

UNIVERSITY OF SWAZIALND

DEPARTMENT OF ACCOUNTING

MAIN EXAMINATION PAPER 2005

DEGREE / DIPLOMA AND YEAR OF STUDY: D. COM. 1

TITLE OF THE PAPER : FINANCIAL ACCOUNTING 1

COURSE CODE : AC 101 / IDE AC-101 (M) 2005

TIME ALLOWED : Three (3) Hours

- INSTRUCTIONS**
- 1 There are four (4) questions, answer all.**
 - 2 Begin the solution to each question on a new page.**
 - 3 The marks awarded for a question are indicated at the end of each question.**
 - 4 Show your workings.**

NOTE: You are reminded that in assessing your work account will be taken of accuracy of the language and the general quality of expression together with layout and presentation of your answer.

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QUESTION 1:

Matt Spode is an African wholesaler. A trial balance extracted from his books on 31 December 2004 revealed the following balance:

	DR.	CR.
Capital account		112,000
Purchases	92,400	
Sales		157,240
Premises at cost	64,000	
Motor vehicles at cost	30,000	
Accumulated depreciation of motors		8,200
Fixtures and fittings at cost	6,500	
Accumulated depreciation-fixtures & fittings		1,100
Motor expenses	7,300	
Rates	2,300	
Balance at Bank	4,200	
Wages and salaries	42,000	
Drawings	9,600	
Insurance	2,000	
Trade debtors	18,000	
Provision for doubtful debts		560
Trade creditors		15,000
Sundry expenses	16,200	
Long-term loan		20,000
Stock at 1 January 2004	19,250	
Cash in hand	350	
	E314,100	E314,100

The following information was available at 31 December 2004:

- a) Stock at 31 December was E22,400.
- b) There were wages and salaries of E1,200 owing.
- c) There was a payment of E1,200 on 30 September to cover 12 months' insurance.
- d) On reviewing debtors, it was discovered that a debt of E800 would not be recovered and that a further E1,200 was doubtful.

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- e) Depreciation is 25% reducing balance on motors and 10% straight-line on fixtures and fittings.
- f) Loan interest at 10% has not been allowed for.

Required:

- i) Prepare a profit and loss account for the ended 31 December 2004, and
(12 marks)
- ii) Balance sheet as at 31 December 2004. (12 marks)

(Total 24 marks)**QUESTION 2:**

Gail Dawson is the owner of a retail business. She has employed an inexperienced bookkeeper to maintain her accounting records.

- (A) On 31 March 2004, the end of the business's accounting year, the bookkeeper extracted the following trial balance from the business's records.

Trial Balance at 31 March 2004

	DR.	CR.
Fixed assts at cost	18,300	
Provision for depreciation of fixed assets, 1 April 2003	2,800	
Stocks: 1 April 2003	3,700	
31 March 2004		2,960
Trade debtors		1,825
Trade creditors	864	
Balance at bank (overdrawn)	382	
Capital		26,860
Drawings	7,740	
Sales	26,080	
Purchases		18,327
Running expenses	6,904	
Provision for doubtful debts	90	
Suspense		16,888
	E 66,860	E 66,860

Required:

- (1) Prepare a corrected version of Gail Dawson’s trial balance dated 31 March 2004 based on the above information, but with an amended figure for the suspense account. **(10 marks)**

- (B) The following errors were found in the accounting system after a corrected version of the trial balance above was prepared.
 - (i) The total of the sales day book for December 2003 had been overstated by E120.

 - (ii) In January 2004 some new office equipment had been purchased for E360; this had been debited to the purchases account.

 - (iii) A payment by cheque to a creditor, E216, had been entered in the books as E 261.

 - (iv) A credit note for E37 sent to a customer had been overlooked.

 - (v) The owner had withdrawn a cheque for E80 for private use in October 2003; both the bank and drawings account had been credited with this amount.

Required:

- (2) Write journal entries to correct each of these errors. **(10 marks)**

 - (3) Write up the Suspense Account to clear the difference. **(5 marks)**

 - (4) What is a Suspense Account? **(3 marks)**
- (Total 28 marks)**

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QUESTION 3:

The following transactions relate to a sales ledger for the year ended 31st December 2004:

	E
Balance on Sales Ledger Control 1 st January 2004	8,952
Sales as per posting summaries	74,753
Receipts from debtors	69,471
Discounts allowed	1,817

The clerk in charge had prepared from the ledger cards a list of balances outstanding on 31st December 2004, amounting to E9,663 ; but this did not agree with the balance of the Sales Ledger Control Account. There were no credit balances on the ledger cards.

Investigation of the differences revealed the following :

- (i) The bank statement showed credit transfers of E198 which had been completely overlooked.
- (ii) Journal entries correctly posted to the ledger cards had been overlooked when posting control accounts; debts settled by set-off against creditor's accounts E2,896; bad debts E640.
- (iii) When listing the debtor balances, three ledger cards with debit balances of E191 had been incorrectly filed and consequently had not been included in the list of balances.
- (iv) The machine operator when posting a ledger had incorrectly picked up an old balance of E213.50 as E13.50, and had failed to check her total balances.
- (v) E1,173 entered in the cash book as a receipt from Johnson had not been posted, as no account under that name could be traced. Later, it was discovered that it was in payment for a car which had been used by the Sales Department and sold to him second-hand.

Required:

- (a) Prepare the Sales Ledger Control Account for the year ended 31st December 2004, taking into account the above adjustments. **(10 marks)**
 - (b) Reconcile the clerk's balance of E9,663 with the corrected balance on the Sales Ledger Account. **(5 marks)**
 - (c) List the benefits that accrue from the operation of the Control Accounts. **(3 marks)**
- (Total 18 marks)**

QUESTION 4:

- (a) Why should we use the double-entry system? (5 marks)
- (b) Explain the term “error of commission” and “error of omission”. (5 marks)
- (c) Write short notes on:
- i) Unearned Revenues and Prepaid Expenses.
 - ii) Bad Debts and Provisions for Bad Debts.
 - iii) Quick Ratio and Current Ratio.
 - iv) Fundamental Accounting concepts.
- (Each = 5 marks) (20 marks)

GOOD LUCK!