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: MARCH 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

SET1

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.

Year end adjustments

1. The long-term loan from Anele was aqcuired 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 whichwas 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 depriciation 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.

Summarised Statement of Financial Position as at 31 December 2017

Half-share in motorised 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 motorised roller	$450
	$7,450

Notes:

i. Ownership and all expenses of the motorised 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)**

Question6

Explain any Five errors that **affects** the trial balance **(25Marks)**

SET 2

QUESTION 1

Kariba Limited acquired land and buildings for its manufacturing operations at a cost $ 1460 000 (land $ 460 000 and buildings $1 000 000) on 1 October 2017. On 1 January 2018 the company moved into new premises and decided to lease the old premises to Mahombekombe Limited at an annual rental of $270 000 in terms of an operating lease.

Kariba Limited depreciates its buildings on a straight line basis over 20 years and uses the fair value model for investment properties. On 1 January 2018, the fair value of the property amounted to $1 710 000 (land $ 550 000 and buildings $ 1 160 000) and $ 2 180 000 on 30 September 2018.
NB: Kariba Limited has an annual reporting date of 30 September.

Required:-

Outline the accounting treatment for the property in the Books of Kariba Limited base your answer on IAS40 (Investment property). **(25 marks)**

QUESTION 2

Natasha and Natalie operated a partnership business NatNat Traders. The following is the trial balance of NatNat Traders as 31 August 2016.

	Debit	Credit
Land and buildings at cost	$114,000	
Machinery at cost	$20,000	
Accounts receivable	$30,800	
Inventory	$14,000	
Cash at Bank	$72,400	
Interest bearing borrowings		$16,000
Accounts payable		$28,200
Accrued expenses		$2,400
Accumulated depreciation		
Machinery		$4,000
Capital accounts		
Natasha		$56,000

Natalie		$65,000
Current Accounts		
Natasha		$41,708
Natalie		$25,892
General Reserve		$12,000
	$251,200	$251,200

On 1 September 2016 Natasha and Natalie agreed to admit Nathaniel into the partnership on the following terms;

i. Natasha and Natalie share their profits equally.
ii. The following values were placed on the partnership assets and liabilities;

Land and buildings	$140,000
Machinery	$18,000
Inventory	$13,000
Accounts receivable	$28,800
Goodwill	$38,400

All other assets and liabilities were considered to be fairly valued.

iii. Nathaniel contributed $88 000 to the partnership, and will be entitled to a one third share of partnership profits. Natasha and Natalie are to relinquish shares of profit in such a way that each partner will have a third of the future profits.
iv. The new partnership agreed to maintain
  - the assets at the revalued amounts
  - a goodwill account, and
  - the general reserve account
v. The new partnership will trade under the new name of **ThreeNat** traders

Required

i. Show the adjustments to the profit sharing ratio resulting from the admission of Nathaniel **(5 marks)**
ii. Prepare the revaluation account **(5marks)**
iii. Calculate net adjustments to capital accounts as a result of changes in proportionate interest in general reserve. **(5marks)**
iv. Prepare an extract of the Statement of Changes in Equity of **ThreeNat** Traders for the year ending 31 August 2017 showing the changes in equity arising from the admission of Nathaniel. Omit partners' current accounts and total columns **(5 marks)**
v. Prepare an extract of the Statement of Financial Position of **ThreeNat** Traders showing only the assets section immediately after the admission of Nathaniel **(5 marks)**

QUESTION 3

The following information was obtained from the financial records of Kwenga Traders

i. **Account Balances**

Balances of the debtors control account on 1 March 2023	$31 600
Total of list of individual debtors accounts (from the debtors' ledger) At 31 March 2023	$25 430

ii. **Balances of transactions for the month**

Totals of selected transactions from particular books of account

Cash Book	
Total receipts from debtors	$28 800
Total of discount allowed column	$ 2 300
Cash sales	$31 560
Total payments to creditors	$37 570
Cash purchases	$24 250
R/D cheques from debtors	$ 4 400
Sales journal	
Total sales	$35 700
Purchases journal	
Total credit purchases	$16 500
Sales returns journal	
Total sales returns	$10 200
Bills payable journal	
Total bills payable	$ 1 600
Bills receivable journal	
Total bills receivable	$ 1 400
General Journal	
Credit losses written off	$ 3 200
Accounts with debit balances transferred from creditors Ledger to debtors ledger	$ 110
Interest charged on overdue debtors accounts	$ 220
Discount allowed on R/D cheques	$ 80

iii. **Errors discovered**

On reconciling the balance of the debtors ledger control account with the total of the list of balances from the debtors' ledger, the following errors were discovered:

a) Sales journal was overcast by $700

b) Credit note number 31 for $25 was correctly entered in the sales returns journal but debited to the account Z. Zoro the debtor.

c) A credit sale transaction, which was correctly recorded in the sales journal, was overstated by $90 on posting to the individual debtor account concerned.

d) Debtor Z. Rombe who owed $ 1 500 was declared insolvent. His estate was only able to pay 50 cents to the dollar. All relevant entries must still be made.

REQUIRED

a) Prepare a debtors' ledger control account, properly balanced as it would appear in the general ledger of Kwenga Traders for the month of March 2023 **(8 marks)**

b) Reconcile the total of the list of individual debtors accounts with the balance on the debtors ledger control accounts **(6 marks)**

QUESTION 4

Malright, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 2017 and requires your assistance. The following trial balance has been extracted from the general ledger Account

	DR	CR
Buildings at cost	$740,000	
Buildings accumulated depreciation, 1 November 2016		$60,000
Plant at cost	$220,000	
Plant accumulated depreciation, 1 November 2016		$110,000
Bank balance		$70,000
Revenue		$1,800,000
Net purchases	$1,140,000	
Inventory at 1 November 2016	$160,000	
Cash	$20,000	
Trade payables		$250,000
Trade receivables	$320,000	
Administrative expenses	$325,000	
Allowance for receivables at 1 November 2016		$10,000
Retained earnings at 1 November 2016		$130,000
Equity shares, $1		$415,000
Share premium account		$80,000
	$2,925,000	$2,925,000

The following additional information is also available:

- The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.
- Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.
- Closing inventory has been counted and is valued at $75,000.
- An invoice of $15,000 for energy costs relating to the quarter ended 30 November 2017 was received on 2 December 2017. Energy costs are included in administrative expenses.

Required:
Prepare the statement of profit or loss and the statement of financial position of Malright Co as at 31 October 2017. **(15 marks)**

QUESTION 5

a) Revenue is usually one of the largest numbers that appears in the fi nancial statements of an entity. Therefore it is important to ensure that revenue is recognised and measured appropriately. IAS 18 – Revenue – was issued in order to provide standard accounting practice in this area.

Required:

i. Explain the meaning of revenue and the basis on which it should be measured under the principles of IAS 18; **(10 marks)**

ii. Outline the criteria that need to be satisfied before revenue can be recognised under the principles of IAS 18. You should consider revenue from the sale of goods and from the rendering of services separately. **(15 marks)**

QUESTION 6

Kappa is an entity that prepares financial statements to 31 March each year. During the year ended 31 March 2020 the following transactions occurred:

i. On 29 March 2020 Kappa delivered two machines to a customer. Details relating to the machines are as follows:

Machine	Construction cost	Invoiced price
	$	$
A	190,000	250,000
B	200,000	300,000

Machine A was unpacked and connected to the power supply necessary to operate the machine on 2 April 2020. As soon as this was done, the machine was able to operate immediately.

Machine B needed to be installed by an expert fi tter before it was capable of operating in the intended manner. The installation process was complete, and the machine passed ready for use, on 4 April 2020.

The customer paid for both machines on 30 April 2020.

ii. On 15 March 2020 Kappa transferred goods to a third party, Omicron, on a consignment basis. Omicron undertook to sell the goods on behalf of Kappa and remit the proceeds, less a commission of 10%, when the final purchaser paid Omicron for them. The invoiced value of these goods (the price payable by the final purchaser was $400,000). The goods cost Kappa $320,000 to manufacture. By 31 March 2020 Omicron had sold goods at an invoiced price of $240,000 and received payments of $160,000. No payment had been made to Kappa by Omicron by 31 March 2020. Since 31 March 2020 Omicron has sold the remaining goods, received all the proceeds, and remitted $360,000 ($400,000 x 90%) to Kappa. **(5 marks)**

iii. On 1 April 2019 Kappa sold a property it owned to a bank for $3,000,000. The carrying value of the property at 1 April 2019 was $2,000,000, of which $1,200,000 was depreciable. The remaining useful economic life of the depreciable element was 30 years from 1 April 2019. Kappa continued to occupy the property and be responsible for its security and maintenance. The market value of the property on 1 April 2019 was $5,000,000 and it is considered unlikely that this will fall signifi cantly in the foreseeable future. Kappa measures all its property, plant and equipment under the cost model.

The terms of the sale allowed Kappa the option to repurchase the property as follows:
– On 31 March 2020 for $3,300,000.
– On 31 March 2021 for $3,630,000.
– On 31 March 2022 for $3,993,000.

Required:
For each of the above transactions:
a) Explain and compute, by applying the principles of IAS 18, how much revenue should be recognised in the statement of comprehensive income for the year ended 31 March 2020. **(15marks**)
b) Identify and compute any other amounts relating to each transaction that will be included in the statement of comprehensive income for the year ended 31 March 2020 and the statement of fi nancial position at 31 March 2020 **(10 marks).**

SET 3

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	2018
	$000	$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)

SET 4

QUESTION 1

Briefly explain the purpose of using the following ratios:

(a) current ratio

(b) net profit after tax : sales

(c) asset turnover

(d) interest cover

(e) dividend cover

QUESTION 2

A company starts in business on 1 January 2019, the financial year end being 31 December. You are required to show;

a) The machinery account (6)

b) The provision for depreciation account (12)

c) The balance sheet extracts for each of the years 2019, 2020, 2021,2022 (7)

The machinery bought was:

2019 January 1, one machine costing $5000

2020 July 1, two machines costing $2000 each

2020 October 1, one machine costing $1000 each

2022 April 1, one machine costing $1200

Depreciation is over 10 years, using a straight line method, machines being depreciated for the proportion of the year they are owned.

QUESTION 3

The following figures relate to the retail business of K Mbambo for the month of July 2022. Goods which are on sale fall into two categories, X and Y.

	Category X	Category Y
Sales to the public at manufacturer's recommended list price	$9000	$24000
Trade discount allowed to retailers	15%	18%
Total expnses as a percentage of sales	14%	14%

Annual rate of stock turnover	10	16

You are required to calculate for each category of goods.

a) Cost of goods sold (5)

b) Gross profit (5)

c) Total expenses (5)

d) Net profit (5)

Average stock at cost, assuming that sales are distributed evenly over the year, and that each month is of the same length (5)

QUESTION 4

M Chindara's debtors for the four year period are as follows.

Year	Debtors as at 31 December ($)
2014	7,800
2015	7,300
2016	8,650
2017	8,990

If Chindara agreed to make a 5% provision for doubtful debts based on outstanding debtors at the year end, you are required to prepare;

a) Ledger Account for Provision for doubtful debts for the 4 year period (10)

b) Statement of comprehensive Income (extract) for each of the 4 years (8)

c) Statement of financial position (extract) for each of the 4 years (7)

QUESTION 5

Explain the relevance of the following accounting concepts to the business today:

a) Double entry concept (4 marks)

b) Materiality concept (4 marks)

c) Prudence concept (4 marks)

d) Historical Concept (4 marks)

e) Accruals concept (4 marks)

QUESTION 6

The trial balance of Outsize Books Ltd revealed a difference in the books. In order that the error(s) could be located it was decided to prepare purchases and sales ledger control accounts. From the following prepare the control accounts and show where an error may have been made:

		$
Jan 1 Purchases ledger balances	20X8	19,420
Sales ledger balances		28,227
Totals for the year 20X8		
Purchases journal		210,416
Sales journal		305,824
Returns outwards journal		1,452
Returns inwards journal		3,618
Cheques paid to suppliers		205,419
Petty cash paid to suppliers		62
Cheques and cash received from customers		287,317
Discounts allowed		4,102
Discounts received		1,721

Balances on the sales ledger set off against balances in the purchases edger 640 Dec 31 The list of balances from the purchases ledger shows a total of $20,210 and that from the sales ledger a total of $38,37 **(25MARKS)**