

**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**

**5 DECEMBER 2018**

## SECTION A

### Question 1

All part questions carry equal marks.

1.1 Which of the following statements is not true?

- A The directors of a company are liable for any losses of the company
- B A sole trader business is owned by shareholders and operated by the proprietor
- C Partners are liable for losses in a partnership in proportion to their profit share ratios
- D A company is run by directors on behalf of its members

1.2 Which of the following statements best defines a statement of financial position?

- A It is a summary of income and expenditure for an accounting period
- B It is a summary of cash receipts and payments made during an accounting period
- C It is a summary of assets, liabilities and equity at a specified date
- D It is a summary of assets and expenses at a specified date

1.3 Which of the following statements best defines a ~~statement~~ statement of profit or loss?

- A It is a summary of assets and expenses at a specified date
- B It is a summary of cash receipts and payments made during an accounting period
- C It is a summary of assets, liabilities and equity at a specified date
- D It is a summary of income and expenditure for an accounting period

1.4 Which one of the following user groups requires the most detailed financial information?

- A The management
- B Investors and potential investors
- C Government agencies
- D Employees

1.5 Which of the following statements are true?

- 1 Accounting can be described as the recording and summarising of transactions.
- 2 Financial accounting describes the production of a statement of financial position and statement of profit or loss for internal use.

- A 1 only
- B 2 only
- C Both 1 and 2
- D None

1.6 The main purpose of financial accounting is to:

- A Record all transactions in the books of account

- B Provide management with detailed analyses of costs
- C Enable preparation of financial statements that provide information about an entity's financial performance and position
- D Calculate profit or loss for an accounting period

1.7 Which one of the following sentences does NOT explain the distinction between financial accounts and management accounts?

- A Financial accounts are primarily for external users and management accounts are primarily for internal users.
- B Financial accounts are normally produced annually and management accounts are normally produced monthly.
- C Financial accounts are more accurate than management accounts.
- D Financial accounts are audited by an external auditor and management accounts do not normally have an external audit

1.8 Which one of the following statements best defines a liability?

- A A liability is an obligation arising from a past transaction or event.
- B A liability is a legally binding amount owed to a third party.
- C A liability is an obligation arising from a past transaction or event which is expected to be settled by an outflow of economic benefits.
- D A liability is anything, which results in an outflow of economic benefits from an entity.

1.9 Which one of the following statements best defines an expense?

- A An expense is any outflow of economic benefits in an accounting period
- B An expense is an outflow of economic benefits resulting from the purchase of resources in an accounting period
- C An expense is an outflow of economic benefits resulting from a claim by a third party
- D An expense is an outflow of economic benefits in an accounting period as a result of the using up of resources or a fall in the value of an asset

1.10 Which one of the following statements is true in relation to a partnership?

- A A partnership is a separate legal entity
- B A partnership is jointly owned and managed by the partners
- C A partnership can raise capital by issuing shares to members of the public
- D A partnership is able to own property and other assets in its own name

1.11 Which one of the following statements is true in relation to a sole trader?

- A A sole trader cannot have any employees
- B A sole trader can introduce or withdraw capital from the business at any time
- C A sole trader has limited liability for the debts of the business

D A sole trader can operate a business from only one location

1.12 At 31 December 20X5 the following require inclusion in a company's financial statements:

- (1) On 1 January 20X5 the company made a loan of \$12,000 to an employee, repayable on 1 January 20X6, charging interest at 2% per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.
- (2) The company paid an annual insurance premium of \$9,000 in 20X5, covering the year ending 31 August 20X6.
- (3) In January 20X6 the company received rent from a tenant of \$4,000 covering the six months to 31 December 20X5.

For these items, what total figures should be included in the company's statement of financial position as at 31 December 20X5?

- A Current assets \$16,240, current liabilities \$6,000
- B Current assets \$10,000, current liabilities \$12,240
- C Current assets \$22,240, current liabilities nil
- D Current assets \$10,240, current liabilities nil

1.13 ABC Limited's financial statements for the year ended 31 December 20X5 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight-line basis, with a full year's charge in the year of acquisition.

What would the net profit be after adjusting for this error?

- A \$106,10
- B \$70,100
- C \$97,100
- D \$101,60

1.14 Which of the following are differences between sole traders and limited liability companies?

- (1) A sole trader's financial statements are private
- (2) Only companies have share capital
- (3) A sole trader is fully and personally liable for any losses that the business might make
- (4) Drawings would only appear in the financial statements of a sole trader

- A 1 and 4 only
- B 1, 2, 3 and 4
- C 2 and 3 only
- D 1, 3 and 4

1.15 Which of the following statements is/are not true?

- i) The interpretation of an entity's financial statements using ratios is only useful for potential investors
- ii) Ratios based on historical data can predict the future performance of an entity
- iii) The analysis of financial statements using ratios can provide useful information when compared with previous performance or industry averages
- iv) An entity's management should not assess an entity's performance using financial ratio

- A i and ii
- B i, ii and iii
- C iv only
- D ii and iii

1.16 The following transactions relate to Norbert's electricity expense ledger account for the year ended 30 June 2017:

	\$
Prepayment brought forward	550
Cash paid	5,400
Accrual carried forward	650

Which of the following statements is/are true?

- i) Norbert has to charge \$6600 in the statement of profit or loss in the year ended 30 June 2017 for electricity
- ii) Norbert will include \$5400 as a current asset in the statement of financial position
- iii) Norbert has managed to clear his electricity bills for the year
- iv) Accrual carried forward of \$650 shows that Norbert's business is making a loss

- A i only
- B i and ii
- C ii and iv
- D ii and iii

1.17 Prisha has not kept accurate accounting records during the financial year. She had opening inventory of \$6,700 and purchased goods costing \$84,000 during the year. At the year-end she had \$5,400 left in inventory. All sales are made at a mark-up on cost of 10%.

What is Prisha's gross profit for the year?

- A \$19700
- B \$17060
- C \$8530
- D None of the above

1.18 The IASB's *Conceptual Framework for Financial Reporting* identifies characteristics, which make financial information faithfully represent what it purports to represent.

Which of the following are examples of those characteristics?

- (1) Accruals
- (2) Going concern
- (3) Timeliness
- (4) Understandability

- A 1 and 2
- B 2 and 4
- C 2 and 3
- D None of the above

1.19 Reign is a sole trader and had assets of \$569,400 and liabilities of \$412,840 on 1

January 2018. During the year ended 31 December 2017 she paid \$65,000 capital into the business and she paid herself wages of \$800 per month. At 31 December 2017, Reign had assets of \$614,130 and liabilities of \$369,770.

Which of the following statements are true?

1. Reign's profit for the year ended 31 December 2017 was \$32400
2. Reign's opening net assets amounted to \$156560
3. Reign's closing net assets amounted to \$244300

- A 1 and 2  
B 2 and 3  
C 1 and 3  
D All of the above

*Questions 1.20 to 1.22 are based on the statement of profit or loss and other comprehensive income below*

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

	\$000
Revenue	1,800
Cost of sales	(1,500)
	<hr/>
Gross profit	300
Administrative expenses	(34)
	<hr/>
Profit for the year	266
	<hr/>

1.20 The company's gross profit margin is

- A 16.7%  
B 28.7%  
C 39.7%  
D None of the above

1.21 The net profit margin of the company is

- A 10.7%  
B 9.7%  
C 14.8%  
D None of the above

1.22 The expenses to sales ratio is

- A 18.9%  
B 26.6%  
C 17.9%  
D 2%

*Use the following for 1.23 and 1.24*

## Statement of Financial Position

Assets	\$000	\$000
Non-current assets		731
Current assets		
Inventories	75	
Trade receivables	900	
Cash	20	
	<u>          </u>	
		995
		<u>          </u>
Total assets		1,726
		<u>          </u>
Equity and liabilities		
Equity		
Share capital	415	
Retained earnings	305	
Share premium	299	
	<u>          </u>	
		1019
Current liabilities		
Trade and other payables	700	
Bank overdraft	7	707
		<u>          </u>
Total equity and liabilities		1,726
		<u>          </u>

1.23 The current ratio is

- A 1:2
- B 1.4:1
- C 2:1
- D 1.56:1

1.24 The quick ratio is

- A 1:2
- B 2:1
- C 1.3:1
- D 0.98

1.25 Anesu has been unable to calculate his business' profit or loss for the year ended 31 December 2018 as fire destroyed most of his accounting records. He has, however, been able to provide the following information.

1. Net assets at 31 December 2017 were \$23,000 and \$32,500 at 31 December 2018
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.

Which of the following statements is/are true?

1. Anesu's profit for the year ended 31 December 2018 was \$8750
2. The cost of goods sold by Anesu is \$2500
3. Anesu's net assets increased by \$9500 during the year
4. Drawings of goods increase the cost of sales for Anesu

A 1 and 2

B 2 and 3

C 1 and 3

All of the above

## SECTION B

### Question 2

The following trial balance has been extracted by the bookkeeper of Paul Mukanya, who owns a small manufacturing business, as at 30 June 2017.

	Dr	Cr
	\$	\$
Capital		36,175
Drawings	19,050	
Purchases and sales	105,240	168,432
Inventory at 1 July 2016	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 2017:**

1. Inventory was valued at \$11,517.
2. Motor vehicles expenses owing \$55.
3. Rent prepaid \$275.
4. Depreciate shop Fixtures and Fittings at 10% using the straight-line method and motor vehicles at 25% 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 the final accounts of the business for the year ended 30 June 2017. [20 marks]

**Question 3**

You have been asked to prepare the final accounts for W Mabuto, a sole trader, for the year ended 31 December 2013. W Mabuto has forwarded to you all books of prime entry and ledgers, and in addition has given you the following information:

- i) Mr Mabuto had taken \$2,000 out of the business bank account to take his wife on holiday.
- ii) Up to last year the machinery and vehicle used in the business had been depreciated using the reducing balance method. W Mabuto thinks that they should now be depreciated using the straight-line method.
- iii) Mr Mabuto is confident, given his order book, which the business will continue to operate in its present form for many years.
- iv) Mr Mabuto had purchased ten staplers, four flip charts and four packets of whiteboard markers which will be used in the business for the next couple of years.
- v) Mr Mabuto informs you that he has just found an unopened electricity bill for \$900 which was for the quarter October to December 2013.

Required

In each case, identify and then explain the main accounting concepts being highlighted and indicate how each should be treated in the final accounts. (20 marks)

**Question 4**

State and briefly discuss any five qualitative characteristics of useful financial accounting information (10 marks)