year	$50,000
Other comprehensive income	
Revaluation gain	$40,000
Total comprehensive income	$90,000

	Closing Balance	**Opening Balance**
Current assets		
Inventory	$30,000	$25,000
Trade receivables	$20,000	$26,000
Current liabilities		
Trade payables	$14,000	$11,000

Additional information

i. During the year, depreciation of $50,000 and amortisation of $40,000 was charged to the statement of profit or loss.

ii. Cash receipts from customers, including cash sales, were $800,000. Cash paid to suppliers and employees was $626,000.

iii. Interest paid was $12,000 and taxation paid was $13,000.

Required:

a) Prepare the operating activities section of the statement of cash flows using the direct method.

b) Prepare the operating activities section of the statement of cash flows using the indirect method. **(25 marks)**

Question 2
The following information was derived from the books of Bubble Limited

TRIAL BALANCE AS AT 28 FEBRUARY	2023	2022
Land and buildings at valuation	$244,500	$200,000
Machinery at cost price	$14,800	$52,300
Financial assets at amortised cost	$-	$2,400
Inventory	$15,000	$19,000
Trade and other receivables	$18,000	$15,400
Bank	$8,000	$14,000
	$300,300	$303,100
Share capital – 100 000 shares	$100,000	$100,000
Interest free long-term borrowings	$40,000	$50,000
Revaluation surplus	$59,500	$15,000
Retained earnings	$65,000	$107,000
Dividends payables	$20,000	$10,000
Accumulated depreciation – machinery	$3,400	$4,800
Allowance for credit losses	$1,000	$1,200
Trade and other payables	$7,400	$11,300
Tax payable	$4,000	$3,800
	$300,300	$303,100

Additional information
The following information was derived from the statement of profit or loss and other comprehensive income of Bubble Ltd for the year ended 28 February 2023:

Revenue	$179,500
Cost of sales	$(76,200)
Gross profit	$103,300
Other income (1 000 + 200)	$1,200
Administrative and selling expenses (48 000 + 42 600)	$(90,600)
Other expenses	$(400)
Profit before tax	$13,500
Income tax expense	$(5,500)

PROFIT FOR THE YEAR	$8,000
Other comprehensive income for the year	
- Revaluation surplus	$44,500
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$52,500

Extract from the statement of changes in equity for the year ended 28 February 2023

	Revaluation Surplus	**Retained Earnings**	**Total**
Balance at 1 March 2022	$15,000	$107,000	$122,000
Changes in equity for 2023			
Total comprehensive income for the year			
Profit for the year		$8,000	$8,000
Other comprehensive income for the year	$44,500		$44,500
Dividend paid: ordinary		$(50,000)	$(50,000)
Balance at 28 February 2023	$59,500	$65,000	$124,500

Bubble Ltd grew rapidly during the year, and unless otherwise indicated, they purchased all assets for the purposes of expanding the enterprise. The following transactions occurred during the year ended 28 February 2023:

- Bubble Ltd purchased new machinery to the value of $8 000 during the year to replace the obsolete machinery. The cost price of the old machinery was $45 500, and B Ltd resold it for $2 500. The accumulated depreciation on the machinery that was sold was $44 000.
- The company sold its financial assets at 1 March 2022 for $2 000. These assets were not held with the intention of short-term profit taking as part of the business model.

REQUIRED

Draft the **statement of cash flows for Bubble Ltd for the financial year ended 28 February 2023** in compliance with the requirements of International Financial Reporting Standards (IFRS) using the indirect method. **(25 marks)**

QUESTION 3

The following information is taken from the accounting records of A & A Travel a partnership with Anna and Anele as partners, at 28 February 2023, the financial year end of the partnership.

A&A Travel

Balances as at 28 February 2023

Capital Anna	$200,000
Capita Anele	$300,000
Current Account Anna (Dr)	$15,000
Current Account Anele (Cr)	$9,000
Drawings Anna	$75,000
Drawings Anele	$82,000
Asset Replacement Reserve	$61,000
Land and Buildings at Cost	$800,000

Motor Vehicles at Cost	$401,000
Accummulated Depreciation: Motor Vehicles (1 March 2022)	$40,000
Motgage	$121,500
Long Term Loan Anele	$50,000
Bank Overdraft	$58,000
Creditors Control	$75,000
Debtors Control	$78,000
Profit for the year before year-end adjustments	$536,500

Additional information

Abstract from terms of partnership agreement

1. Each partner is entitled to an annual salry of $60000
2. Interest of 5% per annum is to be allowed on the opening balances of the partners' capital and current accounts.

Yearend adjustments

1. The long-term loan from Anele was acquired on 1 January 2023. Interest is calculated at 12% per annum and must be paid on 30 June of every year.
2. During the year Anele received $12000 as an entertainment allowance which was correctly debited to his drawings account. Anele used the allowance to buy 4 private suite tickets to a soccer match at Rufaro Stadium at a cost of $2000 per ticket. All of the tickets were awarded to clients of A&A Travel.
3. Due to cultural differences that nearly split the partnership into 2 factions, the partners decided to go for a cultural diversity programme. Each partner received $10000 from the partnership to pay for the programme. These amounts were incorrectly included in the salaries paid to the partners during the year.
4. Provision must still be made for depreciation on motor vehicles at 25% per annum according to the diminishing balance method.
5. The accountant of the partnership inadverntly forgot to record the sale of a motor vehicle costing $60000. The vehicle was sold for $30000 on 1 December 2022. On 1 March 2022 this motor vehicle had an accumulated depreciation amounting to $24000.
6. The partners decided that an amount of $16000 of the comprehensive income must be transferred to the asset replacement reserve.

Required

a) Calculate the total comprehensive income for the year ended 28 February 2023

(10 marks)

b) Prepare the statement of changes in equity for the year ended 28 February 2023

(15 marks)

<u>QUESTION 4</u>

The accounting records of the Happy Tickers Sports and Social Club are in a mess. You manage to find the following information to help you prepare the accounts for the year to 31 December 2018.

Summarized Statement of Financial Position as at 31 December 2017

Half-share in motorized roller	$600
New sports equipment unsold	$1,000
Used sports equipment at valuation	$700
Rent prepaid (2 months)	$200
Subscriptions 2017	$60

Café stocks	$800
Cash and bank	$1,210
	$4,570
Life subscriptions	$1,400
Subscriptions 2018	$120
Insurance accrued (3 months)	$150
Accumulated fund	$2,900
	$4,570

Receipts in the year to 31 December 2018:	
Subscriptions – 2017	$40
– 2018	$1,100
– 2019	$80
– Life	$200
From sales of new sports equipment	$900
From sales of used sports equipment	$14
Café takings	$4,660
	$6,994

Payments in the year to 31 December 2018:	
Rent (for 12 months)	$1,200
Insurance (for 18 months)	$900
To suppliers of sports equipment	$1,000
To café suppliers	$1,900
Wages of café manager	$2,000
Total cost of repairing motorized roller	$450
	$7,450

Notes:

i. Ownership and all expenses of the motorized roller are agreed to be shared equally with the Carefree Conveyancers Sports and Social Club which occupies a nearby site. The roller cost a total of $2,000 on 1 January 2016 and had an estimated life of 10 years.

ii. Life subscriptions are brought into income equally over 10 years, in a scheme begun 5 years ago in 2013. Since the scheme began the cost of $200 per person has been constant. Prior to 31 December 2017 10 life subscriptions had been received.

iii. Four more annual subscriptions of $20 each had been promised relating to 2018, but not yet received. Annual subscriptions promised but unpaid are carried forward for a maximum of 12 months.

iv. New sports equipment is sold to members at cost plus 50%. Used equipment is sold off to members at book valuation. Half the sports equipment bought in the year (all from a cash and carry supplier) has been used within the club, and half made available for sale, new, to members. The ‘used equipment at valuation’ figure in the 31 December 2018 statement of financial position is to remain at $700.

v. Closing café stocks are $850, and $80 is owed to suppliers at 31 December 2018.

Required:

a) Calculate the profit on café operations and the profit on sale of sports equipment.

b) Prepare a statement of subscription income for 2018.

Prepare an income and expenditure statement for the year to 31 December 2018, and statement of financial position as at 31 December 2018. **(25 marks)**

QUESTION 5

The following is a trial balance of C. Achebe for the year ended 31 December 2022

	Debit	Credit
Capital		$10,000
Sales		$36,500
Returns	$500	$100
Purchases	$14,000	
Inventory (1.1.2022)	$1,300	
Drawings	$3,500	
Cash	$250	
Bank	$5,000	
Property, plant, and equipment (cost)	$30,400	
Accumulated Depreciation		$10,200
Trade receivables/payables	$9,000	$7,600
Irrecoverable debts written off	$100	
Distribution expenses	$2,000	
Administration expenses	$3,500	
Interest on loan	$200	
Bank loan @ 10% (repayable 31 December 2028)		$4,000
Discounts	$500	$600
Provision for doubtful debts		$1,250
	$70,250	$70,250

Additional information:

i. No record was made in the books for goods valued at $200 at cost taken by Achebe for his own use
ii. Closing inventory at the end of year was at cost $2,500
iii. Achebe provides for bad debts at 10% on the closing balance of trade receivables
iv. Depreciation is charged on property, plant and equipment at 20% p.a. reducing balance method

v. At year end, distribution expenses of \$150 were prepaid and administration expenses of \$100 were owing
vi. Interest on loan of \$200 was outstanding at 31 December 2012

Required:

a) Prepare adjusting journal entries **(5 marks)**
b) Prepare for Achebe, a statement of comprehensive income for the year ended 31 December 2012. **(9 marks)**
c) Prepare Achebe's statement of financial position as at that date. **(8 marks)**

6. Explain any five errors that affects the trial balance **(25Marks)**

END OF PAPER