

**UNIVERSITY OF SWAZILAND**  
**DEPARTMENT OF ACCOUNTING**  
**MAIN EXAMINATION PAPER 2006**

**DEGREE / DIPLOMA AND YEAR OF STUDY** : **DIPLOMA IN COMMERCE 1**

**TITLE OF THE PAPER** : **FINANCIAL ACCOUNTING 1**

**COURSE CODE** : **AC 101 (M) 2006 (full time)**  
**IDE AC 101 – 1 & 2 (M) 2006 (part time)**

**TIME ALLOWED** : **THREE (3) HOURS**

**INSTRUCTIONS**

- 1 **There are five (5) 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 necessary 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.**

**THIS PAPER IS NOT TO BE OPENED UNTIL PERMISSION HAS BEEN GRANTED BY THE INVIGILATOR / SUPERVISOR.**

**SPECIAL REQUIREMENT: NONE**

**QUESTION 1:**

John Brown is a store owner. A trial balance extracted from his books on 31 December 2005 revealed the following balance:

	DR.	CR.
Purchases and Sales	350,000	400,000
Sales returns	5,000	
Purchases returns		6,200
Opening stock at 1 January 2005	100,000	
Provision for doubtful debts		800
Wages and salaries	30,000	
Rates	6,000	
Telephone	1,000	
Shop fittings at cost	40,000	
Motor van at cost	30,000	
Debtors and creditors	9,800	7,000
Bad debts	200	
Capital		179,000
Bank balance	3,000	
Drawings	18,000	
	<u>E593,000</u>	<u>E593,000</u>

The following matters are to be taken into account:

- i) Closing stock at 31 December 2005 E120,000.
- ii) Accrued wages E5,000.
- iii) Rates prepaid E500.
- iv) The provision for doubtful debts to be increased to 10% of debtors.
- v) Telephone account outstanding E220.
- vi) Depreciate shop fittings at 10% per annum, and motor van at 20% per annum, on cost, using straight-line method.

**REQUIRED:** (A) Prepare a trading and profit and loss account for the year ended 31 December 2005, and (13 marks)  
 (B) Prepare a balance sheet as at 31 December 2005. (12 marks)  
 (Total 25 marks)

**QUESTION 2:**

On 31 December 2005 the bank column of F King's cash book showed a debit balance of E1,500. The monthly bank statement written up to 31 December 2005 showed a credit balance of E2,950.

On checking the cash book with the bank statement it was discovered that the following transactions had not been entered in the cash book:

Dividends of E240 had been paid directly to the bank.

A credit transfer – Customs and Excise VAT refund of E260 – had been collected by the bank.

Bank charges E30.

A direct debit of E70 for the Trade Association subscription had been paid by the bank.

A standing order of E200 for F King's loan repayment had been paid by the bank. F King's deposit account balance of E1,400 was transferred into his bank current account.

A further check revealed the following items:

Two cheques drawn in favour of T Cod E250 and F Haddock E290 had been entered in the cash book but had not been presented for payment.

Cash and cheques amounting to E690 had been paid into the bank on 31 December 2005 but were not credited by the bank until 2 January 2006.

**REQUIRED:**

- A) Starting with the debit balance of E1,500, bring the cash book (bank columns) up to date and then balance the bank account. (10 marks)
- B) Prepare a bank reconciliation statement as at 31 December 2005. (7 marks)
- C) Briefly explain why it is necessary to prepare bank reconciliation statement at accounting year ends. (5 marks)

**(Total 22 marks)**

**QUESTION 3:**

Write down the alphabet of the correct answer and show your all workings.

XYZ Company had the following information relating to rent expense account for the year ending 2005:

- Opening balance (debit) E400
- Total payment for rent during the period E4,800
- Balance brought forward at the end of year 2005, E600 (debit)

(A) Rent expense for the year 2005 was:

- (i) E5,200
- (ii) E4,800
- (iii) E4,600
- (iv) E3,800
- (v) None of the above.

(5 marks)

(B) Assume the opening balance was a credit balance.

The rent expense for the year 2005 would be:

- (i) E4,800
- (ii) E5,200
- (iii) E5,800
- (iv) E3,800
- (v) None of the above.

(5 marks)

(Total 10 marks)

**QUESTION 4:**

(A) State why it is necessary to distinguish between “capital expenditure” and “revenue expenditure”, and give two examples of each of them. (10 marks)

(B) What is different about the accounts of a “Non-Profit Organisation”? (6 marks)

(C) Write shorts notes on:

- (i) Debtor / Sales ratio and Creditor / Purchase ratio (6 marks)
- (ii) Reasons for having incomplete records. (6 marks)

(Total 28 marks)

**QUESTION 5:**

You have extracted a trial balance and drawn up accounts for the year ended 31 December 2004. There was a shortage of E78 on the credit side of the trial balance, a suspense account being opened for that amount.

During 2005 the following errors made in 2004 were found:

- (i) E125 received from sales of old office equipment has been entered in the sales account.
- (ii) Purchases day book had been overcast by E10.
- (iii) A private purchase of E140 had been included in the business purchases.
- (iv) Bank charges E22 entered in the cash book have not been posted to the bank charges account.
- (v) A sale of goods to K Lamb E230 was correctly entered in the sales book but entered in the personal account as E320.

**REQUIRED:**

- A) Show the requisites journal entries to correct the errors. Narratives are not required. (10 marks)
- B) Write up the suspense account showing the correction of the errors. (5 marks)  
(Total 15 marks)

**END**