

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**DEPARTMENT OF ACCOUNTING**

**FIRST SEMESTER EXAMINATIONS: APRIL 2009**

**FINANCIAL ACCOUNTING 1A CAC 1101**

**TIME ALLOWED : 3 HOURS**

**INSTRUCTIONS TO CANDIDATES:**

1. Answer **ALL FOUR** questions.
2. Start each question on a new page.
3. Show all workings.

<b>QUESTION</b>	<b>TOPIC</b>	<b>MARKS</b>
1	CONTROL ACCOUNTS	25
2	PARTNERSHIP ACCOUNTS	35
3	JOINT VENTURE ACCOUNTS	16
4	BRANCH ACCOUNTS	24

**QUESTION 1**      **Total (25 Marks)**

The following figures appeared in the purchases ledger control account of H Ltd on 31 March 2009:.

	\$
Creditor balances 1 April 2008	36 846
Debtor balances 1 April 2008	328
Discount received	1 957
Purchases	276 220
Payments to creditors	258 972
Purchase returns	3 116
Cash refunds from creditors	262
Bills payable	1 118
Debtor balances 31 March 2009	419
Contras: sales ledger	784

The control account creditor balance at 31 March 2009 failed to agree with the total of the list of balances of creditors extracted from the purchases ledger. Subsequent examination revealed the following errors.

- (i) A credit balance of \$176 on the account of a creditor had been omitted from the list of creditor balances.
- (ii) Discount received of \$28 had been entered in the cash book and discount received account but not in the creditor's account in the ledger.
- (iii) The purchase day book had been under cast by \$200.
- (iv) An item of \$186 in the purchase day book had been posted to the creditor's account as \$168.
- (v) Discount received for the month of \$137 had been posted to the debit instead of the credit side of the discount received account.
- (vi) Goods returned to a supplier valued at \$82 had been correctly entered in the creditor's account but entered in the purchase returns account as \$182.

**REQUIRED:**

- a) Show how the control account would appear in the ledger before making any corrections. **[8 marks]**
- b) Prepare a statement showing the adjustment of the balance in the control account in (i) above to the correct balance, giving details of the errors. **[8 marks]**
- c) Prepare a statement reconciling the corrected balance with the totals as shown by the list of balances before the errors were found, giving details of the relevant errors. **[9 marks]**

**QUESTION 2      Total (35 Marks)**

B, a sole trader, makes and sells display cabinets. His two friends, L and T, are sole traders in a similar line of business. The three friends decide to merge their businesses into a single partnership as from 1 January 2009. The opening statement of financial position of the partnership will be based on the position of each business at 31 December 2008. Whilst Bark's accounts are made up to 31 December each year, L's year ends on 31 March and T's on 30 April. The accounts of L and T prepared in 2009 must be adjusted to show the position of each business as at 31 December 2008. The accounts of all three must also be adjusted to take account of changes in asset values. The information required to prepare the opening statement of financial position of the partnership is given below:

	<b>B</b>	<b>L</b>	<b>T</b>
Statement of Financial Position as at	31 Dec	31 March	30 April
	2008	2009	2009
	\$	\$	\$
Fixed assets at net book value	150 000	140 000	135 000
<b>Current assets:</b> Stock	18 000	19 000	15 000
Debtors	9 400	8 750	6 000
Bank and cash	<u>13 000</u>	<u>4 125</u>	<u>5 600</u>
	40 400	31 875	26 600
<b>Current liabilities:</b> Creditors	<u>(5 800)</u>	<u>(9 900)</u>	<u>(4 480)</u>
Net current assets	<u>34 600</u>	<u>21 975</u>	<u>22 120</u>
Total net assets	<u>184 600</u>	<u>161 975</u>	<u>157 120</u>
Opening capitals	183 025	159 575	162 370
Profit for the year	<u>17 325</u>	<u>18 400</u>	<u>9 900</u>
	200 350	177 975	172 270
Drawings	<u>(15 750)</u>	<u>(16 000)</u>	<u>(15 150)</u>
	<u>184 600</u>	<u>161 975</u>	<u>157 120</u>

***Additional information:***

1. Assume profits are earned evenly throughout the year.
2. The drawings in each business are made in equal amounts in each calendar month.
3. L's and T's stock balances have remained constant throughout their financial years.
4. Other balances at 31 December 2008 for L and T were:

	L	T
	\$	\$
Debtors (before providing for doubtful debts)	8 150	7 750
Bank and cash	4 400	4 900
Creditors	10 175	3 780

5. There have been no additions or disposals of fixed assets by L and T between 31 December 2008 and the ends of their financial years.
6. The following adjustments have been agreed for the purposes of the formation of the partnership:

	B	L	T
	\$	\$	\$
Fixed assets	136 000	142 000	130 000
Stock	16 000	16 000	16 500

Doubtful debts should be provided for as follows:

	376	350	240
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7. The Goodwill of each business at 31 December 2008 has been valued as follows:

	B	L	T
	\$	\$	\$
B		30 000	
L		20 000	
T		15 000	

A Goodwill account is **not** to be opened in the partnership books.

8. From 1 January 2000, partnership profits and losses are to be shared as follows: B  $\frac{2}{5}$ ; L  $\frac{2}{5}$ ; and T  $\frac{1}{5}$ .

**REQUIRED:**

- (a) Calculate the balances on the Capital accounts of B, L and T for inclusion in the opening Statement of Financial Position of the partnership on 1 January 2009. Show all adjustments in detail. *[13 marks]*
- (b) Prepare the opening Statement of Financial Position of the partnership as at 1 January 2009. *[12 marks]*
- (c) Assume that B, L and T capital accounts on 1 January 2009 are as follows: B \$50 000, L \$200 000 and T \$20 000. Further assume that the duties of each member and hours of work have been agreed as:
 

B - Strategic planning and other technical issues	10 hours per week
L - Consultation and advisory	5 hours per week
T - Day-to day running of the business	40 hours per week

**REQUIRED:**

Draft a Partnership Agreement that should be considered suitable by the three partners. Include all the key issues that the partners must agree on and explain why you consider these issues important to them. *[10 marks]*

**QUESTION 3**      **Total (16 Marks)**

Wild, wood and Bine enter into a joint venture for dealing in antique brass figures. The following transactions took place:

2008

- Mar 1 Wild rented a shop, paying 3 month's rent \$150.  
" 2 Wood bought a motor van for \$2 700.  
" 4 Wood bought antiques for \$650.  
" 15 Bine received cash from the sale proceeds of antiques \$3 790.  
" 28 Wild bought antiques for \$1200.  
Apr 11 Motor van broke down. Bine agreed to use his own motor van for the job, until cessation of the joint venture, at an agreed charge of \$400.  
" 13 Motor van bought on Mar 2 was sold for \$2 100. Proceeds were kept by Wild.  
" 15 Sales of antiques, cash being kept by Wood \$780.  
" 18 Lighting bills paid for shop by Bine \$120.  
" 30 Bine bought antiques for \$440.  
May 4 General expenses of shop paid for \$800, Bine and Wild paying half each.  
" 19 Antiques sold by Bine \$990, proceeds being kept by him.  
" 31 Joint venture ended. The antiques still in stock were taken over at an agreed valuation of \$2 100 by Wood.

**REQUIRED:**

Show the joint venture accounts in the books of each of the three parties. Show in full the workings needed to arrive at the profit on the venture. The profit or loss was to split: Wood one-half; Wild one-third; Bine one-sixth. Any outstanding balances between the parties were settled on 31 May 2008. *[16 marks]*

**QUESTION 4**      **Total (24 Marks)**

Bata Ltd operates a retail branch in Masvingo. All purchases are made by the Head Office in Gweru. Goods are sent to the branch at selling price, which is cost plus 50%.

On 1 January 2007, branch stock in trade at selling price amounted to \$4 866 and debtors \$2 644. During the year ended 31 December 2007 the following branch transactions were made:

<b><u>Details</u></b>	<b><u>Amuont</u></b>
Goods sent to branch at selling price	15 180
Cash sales	6 415
Credit sales	5 728
Goods returned by branch to Head Office at selling price	1 056
Authorized reductions on selling prices of goods sold (mark-downs)	97
Uninsured branch stock stolen (at selling price)	30

Branch stock destroyed by fire (at selling price)	1 500
Goods returned by branch debtors at selling price	450
Goods returned to Head Office by branch debtors at selling price	150
Cash paid by branch debtors	4 266
Bad debts written off	65
Discount allowed on branch debtors	122
Sundry expenses	1 729

You also ascertain that:

- a) A consignment of goods dispatched to the branch in December 2007 with a selling price of \$120 was not received till 10 January 2008 and have not been included in its closing stock figure, which, at selling price was \$5 670.
- b) Before 31<sup>st</sup> December 2007 the branch received a cheque from its insurers amounting to  $\frac{3}{4}$  of the cost of stock destroyed by fire. This represented the total amount recoverable under the policy.

**REQUIRED:**

Prepare the necessary ledger accounts to record the above transactions in the Head office books, using the fully integrated method and also prepare the branch profit and loss account for the year ended 31<sup>st</sup> December 2007. **[24 marks]**

**END OF PAPER**

**GOOD LUCK**