



FACULTY OF BUSINESS SCIENCES AND MANAGEMENT

DEPARTMENT OF ACCOUNTING

BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING

PART I SECOND SEMESTER EXAMINATION

FINANCIAL ACCOUNTING 11 [BAC1201]

MAY/JUNE 2023

DURATION: 3 HOURS

INSTRUCTIONS

1. Answer **ALL** QUESTIONS
2. Begin each question on a new page.
3. Please indicate the study format (Conventional/Block/Parallel) on the cover of your answer script.

INFORMATION

1. Marks per question are as indicated.
2. Questions may be attempted in any order.

This paper consists of nine printed pages including the cover page

QUESTION 1 [30 MARKS]

1.1. The following control account has been prepared by an intern:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	617 200	Cash received from customers	294 400
Credit sales	308 400	Discount allowed	2 800
Cash sales	176 200	Interest charged on overdue accounts	4 800
Contras against payables	9 200	Irrecoverable debts written off	9 800
		Allowance for receivables	5 600
		Closing balance	793 600
	<u>1 111 000</u>		<u>1 111 000</u>

What should the closing balance be when all the errors made in preparing the receivables ledger control account have been corrected?

- A \$790 400
- B \$608 600
- C \$619 000
- D \$614 200

[2 Marks]

1.2. A Ltd received a statement of account from a supplier B Ltd, showing a balance to be paid of \$17 900. A Ltd's payables ledger account for B Ltd shows a balance due to B Ltd of \$8 280. Investigation reveals the following:

- (1) Cash paid to B Ltd \$8 160 has not been accounted for by B Ltd
 - (2) A Ltd's ledger account has not been adjusted for \$80 of cash discount disallowed by B Ltd.
- What discrepancy remains between A Ltd's and B Ltd's records after allowing for these items?

- A \$1 380
- B \$1 540
- C \$19 700
- D \$19 860

[2 Marks]

1.3 The total of the list of balances in Vee's payables ledger was \$438,900 at 30 June 2022. This balance did not agree with Vee's payables ledger control account balance. The following errors were discovered:

- i. A contra entry of \$980 was recorded in the payables ledger control account, but not in the payables ledger.
- ii. The total of the purchases returns daybook was undercast by \$1,000.
- iii. An invoice for \$4,344 was posted to the supplier's account as \$4,434.

What amount should Vee report in its statement of financial position as accounts payable at 30 June 2022?

- A \$436,830
- B \$438,010
- C \$439,790
- D \$437,830

[2 Marks]

1.4. Which of the following calculates a trader's net profit for a period?

- A Closing net assets + drawings – capital introduced – opening net assets
- B Closing net assets – drawings + capital introduced – opening net assets
- C Closing net assets – drawings – capital introduced – opening net assets
- D Closing net assets + drawings + capital introduced – opening net assets.

[2 Marks]

1.5. On 30 September a fire destroyed some of a company's inventory and its inventory records. The following information is available:

	\$
Inventory on 1 September	636 000
Sales for September	1 224 000
Purchases for September	824 000
Inventory in good condition at 30 September	428 000
Standard gross profit percentage on sales	25%

Based on this information, what is the value of the inventory destroyed by fire?

- A \$192 000
- B \$542 000
- C \$52 800
- D \$114 000

[2 Marks]

1.6. The inventory value for the financial statements of Q for the year ended 31 May 2021 was based on an inventory count on 4 June 2021, which gave a total inventory value of \$836,200. Between 31 May and 4 June 2021, the following transactions took place:

	\$
Purchases of goods	8,600
Sales of goods (profit margin 30% on sales)	14,000
Goods returned by Q to a supplier	700

What adjusted figure should be included in the financial statements for inventories at 31 May 2021?

- A \$838,100
- B \$853,900
- C \$818,500
- D \$834,300

[2 Marks]

1.7. Anele is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 June 2022:

	\$
Trade receivables, 1 July 2021	130,000
Trade payables, 1 July 2021	60,000
Cash received from customers	686,400
Cash paid to suppliers	302,800
Discounts allowed	1,400
Discounts received	2,960
Contra between payables and receivables ledgers	2,000

Trade receivables, 30 June 2022 181,000

Trade payables, 30 June 2022 84,000

What amount should appear in Anele's statement of profit or loss for the year ended 30 June 2022 for purchases?

A \$331,760

B \$740,800

C \$283,760

D \$330,200

[2 Marks]

1.8. Precious and Quin are in a partnership, sharing profits equally. On 30 June 2022, Ray joined the partnership, and it was agreed that from that date all three partners would share equally the profits and losses. In the year ended 31 December 2022 the profit amounted to \$300,000, accruing evenly over the year, after charging an irrecoverable debt of \$30,000 which it was agreed should be borne equally by Precious and Quin only.

What should Precious' total profit share be for the year ended 31 December 2022?

A \$ 95,000

B \$122,500

C \$125,000

D \$110,000

[2 Marks]

1.9. Goodwill should never be shown on the statement of financial position of a partnership.

This statement is:

A. True

B. Unsure

C. Not really

D. False

[2 Mark]

1.10. Alice and Brenda are in partnership sharing profits and losses in the ratio 3:2 respectively. Profit for the year was \$173 000. The partners' capital and current account balances at the beginning of the year were as follows:

	A	B
	\$	\$
Current accounts	11 500CR	2,400CR
Capital accounts	20,000CR	16,000CR

Alice's drawings during the year were \$8,600, and Brenda's were \$4,860.

What should Alice's current account balance be at the end of the year?

A \$115 300

B \$103 800

C \$123 900

D \$106 700

[2 Marks]

1.11. AB Co issued 5,000 50c shares for \$6,000. What are the entries for share capital and share premium in the statement of financial position?

	<i>Share capital</i>	<i>Share premium</i>
A	\$5,000	\$1,000
B	\$1,000	\$5,000
C	\$3,500	\$3,500
D	\$2,500	\$3,500

[2 Marks]

1.12. A company has authorised share capital of 1,000,000 50c ordinary shares and an issued share capital of 800,000 50c ordinary shares. If an ordinary dividend of 5% is declared, what is the amount payable to shareholders?

- A \$50,000
- B \$20,000
- C \$40,000
- D \$25,000

[2 Marks]

1.13. A company issues 50,000 \$1 shares at a price of \$1.25 per share. How much should be posted to the share premium account?

- A \$50,000
- B \$12,500
- C \$62,500
- D \$60,000

[2 Marks]

1.14. Which of the following items are adjusting events?

- (i) Inventory found to have deteriorated
- (ii) Dividends proposed at the year end
- (iii) A building destroyed by fire after the reporting date

- A (i) only
- B (ii) only
- C (iii) only
- D None of the above

[2 Marks]

1.15. A company has the following information about property, plant and equipment.

	2022	2021
	\$'000	\$'000
Cost	750	600
Accumulated depreciation	<u>250</u>	<u>150</u>
Carrying amount	500	450

Plant with a carrying amount of \$75,000 (original cost \$90,000) was sold for \$30,000 during the year. What is the cash flow from investing activities for the year?

- A \$95,000 inflow
- B \$210,000 inflow
- C \$210,000 outflow
- D \$95,000 outflow

[2 Marks]

QUESTION 2 [10 MARKS]

A partnership has four partners – James, Luke, Peter and Matthew. In the year to 30 June 2021 the partnership made profits totaling \$212,500. James is rich. He was made a partner because he could invest \$200,000 into the partnership. He withdrew \$60,000 from the business on 1 July 2020. Luke is poor but clever and could only invest \$40,000 into the partnership. Due to him being clever and completing work quicker than the other partners he took responsibility for hiring and firing staff in the business. He withdrew \$60,000 on 30 June 2021. Peter invested \$100,000 into the partnership. He has a liking for designer clothes and fast cars. Consequently, he withdrew \$50,000 on 1 July 2020 and a further \$50,000 on 1 January 2021. Matthew also invested \$100,000 and withdrew \$60,000 on 1 July 2020. Matthew's wife has just had a baby and he would therefore like to have a guaranteed share of the profits.

The partners have decided that profits should be distributed at a ratio of 2:1:3:4 (James, Luke, Peter and Matthew) assuming profits accrue evenly over the year.

Required:

Using the amounts detailed above, allocate the profits of the business in accordance with the following partnership agreement:

- i. Interest on capital is 5% per annum
- ii. Luke is to receive a salary of \$10,000 per annum
- iii. Interest on drawings is 10% per annum
- iv. Profit sharing ratio is as stated 2:1:3:4
- v. Matthew has a guaranteed minimum profit share of \$85 000

[10 Marks]

QUESTION 3 [10 MARKS]

You are provided with the following information for the financial year ended 31 December 2021 from the books of original entry:

	\$
Cash sales	344,890
Credit sales	268,187
Cash purchases	14,440
Credit purchases	496,600
Total receipts from customers	600,570
Total payments to suppliers	503,970
Discounts allowed (all to credit customers)	5,520
Discounts received (all from credit suppliers)	3,510
Refunds given to cash customers	5,070
Balance in the sales ledger set off against balance in the purchases ledger	70
Bad debts written off	780
Increase in the provision for bad debts	90
Credit notes issued to credit customers	4,140
Credit notes received from credit suppliers	1,480

According to the audited financial statements for the previous year, trade receivables and trade payables as at 1 December 2021 were \$26,555 and \$43,450 respectively.

Required:

Draw up the relevant control accounts entering end-of-year totals for trade receivables and trade payables. **[10 Marks]**

QUESTION 4 [25 MARKS]

- a. Define the following terms, giving examples of each:
- i. Authorised share capital **[2 Marks]**
 - ii. Issued share capital **[2 Marks]**
 - iii. Paid up share capital **[2 Marks]**
 - iv. Rights issue **[2 Marks]**
 - v. Bonus Issue **[2 Marks]**
- b. You are the financial controller at S Ltd. The financial information below has been presented to you.

S LTD

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

	\$'000
Revenue	5 106
Cost of sales	<u>(3 628)</u>
Gross profit	1 478
Distribution costs	(250)
Administrative expenses	<u>(528)</u>
	700
Interest received	50
Interest paid	<u>(150)</u>
Profit before taxation	600
Taxation	<u>(280)</u>
Profit for the period	320

S LTD

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	2022	2021
	\$'000	\$'000
Assets		
Non-current assets:		
Property, plant and equipment	760	610
Intangible assets	500	400
Investments	–	50
Current assets:		
Inventories	300	204
Trade receivables	780	630

Short-term investments	100	–
Cash in hand	4	2
Total assets	2 444	1 896
	2022	2021
	\$'000	\$'000
Equity and liabilities		
Equity		
Share capital (\$1 ordinary shares)	400	300
Share premium account	320	300
Revaluation reserve	200	182
Retained earnings	520	360
Non-current liabilities		
Loan	340	100
Current liabilities		
Trade payables	254	238
Bank overdraft	170	196
Taxation	240	220
Total equity and liabilities	1,222	1 896

The following information is available.

- (a) The proceeds from the sale of non-current asset investments amounted to \$60,000.
 (b) Fixtures and fittings, with an original cost of \$170,000 and a carrying amount of \$90,000, were sold for \$64,000 during the year.
 (c) The following information relates to property, plant and equipment

	31.12.2022	31.12.2021
	\$'000	\$'000
Cost	1 440	1 190
Accumulated depreciation	(680)	(580)
Carrying amount	760	610

- (d) 100,000 \$1 ordinary shares were issued during the year at a premium of 20c per share.
 (e) Dividends totalling \$160,000 were paid during the year.

Required

Prepare a statement of cash flows, according to *IAS 7 Statement of Cash Flows*, for the year ended 31 December 2022 using the indirect method. **[15 Marks]**

QUESTION 5 [25 MARKS]

a. The following figures are for AB Engineering Ltd at 31 December 2022:

	\$	\$
Sales		160 000
Gross profit		40 000
Average inventory at cost price		10 000
Expenses		8 000
Non current assets	108 000	
Current assets:		
Inventory	10 000	
Receivables	8 000	
Bank	2 000	
	<u>20 000</u>	
	128 000	
Current liabilities	<u>(10 000)</u>	
	<u>118 000</u>	
Capital	<u>118 000</u>	

Required:

Calculate:

- i. gross profit as a percentage of the sales; [2 Marks]
 - ii. rate of inventory turnover; [2 Marks]
 - iii. net profit as a percentage of sales; [2 Marks]
 - iv. net profit as a percentage of total capital employed; [2 Marks]
 - v. current ratio; [2 Marks]
 - vi. quick (acid test) ratio. [2 Marks]
- b. The following figures are for another firm in the same industry as AB Engineering in (a) above, CD Engineering Ltd, for the year ended 31 December 2022.

	<i>CD Engineering Ltd</i>
Gross profit as a percentage of the sales	25%
Rate of inventory turnover	9
Net profit as a percentage of sales	10%
Net profit as a percentage of total capital employed	12.5%
Current ratio	1 : 1
Quick (acid test) ratio	0.5 : 1

Required:

Compare your results in (a) with those given for CD Engineering Ltd and comment on the performance of the two organisations in 2022. [13 Marks]

END OF EXAMINATION PAPER

