

BOTSWANA COLLEGE OF DISTANCE AND OPEN LEARNING

Diploma in Business Management

**PRINCIPLES OF ACCOUNTING
PA 112**

SESSIONAL EXAMINATION

Time: 3 Hours

Marks – 100

MARKING KEY

INSTRUCTIONS:

1. The examination consists of FOUR sections: A, B, C and D.
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.

[10 MARKS]

A. Multiple choice questions. Answer ALL questions.

(5 Marks)

1. Merry provided the following information at the end of her financial year.

	BWP
Non current assets at cost	14000
Amount owing by customers	1250
Amount owing to suppliers	850
Inventory	1875
Bank overdraft	365

What was Merry's capital?

- A. P12,160 x
B. P15,110
C. P15,910
D. P16,640
2. John trades with Norman. They exchange the following documents.
Which document would normally be issued first?
A. Credit note
B. Debit note
C. Invoice x
D. Statement
3. Zoran was given the following discounts by his supplier when he bought goods, list price BWP 4,000.
Trade discount 25%
Cash discount 5%
- Which amount would be entered in the discount received column of Zoran's cash book when payment was made?
A. P150
B. P200 x
C. P1000
D. P1200
4. The bank statement of Lebo shows a balance of BWP 3,500 and the Cash book shows a balance of BWP4, 200.
The difference is due for a receipt of BWP1, 000 shown in the cash book but not in the bank statement. There is also an unrepresented cheque.
What is the amount of the unrepresented cheque?



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- A. P300
 - B. P700 x
 - C. P1700
 - D. P2500
5. Why is the general journal used to correct errors in the ledger?
- A. To avoid making alterations in the ledger
 - B. To complete the double entry
 - C. To provide a record explaining ledger entries
 - D. To save the book-keepers time x

B. Write down the word(s) required to complete the following sentences: (5 Marks)

1. Stock is usually valued at _____ price or replacement price, whichever is the lower. (Cost)
2. Asset accounts have _____ balances and accounts for liabilities have _____ balances. (Debit / Credit)
3. Debentures earn a fixed rate of _____. (interest)
4. Working capital is found by deducting _____ from current assets. (current liabilities)

SECTION-B. Answer ALL questions.

[50 MARKS]

1. Explain the difference between financial accounting and management accounting?

(6 marks)

Financial accounting has its focus on the financial statements which are distributed to stockholders, lenders, financial analysts, and others outside of the company. Courses in financial accounting cover the generally accepted accounting principles which must be followed when reporting the results of a corporation's past transactions on its balance sheet, income statement, statement of cash flows, and statement of changes in stockholders' equity.

Managerial accounting has its focus on providing information within the company so that its management can operate the company more effectively. Managerial accounting



and cost accounting also provide instructions on computing the cost of products at a manufacturing enterprise. These costs will then be used in the external financial statements. In addition to cost systems for manufacturers, courses in managerial accounting will include topics such as cost behavior, break-even point, profit planning, operational budgeting, capital budgeting, relevant costs for decision making, activity based costing, and standard costing.

2. Prepare cash flow statement from the following information. (8 Marks)

Balance sheet

Liabilities	2011	2012	Assets	2011	2012
Capital	250 000	350 000	Cash	150 000	200 000
Long term loan	300 000	200 000	Debtors	200 000	300 000
Accumulating Profits`	150 000	250 000	Stock	250 000	300 000
Trade Creditors	300 000	450 000	Goodwill	150 000	100 000
			Plant	250 000	350 000
	10 00 000	12 50 000		10 00 000	12 50 000

Additional Information

Depreciation charged on plant amounted to P50,000/-

Ans:

Cash flow statement for the year ended 31/03/2002 Cash flow from operating activities

Profit for the year	Details	Amount
Net Profit as on 31/03/2002	25000	
Net profit as on 31/03/2001	150000	
	100000	
Add: Non-operating expenses	50000	
depreciation Goodwill written off	50000	
	200000	
Less: Non-operating Income.	-	
profit before W.C.	200000	
Add: Increase in creditors	150000	
	350000	



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Less: Increase in Debtors	(100000)	
Increase in stock	(50000)	2,00,000
Cash flow from Investing Activities plant purchased		150000
Cash flow from financial activities		
Issues of shares	100000	
Redemption of long term loan	(100000)	-
Net Increase in cash		150000
Cash at the beginning of the period		
Cash and Bank at the end of period		200000

3.

- (a). Explain the concept of financial statement? (4 Marks)
- (b). Briefly explain the meaning of financial statement analysis. (3 Marks)
- (c). List three limitations of financial statements. (6 Marks)

Ans:

(a). Financial statements are historical documents and are final product of accounting work done during the accounting period.

The term financial statements used in accounting refers to atleast two statements

- i) P&L A/c (Income statement)
- ii) Balance sheet (position statement)

(b). Financial analysis is the process of identifying the financial strengths and weaknesses of the entity by properly establishing relationships between the variables (items) of balance sheet and PS a/c expressing of one figure in relation to another in a cause and effect manner is a process of analysis. The analysis includes establishing relationship, comparisons and ascertaining trends.



- (c). i) Financial statements are historic in nature they provide information relating to past only. Past can never be a perfect guide for future.
- ii) Use of Different accounting policies relating to depreciation, valuation of assets providing of reserves etc., affect the figures and their reliability. I & two companies adopt different accounting policies comparison will be unreliable
- iii) Price level changes reduce the validity of analysis i.e. the continuous and rapid changes in the value of money in the present day economy also reduce the validity of analysis.

4. Explain the ways to value inventory in a company?

(6 Marks)

Ans:

Generally, the balance sheet of a U.S. company must value inventory at cost. In other words, a company's inventory is not reported at the sales value. (An exception occurs when a company's inventory consists of readily salable commodities that have quoted market prices.)

Since the costs of products may change during an accounting year, a company must select a *cost flow assumption* that it will use consistently. For instance, should the oldest cost be removed from inventory when an item is sold? If so, the company will select the cost flow assumption known as *first-in, first out (FIFO)*. In the U.S. an alternative is to remove the period's most recent cost when an item is sold. This is known as *last-in, first-out (LIFO)*. Another option is to use an average method such as the *weighted-average method* or the *moving-average method*. Both the LIFO method and the average methods will result in different values depending on whether a company uses the *perpetual method* or the *periodic method*. Still another option is to use the *specific identification* method.

The LIFO cost flow assumption can be achieved by tracking the units in inventory or by using price indexes. When price indexes are used, it is referred to as *dollar-value LIFO*. (Retailers often use a technique called *dollar-value retail LIFO*.)

The accountants' concept of conservatism can result in some inventories being valued at less than cost. Hence, an additional method for valuing inventory is the *lower of cost or market*. For example, if the replacement cost of a company's inventory has declined to an amount that is less than cost, the company may be required to reduce its inventory cost. The amount of the that adjustment will also reduce the current period's net income.

A company's inventory must be measured and reviewed very carefully as it is an important amount for determining a company's financial position and profitability.



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5. Explain the concept “materiality” as it is used in accounting. (3 marks)

Ans:

The accountant does not attempt to record events so insignificant that, the work of recording them is not justified by the usefulness of the results. In other words, do not waste your time in the elaborate recording of trivial items which means disregard trivial items like paper-clips, erasers etc.

(3 marks)

6. Describe the following terms used in accounting and give one example for each?

(a). Purchases

(2 marks)

(b). Sales

(2 marks)

Ans:

(a). Purchases: means those goods which the business buys with the prime intention of selling.

For eg: Furniture dealer bought furniture items for P5000. (2 marks)

(b). Sales: means the sale of those goods in which the business normally deals and which were bought with the prime intention of resale.

For eg: Hi Fi Corporation sold home theatre set for P12 000. (2 marks)

(Give 1 mark for explanation and 1 mark for example)

SECTION – C.

[40 MARKS]

Answer ALL questions

Question-1

(25 marks)

The following balances were extracted from the books of Solomon, a small trader as at 31st December 2013.

	BWP		BWP
--	-----	--	-----



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Stock at 1 January 2013	5 980	Motor Van expenses	1 150
Capital Account	13 800	Rent and Rates	2 300
Fixtures	1 170	Bad debts	620
Debtors	7 000	Provision for bad debts at 1 January 2013	160
Creditors	5 070	Discounts received	760
Purchases	61 600	Wages and Salaries	9 400
Sales	84 340	Lighting and heating	1 040
Carriage on Purchases	310	Bank	1 230
Carriage on Sales	230	Drawings	7 100
Motor Van	5 000		

You are required to prepare:

1. The Income Statement (Trading and Profit and Loss Account) for the year ended 31 December 2013 and (13 Marks)
2. The statement of financial position (Balance Sheet) as at that date. (12 Marks)

Consider the following information for the preparation of the above statements.

- (a). Stock at 31 December 2013 was P8 370.
- (b). A provision for Bad Debts of 2% of Debtors is required at 31 December 2013.
- (c). The annual rates of P1 000 have been paid to 31 March 2014.
- (d). The Motor Van Account appeared in the ledger as follows:

MOTOR VAN ACCOUNT

Dt.		BWP	Dt.		BWP
-----	--	-----	-----	--	-----



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1/1/13	Balance b/d	1 500	1/1/13	Bank (Sale of old Van)	1 300
1/1/13	Bank (Cost of new Van)	4 800	31/12/13	Balance c/d	5 000
		6 300			6 300
1/1/14	Balance b/d	5 000			

(e). Provide depreciation on the new Van at the rate of 20% on cost.

(f). An amount of P200 was owing for wages and salaries.

(g). During 2013, Solomon took goods valued at P400 from the business for his personal use, and no entry had been made in the books for this withdrawal.

Question. 2

(A). The Receipts and Payments Account of the Gaborone Sports Club for the year ended 31st December 2009 was as follows:

	Pula		Pula
Balance (1.1.2009)	360	New football Equipment	290
Subscriptions	1 330	Rent of Ground	780
Collections at Matches	370	Cost of Refreshments	310
Sale of refreshments	520	Groundsman's wages	450
Sale of surplus football equipment	60	Postage and Stationery	165
		Sundry expenses	225



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		Balance C/f	420
	2 640		2 640

(1).

	1st January 2009 Pula	31st December 2009 Pula
Football Equipment at valuation	310	400
Subscription paid in advance	-----	30
Subscription in arrears	20	
Stock of refreshments	50	60
Owing to suppliers for refreshments	30	40

(II).

The Surplus football equipment sold during 2009 had a value of P110 at 1st January 2009.

Required:

- (a). The Refreshments Trading Account for the year ended 31st December 2009.
- (b). The Income and Expenditure Account for the year ended 31st December 2009.
- (c). The Balance sheet as at 31st December 2009.

MARKING KEY
SECTION – C.

1.

SOLOMON'S INCOME STATEMENT

	BWP	BWP	BWP
Sales			84 340
Opening stock		5 980	
Purchases	61 600		
Add: carriage	310	61 910	
Cost of goods available for sale		67 890	
Less: Closing stock	8 370		
Less: Goods taken for private use	400	8 770	
Cost of goods sold			59 120
Gross profit			25 220
Add; Discount received			760
Add: Excess pro- for bad debts*			20
			26 000
Less: Expenses			
Carriage on sale	230		
Motor expenses	1 150		
Depreciation on Motor Van*	960		
Rent and rates*	2 050		
Bad debts	620		
Wages and salaries *	9 600		
Lighting and heating	1 040		
Loss on sale of Motor Van*	200		15 850
Net Profit			10 150

(award 13 marks)

Statement of Financial Position (Balance Sheet) as at 31 December 2013

	BWP	BWP	BWP
Non-current assets:			
Fixtures and fittings		1 170	
Motor Van*	4 800		
Less: Pro-for Depreciation	960	3 840	5 010



Current Assets:			
Debtors	7 000		
Less: Prov- for bad debts	140	6 860	
Prepaid rent & rates		250	
Stock		8 370	
Bank		1 230	
		<u>16 710</u>	
Current Liabilities:			
Creditors	5 070		
Accrued wages &sal	200	5 270	11 440
		-----	-----
			<u>16 450</u>
			=====
Financed by:			
Capital		13 800	
Add: Net profit		10 150	
		<u>23 950</u>	
Less: Drawings*		7 500	16 450
		<u>7 500</u>	=====

(award 12 marks)

Ans:

(a). Refreshments trading Account for the year 2009

	Pula	Pula
Sales		520 **
Less: Cost of goods sold:		
Opening Stock	50 **	
Add: Purchases	320 **	
Goods available for sale	370 *	
Less: Closing stock	60 **	310 *



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Profit from refreshments trading		210 **
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(* = ½ mark. ** = 1 mark. Total 6 marks)

(b).

Income and Expenditure Account for the Year ended 31st December 2009

Income:	Pula	Pula
Profit from refreshment trading	210 **	
Subscription (Adjust)	1 280 ****	
Collection at matches	370 **	1 860 *
Less: Expenditure.		
Loss on sale of football equipment	50 **	
Rent of ground	780 *	
Groundman' wages	450 *	
Postage and stationery	165 *	
Sundry expenses	225 *	
Depreciation of football equipment	90 **	1 760 *
Surplus (excess of Income over expenditure)		100 **

(each star carries ½ mark and total 10 marks)

(c).

Balance sheet as at 31st December 2009

	Pula	Pula	Pula
Fixed Assets:			
Football Equipment		490	
Less: Provision for depreciation		90	400 **



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Current Assets:			
Stock of refreshments	60		
Cash at bank	420	480 **	
Less: Current liabilities:			
Subscription in advance	30		
Refreshment creditors	40	70 **	410 *
Net assets			<u>810 *</u>
Financed by:			
Accumulated fund (1-1-2009)		710 ***	
Add: surplus		100 **	<u>810 *</u>

(each star carries ½ mark total 7 marks)

(d).

Subscription per member before increase:

$$\frac{1280}{64 \text{ members}} = \text{P } 20 \text{ per person.} \quad (1 \text{ mark})$$

The new subscription = P20+P5 = P 25. (1 mark)

Working notes:

1.

		Refreshment Creditors Account	
Bank	310	Balance b/d	30
Balance c/d	40	Purchases	320
	<u>350</u>		<u>350</u>



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2. Cost of football equipment	P 110
Less: sale of football equipment	P 60
Loss on sale of football equipment	P 50

3. Football Equipment Account

Balance b/d	310	sale of equipment	110
Cost of new f-equip	290	depreciation	90
		Balance c/d	400
	-----		-----
	600		600
	=====		=====

4. Subscription Account

Balance b/d	20	Bank	1330
Income & exp A/c	1 280		
Balance c/d	30		
	-----		-----

1. Accumulated fund:

Assets: Bank	360		
Football equip	310		
Sub in arrears	20		
Stock of refreshments	50	740	
Liabilities: Owing to suppliers		30	

			710
			=====

Question 3.

Ans. (1).

Machinery Account

Y1					
1/1	Bank	4 800			
1/10	bank	3 600	1/10	Balance c/d	8 400
		8 400			8 400
		-----			-----
2/10	Bal b/d	8 400	1/7	Bal c/d	10 800
Y2					
1/7	Bank	2 400			
		10 800			10 800
		-----			-----
2/7	Bal b/d	10 800	1/10	Disposal (A300)	4 800
Y4					



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1/10	J & T Ltd	8 000		Bal c/d	14 000
		<u>18 800</u>			<u>18 800</u>

(award 8 marks)

Provision for Depreciation of Machinery Account

			Y-1 31/12	Profit and Loss: A300 : A310	960 180
					<u>1 140</u>
31/12	Balance c/d	3 060	Y-2 31/12	Profit and Loss: A300 : A310 : A320	960 720 240
		<u>3 060</u>			<u>3 060</u>
31/12	Balance c/d	5 220	Y-3 1/1 31/12	Bal b/d Profit & Loss: A300 : A310 : A320	3 060 960 720 480
		<u>5 220</u>			<u>5 220</u>
1/10 31/12	Disposal : A300 Balance c/d	3 600 4 580	Y-4 1/1 31/12	Bal b/d Profit & loss: A300 : A310 : A320 : A330	5 220 720 720 1 120 400
		<u>8 180</u>			<u>8 180</u>
			Y-5 1/1	Balance b/d	4 580

(award 8 marks)

Disposal of machinery Account

Y-4					
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1/10	Machinery : A300	4 800	1/10	Prov for depreciate	3 600
	Balance c/d	300		J & T Ltd (trade- in)	1 500
		5 100			5 100
		=====			=====
31/12	Profit and Loss	300	2/10	Balance b/d	300

(award 4 marks)

Profit and Loss Account

Y-1	Depre- Mach	1 140			
Y-2	Depre-Mach	3 060			
Y-3	Dep-Mach	2 160			
Y-4	Dep-Mach	2 960	Y-4	Disposal of Mach	300

(Award total 5 marks)