

**ZIMBABWE EZEKIEL GUTI UNIVERSITY**



**FACULTY OF COMMERCE**

**B. COM MARKETING**

**B. COM BUSINESS ADMINISTRATION AND MANAGEMENT**

**B. COM HUMAN RESOURCES MANAGEMENT**

**B. COM PURCHASING AND SUPPLY CHAIN MANAGEMENT**

**FINANCIAL ACCOUNTING FOR BUSINESS CAC 109**

21 January 2019

## SECTION A

### Question 1

All part-questions carry equal marks.

- 1.1 Which of the following statements are true of sole traders and limited liability companies?
1. A sole traders' financial statements are private;
  2. Only companies have capital invested into the business
  3. A sole trader is fully and personally liable for any losses that the business might make; a company's shareholders are not personally liable for any losses that the company might make
- A. 1 and 2 only  
B. 2 and 3 only  
C. 1 and 3 only  
D. 1, 2 and 3
- 1.2 Which of the following information is particularly useful to shareholders?
- A. Bank statements
  - B. Financial statements for the past five years
  - C. Tax records for the past five years
  - D. Budgets for the coming financial year
- 1.3 The main objective of accounting is to:
- A provide useful information to users
  - B record, categorise and summarise financial transactions
  - C calculate the taxation due to the government
  - D calculate the amount of dividend to pay to shareholders
- 1.4 The IASB *Framework* identifies user groups. Which of the following is not an information need for the 'Investor' group?
- A assessment of repayment ability of an entity
  - B measuring performance, risk and return
  - C taking decisions regarding holding investments
  - D taking buy/sell decisions
- 1.5 Which of the following is an example of a liability?
- A. Inventory
  - B. Receivables
  - C. Plant and machinery
  - D. Loan
- 1.6 Which of the following is the correct format for the accounting equation?
- A. Assets + Liabilities = Capital
  - B. Assets + Capital = Liabilities
  - C. Assets – Liabilities = Capital
  - D. None of the above
- 1.7 Harry has been unable to calculate his business' profit or loss for the year ended 31 December 2017 as fire destroyed most of his accounting records. He has, however, been able to provide the following information.
1. Net assets at 31 December 2016 were \$23,000 and \$32,500 at 31 December 2017
  2. He introduced capital during the year of \$4,000 cash
  3. He took cash drawings of \$2,500 and goods with a selling price of \$800; the cost of the goods was \$750.

What was Harry's profit or loss for the year ended 31 December 2017?

- A. \$8,750 profit
- B. \$1,750 loss
- C. \$9,800 profit
- D. \$2,750 loss

1.8 At 1 July 2014 RCA Malta had prepaid insurance of \$8,200. On 1 January 2015 the company paid \$38,000 for insurance for the year to 30 September 2015.

What figures should appear for insurance in the company's financial statements for the year ended 30 June 2015?

	Statement of profit or loss	Statement of Financial Position
A.	\$27,200	Prepayment \$19,000
B.	\$39,300	Prepayment \$9,500
C.	\$36,700	Prepayment \$9,500
D.	\$55,700	Prepayment \$9,500

1.9 B, a limited liability company, receives rent for subletting part of its office premises to a number of tenants.

In the year ended 31 December 2014 B received cash of \$318,600 from its tenants. Details of rent in advance and in arrears at the beginning and end of 2014 are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
	\$	\$
Rent received in advance	28,400	24,600
Rent owing by tenants	18,300	16,900

All rent owing was subsequently received

What figure for rental income should be included in the statement of profit or loss of B for 2014?

- A. \$341,000
- B. \$336,400
- C. \$300,800
- D. \$316,200

1.10 During 2014, B, a limited liability company, paid a total of \$60,000 for rent, covering the period from 1 October 2013 to 31 March 2015.

What figures should appear in the company's financial statements for the year ended 31 December 2014?

	Statement of profit or loss	Statement of Financial Position
A.	\$40,000	Prepayment \$10,000
B.	\$40,000	Prepayment \$15,000
C.	\$50,000	Accrual \$10,000
D.	\$50,000	Accrual \$15,000

1.11 Beth's draft accounts for the year to 31 October 2015 report a loss of \$1,486. When she prepared the accounts, Beth did not include an accrual of \$1,625 and a prepayment of \$834.

What is Beth's profit or loss for the year to 31 October 2015 following the inclusion of the accrual and prepayment?

- A. a loss of \$695
- B. a loss of \$2,277
- C. a loss of \$3,945
- D. a profit of \$1,807

1.12 A business sublets part of its office accommodation.

The rent is received quarterly in advance on 1 January, 1 April, 1 July and 1 October. The annual rent has been \$24,000 for some years, but it was increased to \$30,000 from 1 July 2015.

What amounts for this rent should appear in the company's financial statements for the year ended 31 January 2016?

	<u>Statement of profit or loss</u>	<u>Statement of Financial Position</u>
A	\$27,500	\$5,000 in sundry receivables
B	\$27,000	\$2,500 in sundry receivables
C	\$27,000	\$2,500 in sundry Payables
D	\$27,500	\$5,000 in sundry Payables

1.13 According to the illustrative financial structure in IAS 1 (revised) *Presentation of financial statements*, dividends paid during the year should be disclosed in:

- A Statement of profit or loss
- B Statement of changes in equity
- C Statement of financial position
- D None of these

1.14 Which of the following statements is true?

- A. The interpretation of an entity's financial statements using ratios is only useful for potential investors.
- B. Ratios based on historical data can never predict the future performance of an entity.
- C. The analysis of financial statements using ratios may provide useful information when compared with previous performance or industry averages.
- D. An entity's management should not assess an entity's performance using financial ratios.

1.15 A company's gross profit as a percentage of sales increased from 24% in the year ended 31 December 2011 to 27% in the year ended 31 December 2012. Which of the following events is most likely to have caused the increase?

- A Increase in sales volume
- B A purchase in December 2011 mistakenly being recorded as happening in January 2012
- C Overstatement of the closing inventory at 31 December 2011
- D Understatement of the closing inventory at 31 December 2011

1.16 Which one of the following would cause a company's gross profit percentage on sales to fall?

- A A reduction in the total value of goods returned to suppliers.
- B An increase in the costs of delivery of goods to customers.
- C A decline in average inventory levels.
- D An increase in theft of inventory by customers and staff

1.17 A company's gross profit as a percentage of sales increased from 28% in the year ended 31 December 2005 to 33% in the year ended 31 December 2006.

Which one of the following could have caused the increases?

- A An increase in sales volume.
- B Understatement of closing inventory at 31 December 2005.
- C Overstatement of closing inventory at 31 December 2005.
- D Goods received in December 2005 and included in inventory at 31 December 2005 were

not recorded in purchases until January 2006.

- 1.18 Which of the following should be entered in the journal?
- i) Payment for cash purchases
  - ii) Fixtures bought on credit
  - iii) Credit sale of goods
  - iv) Sale of surplus machinery
- A (i) and (iv)  
B (ii) and (iii)  
C (iii) and (iv)  
D (ii) and (iv)
- 1.19 A firm bought a machine for \$3200. It is to be depreciated at a rate of 25 percent using the reducing balance method. What would be the carrying amount after 2 years?
- A \$1600  
B \$2400  
C \$1800  
D Some other figure
- 1.20 Which of the following is not an asset?
- A Buildings  
B Cash balance  
C Receivables  
D Loan from ZB Bank
- 1.21 Given opening capita of \$16500, closing capital of \$11350 and drawings \$3300, then
- A Loss for the year was \$1850  
B Profit for the year was \$1850  
C Loss for the year was \$8450  
D Profit for the year was \$8450
- 1.22 Which of the following is incorrect?
- A Profit does not alter capital  
B Profit reduces capital  
C Capital can only come from profit  
D Profit increases capital
- 1.23 Which of the following is an expense?
- A Machinery  
B Stationery  
C Motor vehicle  
D Cash at bank
- 1.24 Gross profit is
- A Excess of sales over cost of goods sold  
B Sales less purchases  
C Cost of goods sold plus opening inventory  
D None of the above
- 1.25 Which of the following best describes non- current assets?
- A These are bought to be used in the business  
B These are items, which will not wear out quickly  
C These are expensive items bought for the business  
D These are of a long life and are not bought specifically for resale

## SECTION B

### Question 2

#### Statement of profit or loss for the year ended 31 October 2017

	<b>\$000</b>
Revenue	1,800
Cost of sales	(1,284)
	<hr/>
Gross profit	516
Administrative expenses	(341)
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Profit for the year	175
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#### Statement of Financial Position as at 31 October 2017

	\$000	\$000
<b>Assets</b>		
Non-current assets		731
<b>Current assets</b>		
Inventories	75	
Trade receivables	304	
Cash	20	
	<hr/>	
		399
<b>Total assets</b>		<b>1,130</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	415	
Retained earnings	305	
Share premium	80	
	<hr/>	
		800
<b>Current liabilities</b>		
Trade and other payables	260	
Bank overdraft	70	
	<hr/>	
		330
		<hr/>
<b>Total equity and liabilities</b>		<b>1,130</b>

**Required:**

Calculate the following ratios for ABC Limited:

- a) Gross profit margin (2)
- b) Net profit margin (2)
- c) Expenses as a percentage of sales (2)
- d) Current ratio (2)
- e) Quick ratio (2)

**Question 3**

Discuss any five qualitative characteristics of useful financial accounting information (20)

**Question 4**

Identify any five stakeholders of an organisation of your choice and briefly discuss how each of them is set to benefit from the information provided by financial accountants in financial reports (20)