

DEGREE
January – June



Examination
IA 106 Introduction to Accounting

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In collaboration with

**THE VIRTUAL UNIVERSITY FOR SMALL STATES OF THE COMMONWEALTH
(VUSSC)**

Bachelor of Business and Entrepreneurship

**INTRODUCTION TO ACCOUNTING
IA 106**

SESSIONAL EXAMINATION

Marks – 100

Time – 3 Hours

MARKING KEY

INSTRUCTIONS:

1. This paper consists of three sections A, B and C.
2. Answer the questions on the answer booklet provided and as per the instructions given in each section.
3. Show all calculations and assumptions as part of the answer.
4. Write in grammatical English.

SECTION A. Multiple choice. Choose the correct answer from the alternatives given.

- 1 In which category of the balance sheet would you expect to find a provision for bad and doubtful debts?
A fixed assets
B long term liabilities
C current assets (key)
D current liabilities
- 2 Which of the following is the incorrect equation?
- | | Capital | Assets | Liabilities |
|---|---------|--------|-------------|
| A | 100 | 3 800 | 3 700 |
| B | 2 900 | 12 800 | 9 800 (Key) |
| C | 15 000 | 37 500 | 22 500 |
| D | 3 000 | 5 000 | 2 000 |
- 3 The capital of a sole trader could change as a result of _____.
A Paying wages by cash
B equipment purchased by cheque
C purchases on credit terms
D drawing by cheque (key)
- 4 From the following information you are to calculate credit sales:
Debtors at 1 January P10 000. Debtors at 31 December P9 000.
Receipts during the year (including cash sales of P5 000) P85 000.
A P81 000
B P86 000
C P79 000 (Key)
D P84 000
- 5 The trial balance is prepared for which purpose?
A to value the closing stock
B to prepare a cash budget
C to help with credit control
D to prepare the trading and profit and loss account (Key)
- 6 An appropriation account for a limited company will indicate:
A the company's total reserves
B the amount of interest paid to its creditors
C the amount paid or provided for dividends (Key)
D the value of the company's shares

- 7 A business is considering obtaining a bank loan. What could a bank manager obtain from its balance sheet?
A the margin of profit the business makes
B the business's liquidity position (Key)
C overhead costs
D the cost of production
- 8 Working capital is a term meaning _____.
A the amount of capital invested by the proprietor
B the excess of the current assets over the current liabilities (Key)
C the capital less drawings
D the total of fixed assets __ current assets
- 9 Which of these best describes fixed assets?
A are bought to be used in the business
B are items which will not wear out quickly
C are expensive items bought for the business
D are of long life and are not bought specifically for resale (Key)
- 10 A debit balance of P100 in a cash account shows that _____.
A there was P100 cash in hand (Key)
B cash has been overspent by P100
C P100 was the total of cash paid out
D the total of cash received was less than P100

(Award 1 mark for each correct answer)

SECTION B. Answer ALL questions from this section.

[40 MARKS]

- 1 The capital of a limited liability company is divided into shares.
(a) Explain two types of shares. (6 marks)
(b) Bring out the different types of share capitals with explanation? (12 marks)

Ans:

(a). Ordinary shares: owners of the company with varying returns based on the profit available after paying the preference shareholders.



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Preference shares: owners of the company with an agreed rate of dividend before ordinary shareholders.

(Award 3 + 3 marks= 6 marks)

(b).

1. Authorised share capital: known as nominal or registered capital, and is the total of the share capital that the company is allowed to issue to the public.
2. Issued share capital: Is the total of the actual share capital that has been offered to the public.
3. called-up share capital: is the total amount asked for on all the shares. It may be only part of the amounts payable on each share.
4. Uncalled share capital: is the total amount that is to be received in future but which has not yet been asked for.
5. Calls in arrears: this is the total amount for which payments have been asked for but has not yet been paid by shareholders.
6. Paid up capital: is the total amount of share capital that has been paid for by shareholders.

(Award 6 x 2 marks = 12 marks)

2 Auto Components Ltd have made a profit of P80 000 before interest payments and tax provision. It has a registered capital of:

- 200 000 @ P1 ordinary shares
- 100 000 @ P1 8 per cent preference shares and
- 50 000 @ P1 debenture stock at 11 per cent.

Taxation is to be provided for P25 000 and the board has recommended an ordinary share dividend of 10 per cent. Show how the profit is to be distributed. (6 marks)

Ans:

Profit (before interest and taxation)		80 000
Interest payable: 11% debenture stock)		5 500
PROFIT (BEFORE TAX)		74 500



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Provision for tax		25 000
PROFIT (AFTER TAX)		<u>49 500</u>
Provision for dividends:		
8% preference shares	8 000	
Ordinary shares (10%)	<u>20 000</u>	<u>28 000</u>
Retained profits (P & L balance)		<u>21 500</u>

(Award 6 marks)

3. In business stocks have to be valued and accounted for in the financial statements. Explain the ways and methods of valuing stock. (8 marks)

Ans:

There are two ways that stock may be recorded by a business.

One is the perpetual method or continuous method where stocks are updated after each purchase, sale or return of stock. The second is periodic method where the closing stock figure is determined by physically counting and valuing stock on hand at the end of a period.

(Award 2 marks)

The methods of stock valuation are:

1. FIFO: assumes that the first set of stocks purchased are the first set of stocks that would be sold.
2. LIFO: assumes that last set of stocks purchase are the first set of stock that would be sold.
3. Average Cost (AVCO): values closing stock by using the average cost of the stocks available for sale. This is done as follows: $\text{Cost of goods available for sale} \div \text{number of units available for sale}$.

(Award 2 marks each for 3 methods. 2 marks x 3 = 6 marks)

4. What is a Trial Balance, and why it is prepared? Explain the errors that affect the trial balance agreement. (8 marks)



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Ans:

Trial balance is a list of ledger account balances. It is prepared to check the arithmetical accuracy of the accounts. (Award 1 + 1 marks = 2 marks)

The errors that cause difference in the trial balance totals are;

-
1. Under-casting and over-casting :- figures that are large or smaller than they should be.
 2. Transposition: that is figures turned around eg. 56 instead 65.
 3. Entries made on the wrong side of accounts: that is a debit entry made instead of a credit entry.
 4. Half the double entry omitted: only one part of the double entry completed.
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(Award 1 ½ marks each. 4 x 1 ½ marks = 6 marks)

SECTION – C. Answer any TWO questions

[50 MARKS]

Question - 1

The following is a summary of a cash book as presented by Kutlwano Supermarket for the month of October 2011.

	BWP		BWP
Receipts	1469	Balance b/d	761
Balance c/d	<u>554</u>	Payments	<u>1262</u>
	<u>2023</u>		<u>2023</u>

All receipts are banked and all payments are made by cheque.

On investigation the following were discovered:

- a) Bank charges of P136 entered in the bank statement have not been entered in the cash book.
- b) Cheques drawn amounting to P267 had not been presented to the bank for payment.



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- c) Cheques received totaling P762 had been entered in the cash book and paid into the bank, but had not been credited by the bank until 3rd November.
- d) A cheque for P22 for sundries had been entered in the cash book as a receipt instead of as a payment.
- e) A cheque received from K Jones for P80 had been dishonoured and no adjustment has been made in the cash book.
- f) A standing order for a business rates installment of P150 on 30th October had not been entered in the cash book.
- g) All dividends received are credited directly to the bank account. During October amount of P62 was credited by the bank, but no entries were made in the cash book.
- h) A cheque drawn for P66 for stationary had been incorrectly entered in the cash book as P60.
- i) The balance brought forward in the cash book should have been P711, not P761.

Required:

- 1. Show the adjusted cash book. (16 marks)
- 2. Prepare Bank reconciliation statement as at 31st October. (9 marks)

Answers

- 1. Adjustments required for the cash book. (16 marks)

	BWP	BWP
Balance as per cash book		-554xx
Less: Bank charges	136xx	
Sundries cheque	44xx	
Cheque returned -Jones	80xx	
Rates Standing order	150xx	
Incorrect enrty	<u>6xx</u>	<u>-416</u>
		-970
Add: Dividends received not entered	62xx	
Error in calculating opening	<u>50xx</u>	<u>112</u>



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Balance as per cash book -858

2. Bank reconciliation statement as at 31st October.(9 marks)

	BWP
Balance as per Bank Statement	-1353xx
Add outstanding lodgments	<u>762xx</u>
	-591xx
Less unpresented cheques	<u>-267xx</u>
Balance as per cash book	<u>-858x</u>

Question 2

Mr. Boko runs a manufacturing company in Masunga. His financial year ended on the 31st December 2011. He has provides you with the following information;

	BWP
Stock at 1 January 2011	
Raw materials	25400
Work in progress	31100
Finished goods	23260
purchases : Raw materials	91535
carriage on raw materials	1960
Direct labour	84208
Office salaries	33419
Rent	5200
office lighting and heating	4420
Depreciation: Works machinery	10200



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Office equipment	2300
Sales	318622
factory fuel and power	8120

Rent is to be apportioned: factory $\frac{3}{4}$ and office $\frac{1}{4}$.
Stocks at 31 December 2011 were as follows;

Raw materials P28900
Work in progress P24600
Finished goods P28840

Required;

- Prepare manufacturing account for Mr. Boko for his year ending 31st December 2011 (14 marks)
- Trading Profit and loss account for the year ending 31st December 2011 (11 marks)

Answer

a) Manufacturing Account for the year ending 31 December 2011 (14 marks)

	BWP	BWP
Opening Stock of raw materials		25400x
Add purchases		91535x
Add Carriage inwards		<u>1960x</u>
		118895
Less Closing stock of raw materials		<u>28900x</u>
Cost of raw materials consumed		89995
Direct labour		<u>84208x</u>
PRIME COST		174203x
Factory overhead expenses		
Rent $\frac{3}{4}$	3900xx	
Fuel and power	8120x	
Depreciation: Machinery	<u>10200xx</u>	<u>22220</u>



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	196423
Add opening work in progress	<u>31100x</u>
	227523
Less closing work in progress	<u>24600x</u>
PRODUCTION COST OF GOODS COMPLETED	<u>202923x</u>

b) Trading profit and loss account for year ending 31 December 2011 (11 marks)

	BWP	BWP
Sales		318622x
Less Cost of Goods sold:		
Stock of finished goods	23260xx	
Add Production cost of goods completed	<u>202923</u>	
	226183	
Less stock of finished goods	<u>28840xx</u>	<u>197343</u>
Gross profit		121279x
Less Expenses:		
Office salaries	33419x	
Rent 1/4	1300xx	
Lighting and heating	4420x	
Depreciation: Office Equipment	<u>2300x</u>	<u>41439</u>
NET PROFIT		<u>79840</u>

Question – 2

On 1 January 2005 Tech tools Ltd bought a drilling machine for P1 000 and another one on 1 October 2006 for P1 200. The first drilling machine is sold on 30 June 2007 for P720. The drilling machine is to be depreciated at 10 per cent, using the straight line method.

Machine in existence at the end of each year is to be depreciated for a full year. No depreciation is to be charged on any machinery disposed of during the year. The financial year of the business ends on 31 December.

You are required to prepare:

1. Drilling Machine Account for the 3 years.



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2. Provision for Depreciation Account for 3 years.
3. Drilling Machine Disposal Account.
4. Profit and Loss Account extract related to 2005, 2006, and 2007.

Answer:

DRILLING MACHINE ACCOUNT

2005 1 Jan	Cash	1 000	2005 31 D	Balance c/d	1 000
2006 1 Jan 1 Oct	Balance b/d Cash	1 000 1 200	2006 31 De	Balance c/d	2 200
		<u>2 200</u>			<u>2 200</u>
2007 1 Jan	Balance b/d	2 200	2007 30 Jun 31 Dec	Drill Mach Dispos Balance c/d	1 000 1 200
		<u>2 200</u>			<u>2 200</u>

Provision for Depreciation Account

2005 31 De	Bal c/d	100	2005 31 De	Profit and Loss A/c	100
2006 31 Dec	Balance c/d	320	2006 1 Jan 31 De	Balance b/d P/L Acc	100 220
		<u>320</u>			<u>320</u>
2007 30 Jun 31 Dec	Disposal of D Machin Balance c/d	200 240	2007 1 Jan 31 Dec	Bal b/d P/L Acc	320 120
		<u>440</u>			<u>440</u>

Drilling Machine Account

2007 30 Jun	D Machine	1 000	2007 30 June 30 June 31 Dec	Cash Provision for depre P/L Acc	720 200 80
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		1 000 =====			1 000 =====
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Profit and Loss Account (extracts) for the year ended 31 December

	Gross profit	xxxxxxx
2005	Less: Expenses Provision for Depreciation of D-Machine	100
2006	Less Expenses Provision for Depreciation of D- Machine	220
2007	Less Expenses Provision for Depreciation of D- Machine Loss on Sale of D Machine	120 80