



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: DECEMBER 2024

Time: 3 Hours

INSTRUCTIONS

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

QUESTION 1

The following extract is from the trial balance of Vernon Co at 31 December 2018:

| | 000 | 000 |
|---------------------------------|-----|----------|
| Cost of sales | | \$46,410 |
| Finance costs | | \$4,050 |
| Investment income (note (iii)) | | \$1,520 |
| Operating expenses (note (iii)) | | \$20,640 |
| Revenue (notes (i) and (ii)) | | \$75,350 |
| Tax (note vi)) | | \$130 |

The following notes are relevant:

- i. Vernon Co made a large sale of goods on 1 July 2018, which was also the date of delivery. Under the terms of the agreement, Vernon Co will receive payment of \$8m on 30 June 2019. Currently, Vernon Co has recorded \$4m in revenue and trade receivables. The directors intend to record the remaining \$4m revenue in the year ended 31 December 2019. The costs of this sale have been accounted for correctly in the financial statements for the year ended 31 December 2018. Vernon Co has a cost of capital of 8% at which an appropriate discount factor would be 0.9259.
- ii. Vernon Co also sold goods to an overseas customer on 1 December 2018 for 12m Kromits (Kr). They agreed a 60-day payment term. No entries have yet been made to record this sale, although the goods were correctly removed from inventory and expensed in cost of sales. The amount remains unpaid at 31 December 2018.

Relevant exchange rates are:

1 December 2018: 6.4 Kr/\$

31 December 2018: 6.0 Kr/\$

- iii. Vernon Co acquired \$9m 5% bonds at par value on 1 January 2018. The interest is receivable on 31 December each year. Vernon Co incurred \$0.4m broker fees when acquiring the bonds, which has been expensed to operating expenses. These bonds are repayable at a premium so have an effective rate of 8%. Vernon Co has recorded the interest received on 31 December 2018 in investment income.
- iv. During the year, Vernon Co revalued its head office for the first time, resulting in an increase in value of \$12m at 31 December 2018. Deferred tax is applicable to this gain at 25%.
- v. Vernon Co values its investment properties using the fair value model. The investment properties increased in value by \$4m at 31 December 2018.
- vi. The tax figure in the trial balance represents the under/over provision from the previous year. The current tax liability for the year ended 31 December 2018 is estimated to be \$3.2m.
- vii. At 1 January 2018, Vernon Co had 30 million \$1 equity shares in issue. On 1 April 2018, Vernon Co issued an additional 5 million \$1 equity shares at full market value. On 1 July 2018, Vernon Co performed a 2 for 5 rights issue, at \$2.40 per share. The market value of a Vernon Co share at 1 July 2018 was \$3.10 per share.

Required:

- a) Produce a statement of profit or loss and other comprehensive income for Vernon Co for the year ended 31 December 2018. **(15 marks)**
- b) Calculate the earnings per share for Vernon Co for the year ended 31 December 2018. **(5 marks)**

QUESTION 2

The following is a summary of the receipts and payments of the Miniville Rotary Club during the year ended 31 July 2019.

| Miniville Rotary Club | | | |
|---|----------------|-----------------------------|----------------|
| Receipts and Payments Account for the year ended 31 July 2019 | | | |
| DR | | | CR |
| Cash and bank balances b/d | \$210 | Secretarial expenses | \$163 |
| Sales of competition tickets | \$437 | Rent | \$1,402 |
| Members' subscriptions | \$1,987 | Visiting speakers' expenses | \$1,275 |
| Donations | \$177 | Donations to charities | \$35 |
| Refund of rent | \$500 | Prizes for competitions | \$270 |
| Balance c/d | \$13 | Stationery and printing | \$179 |
| | \$3,324 | | \$3,324 |

The following valuations are also available:
as at 31 July

| | 2018 | 2019 |
|--|-------|-------|
| Equipment (original cost \$1,420) | \$975 | \$780 |
| Subscriptions in arrears | \$65 | \$85 |
| Subscriptions in advance | \$10 | \$37 |
| Owing to suppliers of competition prizes | \$58 | \$68 |
| Stocks of competition prizes | \$38 | \$46 |

Required:

- a) Calculate the value of the accumulated fund of the Miniville Rotary Club as at 1 August 2018.
- b) Reconstruct the following accounts for the year ended 31 July 2019:
- i. the subscriptions account,

- ii. the competition prizes account.
- c) Prepare an income and expenditure account for the Miniville Rotary Club for the year ended 31 July 2019 and a balance sheet as at that date.

QUESTION 3

During 2019, a company discovered that certain items had been included in inventory at 31 December 2018 at a value of €1 million but they had in fact been sold before the year-end.

The original figures reported for the year ended 31 December 2018 and the figures for the current year 2019 are given below:

| | 2019 \$000 | 2018 \$000 |
|---------------|---------------|---------------|
| Sales | 50,000 | 47,000 |
| Cost of Sales | 32,000 | 31,000 |
| Gross Profit | 18,000 | 16,000 |
| Tax | 3,000 | 2,000 |
| Net Profit | 15,000 | 14,000 |

The cost of sales in 2019 includes the \$1 million error in opening inventory.

Required:

- a) Show the 2019 Statement of Profit and Loss with comparatives figures. **(5 marks)**
- b) Giving examples explain when a change in accounting policy occurs **(6 marks)**
- c) Explain the accounting treatment of a change in accounting policy. **(9 marks)**
- d) State the key disclosures of a change in accounting policy **(5 marks)**

QUESTION 4

The following is information from the books of P. Makomo on 31 December 2019

| | | |
|--------|---------------------------------|--------|
| Dec 01 | Sales ledger balance | 2000 |
| | Purchases ledger balance | 650 |
| Dec 28 | Credit Sales | 222852 |
| | Credit purchases | 14938 |
| | Cash purchases | 4000 |
| | Cash Sales | 2500 |
| | Bad debts written off | 5600 |
| | Cheque from debtors | 19600 |
| | Cash paid to creditors | 15500 |
| | Dishonoured cheque from T. Moyo | 180 |

| | |
|--|-----|
| Returns outwards | 220 |
| Returns Inwards | 190 |
| Discount Allowed | 92 |
| Discount Received | 68 |
| Interest charged on debtors' overdue account | 150 |
| Sales ledger credit balance | 300 |
| Purchases ledger debit balances | 200 |
| | |
| | |

Given Stock as follows;

1 December 2019, Opening Stock -\$4800

31 December 2019, Closing Stock - \$6000

Prepare

- a) Sales Ledger Control Account (10)
- b) Purchases Ledger Control Account (8)
- c) Trading Account (7)

QUESTION 5

A trial balance for J. Boss was extracted on 31 December 2018 and the totals did not agree, there being a \$54 shortage on the credit column. As a result, a suspense account was opened.

In January 2019, the following errors were discovered.

- (a) Cash paid into the bank of \$44 was entered on the credit side of both accounts.
- (b) Insurance paid by cheque was entered as \$87 when it should have been \$78.
- (c) Returns outwards of \$90 was treated correctly in the creditor's account but was then debited to returns inwards.

- (d) A sale of \$158 on credit to J Saunders was only entered into the sales account.
- (e) Extra capital contributed in the form of \$320 cash was entered correctly in cash but as \$230 in the capital account.

Required

- a) Prepare the journal entries needed to correct the errors (narrations are required) (12)
- b) Make corresponding entries in the suspense account (7)
- c) Prepare a corrected Trial Balance as at 01 January 2019 (6)

QUESTION 6

- a) Explain in detail the following budgets
 - i) Sales budget (3)
 - ii) Production budget (3)
 - iii) Cash budget (3)
 - iv) Master budget (3)
 - v) Capital budget (3)
- c) Explain any 5 advantages of cash budgeting (10)

END OF PAPER