



**National University of Science and
Technology**

DEPARTMENT OF ACCOUNTING

SUPPLEMENTARY EXAMINATION: AUGUST 2010

FINANCIAL ACCOUNTING 1A CAC 1101

TIME ALLOWED: 3 HOURS

MARKS: 100

TIME: 3 HOURS

INSTRUCTIONS TO CANDIDATES

1. Answer all questions
2. Use the examination book provided
3. Use black or blue pen
4. Begin each question on a new page and
5. Submit all answer books used.

QUESTION ONE

- a) Al and Leon are in partnership and their profit sharing ratio is 7:5 respectively. They decided to admit Eddie as a partner. Eddie will share in a sixth of the profits and losses of the new partnership. Al and Leon will relinquish Eddie's profit share on an equal basis.

Required

Calculate the profit sharing ratio of the partners of the new partnership [5 Marks]

- b) Mabuza, Ismael and Dan are in a partnership, sharing profits and losses in a ratio of 5:3:2 respectively. They decided to liquidate the partnership by disposing of the assets piecemeal. The first interim payment will be made to the partners after the first liquidation of the assets. At the starting date of the liquidation, the following list of balances was drawn up

Capital:Mabuza.....	42 000
Capital: Ismael.....	31 200
Capital: Dan.....	12 500
General reserve.....	10 000
Furniture and equipment.....	26 500
Inventory.....	49 000
Bank debit.....	20 200

At the first liquidation of the assets, all the inventory was sold for \$29 000 cash.

Required

Calculate the amounts payable to the partners as a first interim repayment. Apply the loss absorption capacity method [20 Marks]

QUESTION TWO**25Marks**

The framework states that qualitative characteristics are attributes that make the information provided in financial statements useful to users.

Required

- a) State and explain the four qualitative characteristics of financial statements [10 marks]
- b) Explain 3 ways in which the historical cost accounting may mislead users of financial statements. [6 marks]
- c) Show items that need to be shown on the face of the statement of financial position and the comprehensive income statement. [9 marks]

QUESTION THREE

The following information relates to Bulawayo Modelers club, an association of people who build model boats as a hobby:

ITEMS ON THE PREADJUSTMENT TRIAL BALANCE AS AT 28 FEBRUARY 2009

	\$
Land and buildings at cost	50 000
Furniture and equipment:	
At cost	10 000
Accumulated depreciation (28 February 2008)	2 710
Membership fees received	15 000
Membership fees in arrears (28 February 2008)	900
Membership fees received in advance (28 February 2008)	1 100
Sundry expenses	450
Wages	5 000
Water and electricity	4 600
Maintenance of buildings	1 500
Old mutual fund (28 February 2008)	20 000
Current account CBZ Bank (favourable balance)	1 400
Admission fees received (to ZITF)	6 300
ZITF expenses	8 200
10% Long-term loan (CBZ Bank) (Loan secured by first mortgage over land and buildings)	30 000
Accumulated fund (28 February 2008)	25 940
Investment (ZABG Bank)	20 000
Interest expense	3 000
Interest income ZABG Bank at 8% pa	1 600
Refreshments:	
Inventory	200
Purchases	3 600
Sales	6 200

ADDITIONAL INFORMATION

- i. The income from the old mutual fund may only be used for the maintenance of buildings of the club
- ii. membership fees :

In arrear at 28 February 2009	\$800
Received in advance at 28 February 2009	\$1 300
- iii. Depreciation on furniture and equipment is calculated at 10% per annum on the diminished balance. The depreciation for the year ended 28 February 2009 must still be brought into account.
- iv. Six new members joined the club during the year. The entrance fee of \$200 per person is included in the figure for membership fees received, but should be included in the accumulated fund.
- v. Inventory of refreshment at 28 February 2009 amounted to \$300.
- vi. The interest income (ZABG) was received in respect of the old mutual fund.
- vii. The current account –CBZ Bank, had an unfavourable balance of \$1 350 at 28 February 2008.

Required

- (a) The old mutual account in general ledger of the club for the year ended 28 February 2009 [3 marks]
- (b) The following statements of the club for the year ended 28 February 2009:
 - i. Refreshment : trading statement [3 marks]
 - ii. Receipts and payment statement [5 marks]
 - iii. Income and expenditure statement [6 marks]
- (c) The statement of financial position of the club as at 28 February 2009 [8 marks]

**TOTAL
MARKS]**

[25

QUESTION FOUR

The draft balance sheet shown below has been prepared for Iguana Limited Liability Company as at 31 December 2009

	Cost	Depreciation	NBV
	\$000	\$000	\$000
Assets			
Non Current assets			
Land & Buildings	9 000	1 000	8 000
Plant & Equipment	<u>21 000</u>	<u>9 000</u>	<u>12 000</u>
	<u>30 000</u>	<u>10 000</u>	20 000
Current Assets			
Inventory			3 000
Receivables			2 600
Cash at bank			<u>1900</u>
Total Assets			<u>27 500</u>
<u>Equity and liabilities</u>			
Capital and reserves			
Issued Share capital (ordinary shares of 50cents each)			6 000
Retained earnings			12 400
Non Current Liabilities			
Loan notes (redeemable 2014)			2 000
Current Liabilities			
Trade Payables			<u>2 100</u>
			22 500
Suspense Account			<u>5 000</u>
			<u>27 500</u>

The following further information is available:

- 1) It has been decided to revalue the land and buildings to \$12 000 000 at 31 December 2009
- 2) Trade receivables totaling \$200 000 are to be written off
- 3) During the year there was a contra settlement of \$100 000 in which an amount due to a supplier was set off against an amount due from the same company for goods sold to it. No entry has yet been made to record the set off
- 4) Some inventory items included in the draft balance sheet at cost \$500 000 were sold after the balance sheet date for \$400 000 with the selling expenses of \$40 000
- 5) The proceeds of issue of 4 000 000, 50cents shares @ 1,10 per share were credited to the suspense account from the cash book

- 6) The balance of the suspense account is the proceeds of sale of some plant on 01 January 2009, with a Net Book Value at the date of sale of \$700 000 and which had originally cost \$ 1 400 000. No other accounting entries have yet been made for the disposal apart from the cash book entry for the receipt of the proceeds. Depreciation on the plant has been charged at 25% straight line basis in preparing the draft balance sheet without allowing for the sale. The depreciation for the year relating to the plant sold should be adjusted for in full.

Required

Prepare the company's statement of financial position as at 31 December 2009, complying as far as possible with IAS1 presentation of financial statements

NB. Details of noncurrent assets adjusted appropriately, should appear as they are presented in the question [20 marks]

(b) You are required to show journal entries necessary to record the following items:

- i. 1 May 2009 bought a motor vehicle on credit from Amtec motors for \$6 790
- ii. 3 May 2009 a debt of \$45 owing from Mr. A Sibanda was written off as bad debt
- iii. 8 May 2009 office furniture bought by us for \$490 was returned to the supplier office solutions, as it was unsuitable, full allowance will be given us.
- iv. 12 May 2009 we are owed \$150 by W Sungu. He is declared bankrupt and we received \$39 in full settlement of the debt.
- v. 28 May 2009 some time ago we paid insurance bill thinking that it was all in respect of the business. We now discover that \$76 of the amount paid was in fact insurance of our private house.

[5 marks]