National University of Science and Technology

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

FIRST SEMESTER FINAL EXAMINATION PAPER: 2013/2014

DATE:

SUBJECT: **FINANCAL ACCOUNTING 1A (CAC 1101)**

TIME ALLOWED: **THREE (3) HOURS**

MARKS: **100**

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
5. Show all workings clearly and
6. Submit all answer books

SECTION A

QUESTION ONE [25 MARKS]

a) Diva Traders has non-current assets in its Statements of Financial Position at 31 December 2012 as follows:

	At 31 December 2012	at 31 December 2011
	$000	$000
Property, plant and equipment (at carrying amount)	8417	6228

The following information is also available:

1)

	At 31 December 2012	at 31 December 2011	
	Cost or valuation	Cost or valuation	Accumulated Depreciation
	$000	$000	$000
Land	3520	2743	0
Buildings	3703	3177	612
Plant machinery and equipment	2653	1538	617
Goodwill	1500	1500	0

2) The land was re-valued by $375 000 on 31 December 2012

3) During the year, machines were disposed off for net sales proceeds of $20 000. The machines original cost $125 000 and accumulated depreciation on the assets at the same date of disposal was $111 000.

4) Depreciation charge for the year are as follows:

Buildings: $75 000

Plant and Machinery ; $212 000

5) Goodwill arose on purchase of the business entity several years ago and hasn't lost value since then.

Required

Prepare the disclosure note for property, plant and equipment for the year ended 31 December 2012 in the form prescribed by **International Accounting Standard 16: Plant, Property and Equipment** (IAS 16). **(5)**

b) Diva also publishes trade magazines and sells them to retailers. Diva has just concluded negotiations with a large supermarket chain for the supply of a large quantity of several of its trade magazines on a regular basis.

Diva has agreed on a substantial discount on the following terms:

- The same quantity of each trade magazine will be supplied each month
- Quantities can be changed at the end of each six month period
- Payment must be made six months in arrears.

The supermarket will pay $150 000 on 28 February 2012 for six months supply of trade magazines from 1 September 2011. At 31 December 2011, Diva had supplied four months of trade magazines. Diva estimates that the cost of supplying the supermarket each month is $20000.

Required

i. State the criteria in **IAS 18: *Revenue Recognition*** for income recognition. **(2)**

ii. Explain, with reasons how Diva should treat the above in its financial statements for the year ended 31 December 2011. **(3)**

c) The Conceptual Framework identifies assets, liabilities, income , expense and equity as the elements of financial statements. Define these in accordance with the Conceptual framework. **(5)**

d) A business entity purchased a motor vehicle for $17,000 for use within the entity. It was expected to have a residual value of $1,000, and its useful life was estimated at 8 years. The company charges depreciation under the straight-line method.

After two (2) years, it was discovered that the original estimate of useful life was wrong and that the actual total useful life would be only 6 years.

Required:

Account for the change in accordance with **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** for the rest of the useful life of the non- current asset. **(5)**

e) For information provided in financial statements to be useful to users, the Conceptual Framework has suggested the qualitative characteristics that ensure that the objectives of financial statements are achieved.

Required

List any 5 of these **(5)**

SECTION B

QUESTION TWO [25 MARKS]

A, B & C Statement of Financial Position immediately before dissolution of the partnership at 31 December 2010 was as follows.

ASSETS	**$**	**$**
Non-current assets		
Property plant and equipment		36000
Goodwill		16000
		52000
Current assets		
Inventory	128000	
Trade receivables	152000	280000
TOTAL ASSETS		**332000**
EQUITY AND LIABILITIES		
EQUITY		
Capital: A		40000
B		120000
C		80000
Current account		32000
		272000
CURRENT LIABILITIES		
Trade Payables	48000	
Bank	12000	60000
TOTAL EQUITY AND LIABILITIES		**332000**

You are provided with the following additional information;

1. A, B &C are partners sharing profits and losses in the ratio of 5:3:2 respectively.
2. The partners maintain a combined current account which should be distributed to the partners according to their profit sharing ratios
3. The partners decide to dissolve the partnership on 1 January 2011. The assets are sold and the proceeds divided among the partners at the end of each month in such

a way that it will not be necessary for any partner to repay amounts which he has already received.

4. Details of assets carrying amount and cash proceeds received;

Realization of assets

DATE	**ASSETS**	**CARRYING AMOUNTS**	**PROCEEDS**
		$	**$**
15 January 2011	Inventory	80000	48000
31 January 2011	Sundry receivables	124000	120000
28 February 2011	Remaining assets	**????**	64000

5. The partnership was bound by a contract to pay a rental of $3200 for the building each month up to the end of 31 May 2011. The lessor (owner of the building) agreed to accept three months notice with effect from 31 December 2010 on condition that new tenants could be found. The partners were informed on 2 February 2011 that new tenants would move into the premises on 1 April 2011. The partners complied strictly with the conditions of the amended lease.
6. All creditors were paid within 30 days of the date of statement after a 2% discount had been granted throughout.
7. Purchases of inventories during November 2010 amounting to 8000 have still to be provided for at 31 December 2010. This amount was recovered during January 2011 at a discount of 2%.
8. All the partners are solvent and they are all able to pay any deficit that may occur in their capital accounts as the final settlement.

REQUIRED

Prepare a columnar statement showing the calculations for the distribution of cash among the partners according to the **Loss absorption capacity method**. **(25)**

Note: Show all workings clearly

QUESTION THREE [25 MARKS]

The accounting records of the NUST Sports and Social Club are in a mess. You manage to find the following information to help you prepare the accounts for the year to 31 December 2012.

a) Summarised Statement of Financial Position as at 31 December 2011

	$
Half-share in motorised roller	600
New sports equipment unsold	1 000
Used sports equipment at valuation	700
Rent prepaid (2 months)	200
Subscriptions 2011	60
Café stocks	800
Cash and bank	1,210
	4,570
Life subscriptions	1,400
Subscriptions 2012	120
Insurance accrued (3 months)	150
Accumulated fund	2,900
	4,570

b) Receipts in the year to 31 December 2012:	**$**
Subscriptions – 2011	40
– 2012	1 100
– 2013	80
– Life	200
From sales of new sports equipment	900
From sales of used sports equipment	14
Café takings	4 660
	6,994

Payments in the year to 31 December 2012:

Rent (for 12 months)	1 200
Insurance (for 18 months)	900
To suppliers of sports equipment	1 000
To café suppliers	1 900
Wages of café manager	2 000
Total cost of repairing motorised roller	450
	7,450

- **c)** Ownership and all expenses of the motorised roller are agreed to be shared equally with the Carefree Sports and Social Club which occupies a nearby site. The roller cost a total of $2 000 on 1 January 2010 and had an estimated life of 10 years.
- **d)** Life subscriptions are brought into income equally over 10 years, in a scheme begun 5 years ago in 2007. Since the scheme began the cost of $200 per person has been constant. Prior to31 December 2011 10 life subscriptions had been received.
- **e)** Four more annual subscriptions of $20 each had been promised relating to 2012, but not yet received. Annual subscriptions promised but unpaid are carried forward for a maximum of 12 months.
- **f)** New sports equipment is sold to members at cost plus 50%. Used equipment is sold off to members at book valuation. Half the sports equipment bought in the year (all from a cash and carry supplier) has been used within the club, and half made available for sale, new, to members. The 'used equipment at valuation' figure in the 31 December 2012 Statement of Financial Position is to remain at $700.
- **g)** Closing café stocks are $850, and $80 is owed to suppliers at 31 December 2012. '

Required

- **a)** Prepare Statement of Activities for the year to 31 December 2012 **(12)**
- **b)** Statement of Financial Position as at 31 December 2012. **(13)**

QUESTION 4 [25 MARKS]

Jean Timba, who retails wooden ornaments, has been so busy since she commenced business on 1 April 2010 that she has neglected to keep adequate accounting records and she has asked you to act as her accountant. She provides you with the following information **(which has been numbered for you for ease of reference).**

1. Jean's opening capital consisted of her life savings of $15,000 which she used to open a business bank account. The transactions in this bank account during the year ended 31 March 2011 have been summarised from the bank account as follows:

Receipts:	**$**
Loan from John Timba, uncle	10,000
Takings	42,000
Winnings from a gambling game	15 000
Payments:	
Purchases of goods for resale	26,400
Electricity for period to 31 December 2010	760
Rent of premises for 15 months to 30 June 2011	3,500
Rates of premises for the year ended 31 March 2011	1,200
Wages of assistants	14,700
Purchase of van, 1 October 2010	7,600
Purchase of holiday caravan for Jean Timba's private use	8,500
Van licence and insurance, payments covering a year	250

2. According to the bank account, the balance in hand on 31 March 2011 was $34,090 in Jean Timba's favour.
3. She informs you that while the intention was to bank all takings intact, it now transpires that, in addition to cash drawings, the following payments were made out of takings before bankings:

$

Van running expenses	890
Postages, stationery and other sundry expenses	355

4. On 31 March 2011, takings of £640 awaited banking; this was done on 1 April 2011.
5. It has been discovered that amounts paid into the bank of $340 on 29 March 2011 were not credited to Jean's bank account until 2 April 2011 and a cheque of $120, drawn on 28 March 2011 for purchases, was not paid until 10 April 2011.
6. The normal rate of gross profit on the goods sold by Jean Timba is 50% on sales. However, during the year a purchase of ornamental goldfish costing $600 proved to be unpopular with customers and therefore the entire stock bought had to be sold at cost price.
7. Interest at the rate of 5% per annum is payable on each anniversary of the loan from John Timba on 1 January 2011.
8. Depreciation is to be provided on the van on the straight line basis; it is estimated that the van will have a scrap value of$100 after five years.
9. The stock of goods for resale at 31 March 2011 has been valued at cost at $1 900.
10. Payables for purchases at 31 March 2011 amounted to $880 and electricity charges accrued due at that date were $180.
11. Trade receivables at 31 March 2011 totalled $2 300.

Required:

a. A statement of Comprehensive Income to for the year ended 31 March 2011 **(13)**
b. A Statement of Financial Position as at 31 March 2011. **(12)**

THE END