



# National University of Science and Technology

## FACULTY OF COMMERCE

### DEPARTMENT OF ACCOUNTING

#### SECOND SEMESTER SUPPLEMENTARY EXAMINATION SEPTEMBER 2013

**COURSE: ACCOUNTING 1B: CAC 1208**

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

**TOTAL 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 and

#### **INFORMATION FOR CANDIDATES**

1. Submit all answer books used
2. All workings should be clearly shown

## QUESTION ONE [25Marks]

X and Y are in partnership sharing profits and losses equally. They decide to admit Z. By agreement, goodwill valued at \$6 000 is to be introduced into the business books. Z is required to provide capital equal to that of Y after he has been credited with his share of goodwill. The new profit sharing ratio is to be 4:3:3 respectively for X, Y, and Z

The Statement of Financial Position before admission of Z is shown below.

Current and noncurrent assets	\$ 15 000
Cash	<u>2 000</u>
	<b><u>17 000</u></b>
Capital X	8 000
Capital Y	4 000
Current Liabilities	<u>5 000</u>
	<b><u>17 000</u></b>

### Required:

- (a) Prepare journal entries for the admission of Z. [8]
- (b) Draw up the opening Statement of Financial Position of the new business. [12]
- (c) Prepare the goodwill account showing the writing off of the goodwill which the new partners decided to do soon after the start of the new business. [5]

## QUESTION TWO [30 Marks]

The following is a trial balance for Byo Pvt Ltd for the year ended 31 December 2012

	Dr	Cr
	\$	\$
Purchases and sales	20,000	50,000
Inventory	8,000	
Distribution costs	8,000	
Administration expenses	15,550	
Receivables and payables	10,000	20,000
Fundamental reorganisation costs	2,400	
Cash at bank	8,100	
Ordinary shares 50c		8,000
10% irredeemable preference shares \$1		9,000
10% loan notes		8,000
Non-current assets at net book value	35,000	
Share premium		3,000
Accumulated Profits at 1 January 2012		3,000
Loan note Interest	400	
Preference dividend	450	
Interim ordinary dividend	1,600	
Income tax		500
Suspense		8,000
	<u>109,500</u>	<u>109,500</u>

### Additional information

1. A building whose net book value is currently \$5,000 is to be revalued to \$11,000.
2. A final ordinary dividend of 10c per share is to be proposed.
3. The balance on the income tax account represents an overprovision of tax for the previous year. Income tax for the current year is estimated at \$3,000.
4. Closing inventory is \$12,000.
5. The balance on the suspense account represents the proceeds from the issue of 4,000 ordinary shares.

**Required:**

Prepare the following statements for the year ended 31 December 2012

- (a) Statement of Comprehensive Income [13]  
 (b) Statement of financial position [12]  
 (c) Statement of changes in equity [5]

**Question Three [20 Marks]**

The following are the Statements of Financial Position of Hommers for the years ended 31 December 2011 and 31 December 2012:

	December 2011 \$	December 2011 \$	December 2012 \$	December 2012 \$
Non Current assets				
Premises at Cost		25 000		28 800
Current assets				
Inventory	12 500		12 850	
Accounts receivable	21 650		23 140	
Cash and bank balances	<u>4 300</u>		<u>5 620</u>	
	38 450		41 610	
Less current liabilities				
Accounts payable	<u>11 350</u>	<u>27 100</u>	<u>11 120</u>	<u>30 490</u>
Working capital		<u><b>52 100</b></u>		<u><b>59 290</b></u>
Financed by				
Capital				
Opening balances b/d		52 660		52 100
Add Net profit for the year		<u>16 550</u>		<u>25 440</u>
		69 210		77 540
Less Drawings		<u>17 110</u>		<u>18 250</u>
		<u><b>52 100</b></u>		<u><b>59 290</b></u>

No depreciation has been charged in the accounts.

**Required:**

- (a) Prepare a Statement of Cashflows for Hommers for the year ended 31 December 2012 using the **Indirect Method**. [15]
- (b) Differentiate between the Direct method and the Indirect method of calculating cashflows from operations. [5]

**Question Four[25 Marks]**

- (a) Outline any two major advantages investing in shares has over investing in bonds. [4]
- (b) Define the following accounting terms:
- I) Historical cost accounting [3]
  - II) Current cost Accounting [3]
  - III) Current Purchasing power [3]
  - IV) Social Accounting [3]
  - V) Overtrading [3]
- (c) Define and state the formulae of the following accounting ratios:
- I) Gearing ratio [3]
  - II) Receivables turnover days [3]

**End of Examination Paper**