

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

In Collaboration with

ZIMBABWE OPEN UNIVERSITY

Bachelor of Commerce Degree

(Human Resources Management & Industrial Relations)

Financial Accounting

FA211

SESSIONAL EXAMINATION

Time: 3 Hours

Marks: 100

Instructions:

1. The examination consists of three sections: A, B and C.
2. Begin each answer to a new question on a new page.
3. Answer questions according to instructions given in each section.
4. Write answers in the answer booklet provided.
5. Write in grammatical English.

SECTION A TRUE or FALSE QUESTIONS

[10 MARKS]

State whether each of the following statements is True or False

1. Bookkeeping and accounting are the same.
2. The main function of accounting is to measure and communicate financial information.
3. In bookkeeping both monetary and non-monetary transactions are recorded.
4. In a partnership business, all partners are personally responsible for the debt of the partnership firm.
5. In a private limited company, the shares are freely transferable.
6. The concept of an accounting period indicates that a business should prepare its Profit and Loss account annually.
7. The concept of separate entity indicates that the accounts for the owners and business entity are maintained together.
8. A double entry system means that all transactions should be debited twice.
9. The principle that revenues and expenses should be recorded in the same accounting period is called the matching principle.
10. The objective of accounting is to supply internal and external financial information to all stakeholders of the business.

SECTION B: SHORT ANSWER QUESTIONS.

[20 MARKS]

Answer ALL questions in this section.

1. Complete the following table: **(2 marks)**

	2000	2001	2002	2003
Opening Inventory	P2300	P2800	?	?
Ending Inventory	P2800	P3100	P3500	P3900

2. From the following balances find the Cost of goods sold: **(4 marks)**

Opening Inventory P2900	Purchases P3200
Purchases Discount P800	Freight in P200
Purchases Returns P1100	Freight out P250
Closing Inventory P900	

3. “It is important to remember that a trial balance's contribution is restricted to proving the accuracy of the total of debit and credit balances in the ledger. Although, it is essential in the processing of accounting data, the trial balance possesses certain critical limitations. These limitations should not discourage its use”.

List five limitations of the trial balance. **(5 marks)**

4. Al-Manal services completed the following transactions during May 2015 **(9 marks)**

1. Invested P20, 000 cash in the business.



2. Paid P400 cash for April office rent.
3. Purchased office equipment for P2, 500 cash.
4. Provided services on account P8, 000.
5. Withdrew P200 cash for personal use.
6. Bought supplies P5, 000 on account.
7. Paid creditor P1, 000.
8. Received P8, 000 from the customer involved in transaction 4.

Show the effect of each transaction on the accounting equation.

Assets					=	Liabilities + Owner's equity		
Transaction.	Cash	Equipment	Accounts Receivable	Supplies		Accounts Payable	Capital	Remarks
1.Example	+20,000						+20,000	Investment
2.								
3.								
4.								
5.								
6.								
7.								
8.								

SECTION C

Answer ALL questions in this section.

Question 1

Donald Brown, a sole trader, extracted the following trial balance on 31 December 2014

TRIAL BALANCE AS AT 31 DECEMBER 2014

	Debit (BWP)	Credit (BWP)
Capital at 1 January 2014		26,094
Accounts Receivables	42,737	
Cash in hand	1,411	
Accounts Payables		35,404
Fixtures and fittings at cost	42,200	
Discounts allowed	1,304	
Discounts received		1,175
Inventory at 1 January 2014	18,460	
Sales		491,620
Purchases	387,936	
Motor vehicles at cost	45,730	
Lighting and heating	6,184	
Motor expenses	2,862	
Rent	8,841	
General expenses	7,413	
Bank overdraft		19,861
Provision for depreciation:		



Fixtures and fittings		2, 200
Motor vehicles		15, 292
Drawings	26, 568	
	<u>591, 646</u>	<u>591, 646</u>

The following additional information as at 31 December is also available.

- (a) P218 is owing for motor expenses.
- (b) P680 has been prepaid for rent.
- (c) Depreciation is to be provided for the year as follows:
 - Motor vehicles: 20% on cost
 - Fixture and fittings: 10% reducing balance method
- (d) Inventory at the close of business was valued at P19,926.

You are required to prepare the following:

- a. Statement of Comprehensive Income for the year ended 31 December 2014. **(12 Marks)**
- b. Statement of Changes in Equity for the year ended 31 December 2014. **(3 Marks)**
- c. Statement of Changes of Financial Position as at 31 December 2014. **(10 Marks)**

Question 2 **(25 marks)**

From the following details write up three-column cash book, balance off at the end of the month, and show the relevant discount accounts as they would appear in the General Ledger.

2015

Sept. 1 Balance b/f cash P321, Bank P4,005 (Dr.)

Sept. 2 Received P75 from Bobi by cheque



Sept. 5 Paid the following accounts by cheque, in each case deducting 5% discount:

Shaba P80, Olu P260, Binta P440.

Sept. 7 Cash sales paid direct to the bank P87

Sept. 8 Paid rates by cash P65

Sept. 14 Received from the following accounts by cheque, in each case they deducted 2½% discount: Hadiza P160, Ade P640, Talatu P520.

Sept. 15 Paid wages by cash P60

Sept. 20 Cash sales P95, bought stationery by cheque P35

Sept. 25 Paid rent by cash P80 and salaries by cheque P2,800

Sept. 30 received loan from Abba P1,300 by cheque.

Question 3

(20 MARKS)

Two companies Binky and Smokey trade in the same market. Their financial statements for the year ended 31 October 2006 are summarized below:

INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2006

		Binky		Smokey	
	P'000	P'000	P'000	P'000	P'000
Sales revenue		284		305	
Cost of sales		<u>(155)</u>		<u>(151)</u>	
Gross profit		129		154	
Expenses					
Administrative	24		37		
Selling & distribution	35		53		
Depreciation	9		12		
Loan note interest	-		<u>5</u>		
		<u>(68)</u>		<u>(107)</u>	
Net profit		<u>61</u>		<u>47</u>	

STATEMENTS OF FINANCIAL POSITION (BALANCE SHEETS) AS AT 31 OCTOBER 2006

Assets	Binky	Smokey
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	P000	P000	P	P000
Non-current assets				
At cost	320		515	
Accumulated depreciation	<u>(75)</u>	245	<u>(96)</u>	419
Current assets				
Inventory	91		293	
Receivables	46		75	
Bank	<u>64</u>	<u>201</u>	<u>15</u>	<u>383</u>
		<u>446</u>		<u>802</u>
Equity and liabilities				
Share capital and reserves				
Share capital		150		250
Retained earnings		108		177
10% Loan note				50
Current liabilities		<u>188</u>		<u>325</u>
Total equity and liabilities		<u>446</u>		<u>802</u>

You are required to:

- a) Calculate the following ratios for Binky and Smokey and also state the formulae used for calculating the ratios.

Profitability ratios

Gross profit percentage	(2 marks)
Net profit percentage	(2 marks)
Asset turnover ratio	(2 marks)

Liquidity ratios

Current ratio	(2 marks)
Quick ratio (acid test ratio)	(2 marks)
Receivables collection period	(2 marks)

- b) Compare and comment on the performance of the companies as indicated by the ratios you have calculated in part (a). (8 marks)