



ZIMBABWE EZEKIEL GUTI UNIVERSITY
FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTING
DEPARTMENT OF ACCOUNTING AND FINANCE

EXAMINATION PAPER

COURSE CODE : CAC 109

COURSE TITLE : FINANCIAL ACCOUNTING FOR
BUSINESS

DURATION : 3 Hours

DATE : :

INSTRUCTIONS TO CANDIDATES:

1. No cell phones are allowed in the examination venue.
2. Use of silent, non-programmable calculators is allowed.
3. Answer all questions in both Section A and Section B.
4. Begin each question on a new page.
5. The number of marks for each question or part question is shown in brackets.
6. Each part question in Section A carries 2 marks.

SECTION A

Question One

1.1 Mabwe started business with \$10,000 on 1 March 2019. On 15 March she withdrew \$2,000 for personal use. How will the additional capital affect the accounting equation?

- A. Increase in asset and decrease in liability
- B. Increase in asset and increase in liability
- C. Decrease in asset and decrease in liability
- D. Decrease in asset and increase in liability

1.2 Which of the following is an enhancing characteristic of useful accounting/financial information?

- A. Accruals basis
- B. Comparability
- C. Going concern
- D. Relevance

1.3 According to the IASB Framework for the Preparation and Presentation of Financial Statements, the fundamental qualitative characteristic of relevance includes

- A. Predictive value and feedback value
- B. Verifiability, neutrality and representational faithfulness
- C. Completeness, neutrality and freedom from error
- D. Predictive value and confirmatory value

1.4 Maximin Ltd has the following assets and liabilities:

	\$		\$
Land and Buildings	15,000	Overdraft	1,000
Bank loan	5,000	Payables	4,000
Inventory	2,000	Receivables	3,000

Basing on the information above, the amount of capital invested in the business is \$

- A. 15,000
- B. 20,000
- C. 17,000
- D. 10,000

1.5 What is the subsidiary book to record a sale to a credit customer?

- A. Sales credit book
- B. Remittance advice
- C. Sales returns journal
- D. Sales journal

1.6 Patience, a sole trader fixes her prices to achieve a gross profit percentage on sales revenue of 40%. All her sales are for cash. She suspects that one of her assistants

is stealing cash from the sales revenue. An extract from her statement of profit or loss and other comprehensive income shows the following:

	\$
Recorded sales revenue	726,400
Cost of goods sold	456,000
Gross profit	270,400

Assuming that the cost of goods sold figure is correct, how much cash could the sales assistant have taken?

- A. \$45,600
- B. \$33,600
- C. \$36,400
- D. \$43,200

1.7 Which of the following statements are true?

- (i) Purchase of a non-current asset on credit is recorded in the journal
 - (ii) Depreciation is recorded in the cash book
 - (iii) Bad debts are recorded in the sales book
 - (iv) Allowance for doubtful debts is recorded in the journal
- A. (i), (ii) and (iv)
 - B. (ii) and (iv)
 - C. (iii) and (iv)
 - D. (i) and (iv)

1.8 The following information relates to the business of A Makanyeza.

	\$		\$
Sales	150,000	Suppliers' closing balance	15,000
Opening inventory	20,000	Closing inventory	20,000
Purchases	73,000	Suppliers' opening balance	10,000
Purchases expenses	15,000	Selling expenses	7,500

From the above information, the gross profit on sales is \$

- A. 62,000
- B. 72,000
- C. 150,000
- D. 88,000

1.9 In a not-for-profit organisation, the difference between assets and liabilities is referred to as:

- A. Accumulated fund
- B. Surplus
- C. Deficit
- D. Expenditure

Use the following to attempt questions 1.10 to 1.12

The trial balance of Abba Ltd, a limited liability company, at 31 May 2011 was as follows:

	DR	CR
	\$000	\$000
Revenue		3500
Discounts received		80
Discounts allowed	70	
Bank balance	147	
Plant at cost	1,200	
Building at cost	1,040	
Accumulated depreciation 01/06/2010-buildings		160
Accumulated depreciation 01/06/2010-plant		400
Land at cost	345	
Purchases	2,185	
Heating and lighting	270	
Trade payables		1030
Trade receivables	700	
Carriage inwards	105	
Wages and salaries	250	
General reserve		35
Allowance for receivables, at 01/06/2010		30
Directors' remuneration	60	
Retained earnings at 01/06/2010		115
\$1 Ordinary shares		1,537
Inventory at 01/06/2010	515	
	6,887	6,887

- (i) The plant is depreciated at 25% per annum using the reducing balance method. Buildings are depreciated at 5% per annum on their original cost.

1.10 Calculate the following for the year ended 30 May 2011

- Depreciation charge
- Balance of Non-current assets

	Depreciation charge (\$)	Balance of non-current assets (\$)
A	880	1,040
B	252	1,773
C	345	828
D	400	2,025

- (ii) At the end of the year, the following debts, out of a total receivables figure of \$700000, are found to be bad:

- Tafara-\$250
- Takudzwa- \$120

c) Merlyn-\$230. 20 cents per dollar is expected to be received.

It is also estimated that a further allowance for credit losses of 4% of trade receivables is required.

1.11 Show the amount of bad debts to be written off, the allowance for credit losses and the balance in trade receivables to be shown in the statement of financial position of the business.

	Bad debts written off	Allowance for credit losses	Balance in trade receivables
A	904	17,685	600,987
B	593	18,911	45,970
C	554	27,978	671,468
D	601	25,975	456,321

1.12 From the information above, assuming that credit sales for the period were \$3200, it can be ascertained that the receivables collection period for Abba Ltd is 79.8 days. The said receivables days mean that:

- A. On average it takes 79.8 days to receive payment from trade receivables after sales
- B. 79.8 percent of trade receivables remains outstanding throughout the year
- C. 79.8 percent trade receivables make payments on time
- D. 79.8 percent of the trade receivables do not make any payment during the year

1.13 Brian has started his own business and set up a workshop to manufacture trolleys. He introduced \$15,000 of his own savings, equipment worth \$3750 and obtained a bank loan of \$1,500. Calculate the balance on Brian's capital account.

- A. \$15,000
- B. \$20,250
- C. \$18,750
- D. \$16,500

1.14 The objective of financial accounting is to:

- A. Record transactions as they occur
- B. Provide useful information to stakeholders
- C. Monitor adherence of managers to laid down codes of conduct
- D. Compare budgets with actual performance

1.15 When a not-for-profit organisation's expenditure exceeds its income, the difference between income and expenditure is referred to as:

- A. Profit
- B. Loss
- C. Surplus
- D. Deficit

SECTION B

Question Two

The following trial balance has been extracted by the bookkeeper of Rutendo, who owns a small manufacturing business, as at 30 June 2019.

	Dr	Cr
	\$	\$
Capital		36,175
Drawings	19,050	
Purchases and sales	105,240	168,432
Inventory at 1 July 2018	9,427	
Receivables and payables	3,840	5,294
VAT		1,492
Returns	975	1,237
Discounts	127	643
Wages and salaries	30,841	
Motor vehicle expenses	1,021	
Rent and rates	8,796	
Heating and lighting	1,840	
Telephone	355	
General expenses	1,752	
Bad debts written off	85	
Motor vehicle at cost	8,000	
Provision for depreciation on motor vehicles		3,500
Shop fittings at cost	6,000	
Provision for depreciation on shop fittings		2,000
Allowance for credit losses		150
Cash	155	
Bank	21,419	
Total	218,923	218,923

Notes as at 30 June 2019:

1. Inventory was valued at \$11,500.
2. Motor vehicles expenses owing \$85.
3. Rent prepaid \$270.
4. Depreciate shop Fixtures and Fittings at 15% using the straight-line method and motor vehicles at 20% employing the reducing balance method.
5. The allowance for credit losses is to be equal to 2.5% of receivables.

Required:

Use the trial balance and accompanying notes to prepare

- a. The statement of profit or loss and other comprehensive income of the business for the year ended 30 June 2019. [12 marks]
- b. The statement of financial position of the business as at 30 June 2019. [8 marks]

[Total: 20 marks]

Question Three

Identify and elaborate on the **two** fundamental and any two enhancing qualitative characteristics of useful accounting information.

- a) How does the role of the financial accountant differ from that of the management accountant? [10 marks]
- b) State the accounting equation and elaborate on its elements [10 marks]

[Total: 20 marks]

Question Four

- a. Identify any five subsidiary books (excluding the general journal) used in accounting and indicate the following:
 - i) What each of the books is used to record;
 - ii) The source document used [15 marks]
- b. State any five uses of the general journal [5 marks]

[Total: 20 marks]

Question Five

Why would you encourage Theresa who is operating as a sole trader to change her business into a partnership?

[Total: 10 marks]

END OF PAPER