



ZIMBABWE EZEKIEL GUTI UNIVERSITY

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING

DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 103

COURSE TITLE : **ACCOUNTING PRINCIPLES AND CONCEPTS**

SPECIAL REQUIREMENTS :

DURATION : 3 Hours

LEVEL : 1.1

DATE :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Answer **all** questions.
3. Begin each question on a new page.
4. The number of marks for each question or part question is shown in brackets []

SECTION A: (Each question carries 2 marks: Total 30 Marks)

Answer **all** questions in this section

1. A transport business owned by a sole proprietor purchases a motor vehicle. This is charged to the Motor Vehicles Running Costs account.

What are the effects of this on the end-of-year Statement of financial position?

- A. Fixed assets understated current assets understated
- B. Fixed assets overstated current assets overstated
- C. Fixed assets overstated capital account overstated
- D. Fixed assets understated capital account understated

2. A club's Income and Expenditure Account for 2018 showed insurance as \$4000.

On 1 January insurance owing was \$800.

On 31 December insurance paid in advance was \$600.

What was the amount shown in the Receipts and Payments Account for insurance for the year ended 31 December 2018?

- A. \$3800 B. \$4000 C. \$4200 D. \$5400

3. Which of the following is a tangible fixed asset?

- A. patents
- B. purchased Goodwill
- C. short leasehold
- D. trade marks

4. A company's accounts showed a gross profit for the year of \$32 500. After the accounts were prepared it was found that the opening stock had been overstated by \$2400 and the closing stock had been understated by \$3400.

What is the corrected gross profit for the year?

- A \$26 700 B \$31 500 C \$33 500 D \$38 300

5. A trial balance does not balance and a Suspense account is opened.

Subsequently the following errors are found and the Suspense account is cleared.

- (i) A sales invoice for \$1240 had been omitted from the books.
- (ii) Rent paid of \$2600 was entered correctly in the cash book but incorrectly as \$6200 in the Rent account.

(iii) The purchases journal was under cast by \$1980.

What was the original balance on the Suspense account?

- A. \$1620 credit
- B. \$4340 debit
- C. \$5580 credit
- D. \$5580 debit

6. The balance at bank in X's cash book at 30 April is \$12 460 debit. However, a cheque for \$14 470 received from Y and a cheque for \$1740 paid to Z appear in the cash book but not on the bank statement. Bank charges of \$4500 have not been entered in the cash book.

What is the balance shown on the bank statement at 30 April?

- A \$4770 credit
- B \$4770 debit
- C \$20 690 credit
- D \$20 690 debit

7. During the year ended 31 December 2018, the XY Sports Club received \$10 860 for subscriptions.

The following further information is available.

What is the figure for subscriptions in the Income and Expenditure Account for the year ended 31 December 2018?

- A. \$10 150
- B. \$10 510
- C. \$11 570
- D. \$12 270

8. What does the application of the accounting principle of consistency ensure?

- A. that all losses are provided for
- B. that assets are recorded at their actual cost
- C. that financial statements are produced annually
- D. that profits are calculated the same way each year

9. Which error will not affect the trial balance?

- A. posting of \$3000 purchases to the debit of the motor vehicle account
- B. posting of \$3000 purchases to the credit of the motor vehicle account
- C. posting of \$3000 road tax refund to the debit of the motor vehicle account
- D. posting of \$3000 sales to the debit of the motor vehicle account

10. An electricity accrual of \$375 was treated as a prepayment in preparing a trader's income (profit and loss) account.

What was the effect on profit?

- A. overstated by \$375
- B. overstated by \$750
- C. understated by \$375
- D. understated by \$750

11. What does the 'going concern' principle mean?

- A. a business is profitable
- B. a business will continue to operate for the foreseeable future
- C. the assets of a business exceed its liabilities
- D. the assets of a business should be valued at disposal value

12. A company does not include the value of skills gained by its employees from training programmes in its financial statements.

Which accounting principle is being applied?

- A. consistency
- B. materiality
- C. money measurement
- D. substance over form

13. When preparing a bank reconciliation statement the following information is available.

	\$
Bank balance shown by the cash book	20 000 debit
Unpresented cheques	2500
Uncleared bankings	1400
Standing order shown on the bank statement(not in the cash book)	300

What is the balance on the bank statement?

- A. \$18 600 B. \$19 200 C. \$20 800 D. \$21 400

14. Which item will be included in a Balance Sheet as a creditor?

- A. loan stock issued by a company
- B. preference shares issued by a company
- C. revaluation reserve
- D. Share Premium account

15. Prosper bought equipment worth \$100 000 from D. Peters on credit. The information is recorded in the books of accounts as follows:

	DEBIT	CREDIT
A.	Equipment Account	D. Peters
B.	D. Peters	Equipment Account
C.	Bank Account	Equipment Account
D.	Equipment Account	Bank Account

[30MARKS]

SECTION B

Answer **all** questions in this section

Question one

You have extracted a trial balance and drawn up accounts for the year ended 31 December 2017. There was a shortage of \$78 on the credit side of the trial balance, a suspense account being opened for that amount.

During 2018 the following errors made in 2017 were found:

- (i) \$125 received from sales of old office equipment has been entered in the sales account.
- (ii) Purchases day book had been overcast by \$10.
- (iii) A private purchase of \$140 had been included in the business purchases.
- (iv) Bank charges \$22 entered in the cash book have not been posted to the bank charges account.
- (v) A sale of goods to K. Hondo \$230 was correctly entered in the sales book but entered in the personal account as \$320.

Required:

- (a) Show the requisite journal entries to correct the errors. **[10marks]**

- (b) Write up the suspense account showing the correction of the errors. **[6marks]**
- (c) The net profit originally calculated for 2017 was \$28,400. Show your calculation of the correct figure. **[6marks]**
- (d) With the aid of an appropriate example, explain the term “compensating error” **[3marks]**

Question Two

The trial balance of Dettlaff 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:

2017	\$
Jan 1 Purchases ledger balances	19,420
Sales ledger balances	28,227
Totals for the year 2017	
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 ledger \$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 \$38,374 **[20marks]**

(b) Explain the usefulness of control accounts in making financial decisions **[5marks]**

Question Three

The following balances remained in the ledger of OK Ltd after preparation of the profit and loss account for the year ended 31 March 2016

DETAILS	AMOUNT \$000
Stock	52
Debtors	24
Ordinary share capital	100
8% preference share capital	50
Creditors	37
Balance at bank	14
General Reserve	30
Profit and loss account balance 2015	11
Net profit for the year to 31 March 2016	29
Fixed assets at cost, less depreciation	167

The directors propose:

- (i) a transfer of general reserve of \$10 000
- (ii) payment of the preference dividend and a 12% dividend on the ordinary shares.

Required

- (a) Prepare a statement of profit or loss and other comprehensive income for the year ended 31 March 2016. **[10 marks]**

(b) Prepare a statement of financial position as at 31 March 2016, showing clearly the ordinary shareholders' equity, the total shareholders' funds and the working capital. [(10marks)]

THE END