

**NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**DEPARTMENT OF ACCOUNTING**

**FIRST SEMESTER EXAMINATION: APRIL 2009**

**ACCOUNTING IIA CAC 2106**

**Instructions to candidate:**

1. Answer all Four questions
2. Start each question on a new page
3. All workings must be shown.

QUESTION	TOPIC	MARKS
1	CASHFLOW STATEMENTS	25
2	PARTNERSHIP ACCOUNTING	25
3	INTERPRETATION OF ACCOUNTS	25
4	ISSUE OF SHARES	25

**QUESTION 1 ( Total 25 marks )**

The following financial statements were prepared for a sole trader, trading as The Rand Shop.

The Rand Shop

The Income Statement for the year ended 31 December 2008.

	\$	\$
Sales		30 000
Consumable Inventory (consumed)	(7 000)	
Rental expenses	(1 000)	
Wages	(3 100)	
Water and electricity	(1 700)	
Telephone expenses	(300)	
Insurance expense	(200)	
Depreciation	(1 500)	<u>(14 800)</u>
Profit before finance cost		15 200
Finance cost		<u>(625)</u>
Profit for the year		<u>14 575</u>

**The Rand Shop**

Balance sheet as at 31 December 2008

	2008	2007
<b>Assets</b>		
<b>Non Current Assets</b>		
Property Plant and Equipment	98 500	90 000
<b>Current Assets</b>		
Inventory (Consumable)	9 000	6 000
Trade and other receivables	19 000	14 000
Prepaid expenses	1 525	
Cash and Cash equivalent	<u>475</u>	<u>3625</u>
	<u>128 500</u>	<u>113 625</u>
<b>Equity and liabilities</b>		
Capital	35 000	30 000
Drawings	5 000	3 000
Reserves	<u>28 200</u>	<u>13 625</u>
	55 200	40 625
<b>Non Current Liabilities</b>		
Long term loan	55 000	50 000
<b>Current Liabilities</b>		
Trade and other payables	<u>18 300</u>	<u>23 000</u>
	<u>128 500</u>	<u>113 625</u>

NB:- All notes are excluded.

Additional information

1) The sales figure represents services rendered

For cash \$18 000

On credit \$12 000

2) The trade other receivables pertain solely to debtors to whom services were rendered on credit.

3) The prepayments comprise the following:-

Interest expense	625
Wages	500
Insurance expense	<u>400</u>
	<u>1 525</u>

4) Trade and other payables comprise the following:-

	2007	2008
Trade creditors (purchase of inventory)	23 000	18 000
Accrued telephone expenses		<u>300</u>
	<u>23 000</u>	<u>18 300</u>

5) The depreciation recorded in respect of vehicles amounted to \$800 and in respect of machinery \$700.

6) The addition to property plant and equipment was paid in full, no property, plant and equipment were sold during the financial year ended 31 December 2008.

7) The carrying amounts in respect of vehicle and machinery are as follows:-

	2008	2007
	\$	\$
Vehicles	39 200	40 000
Machinery	<u>59 300</u>	<u>50 000</u>
	<u>98 500</u>	<u>90 000</u>

8) The drawings and the additional capital made by the owner were in cash.

9) The interest in respect of the long term loan is not capitalised.

10) The inventories (consumable material) was disclosed at cost.

**REQUIRED:-**

Prepare the cash flow statement of the Rand Shop for the year ended 31 December 2008 according to the direct method. (IAS 7 requirement). **(25 marks )**

**QUESTION 2 ( 25 marks)**

**A. B, C**

The trial balance of the partnership is as follows as at 31 December 2008.

	Dr	Cr
	\$	\$
Sales		500 000
Property	100 000	
Equipment	20 000	
Stock - 1 January	30 000	
Purchases	400 000	
Wages	30 000	
Debtors	30 000	
Payment from Mr C.		40 000
Capital Mr A		60 000
Capital Mr B		60 000
Depreciation equipment	4 000	
Depreciation- provision equipment		8 000

		DR	CR
Creditors			32 000
Drawings	A	20 000	
	B	20 000	
	C	15 000	
Rates		1 000	
Heating and lighting		2 000	
Administration expenses		13 000	
Cash		15 000	
		<u>700 000</u>	<u>700 000</u>

N.B. The trading information covers the whole year

**Additional information**

1) On 31 March 2008 the partners Mr A and B agreed to admit Mr C subject to property being revalued to \$150 000 and goodwill at \$30 000.

2)		Old	New
		Partnership	Partnership
Interest on capital		10%	10%
Salaries	A	\$16 000 p.a	\$10 000 p.a
	B	\$24 000 p.a	\$20 000 p.a
	C		\$10 000 p.a

Profit sharing ratio

A	1/2	3/8
B	1/2	1/2
C		1/8

3) Depreciation on equipment is to be 20% per annum on a straight line basis.

4) Prepaid wages amount to \$2000

5) Rates of \$600 were owing

6) Administration expenses of \$1000 dollars remain unpaid

7) Sales from January to March amount to \$100 000. Gross profit is 25% on sales. All other expenses other than cost of goods sold and rates accrue evenly over the year. The rates for the first quarter amounted to \$500

8) The entries necessary to record revaluation of the property and goodwill have not been made.

9) Revaluation reserve and goodwill are not to be shown in the books

**REQUIRED**

Prepare:

(a) The Trading and Profit and Loss and Appropriation Account for the year ended 2008 in a columnar form (showing results for 3 months and 9 months) **(15 marks)**

(b) Partners capital and current account including the adjustment for the admission of Mr C

(c) The balance sheet as at 31 December 2008. **(10 marks)**

**QUESTION 3**

**(Total 25 Marks)**

Optimistic Traders is planning its activities for next year. In outline its plans are as follows:

1) Sales are planned to be \$3 600 000 spread fairly evenly over the year.

2) Expenses : The gross profit ratio is planned to be 40% of sales ,other expenses are planned to be 75% of the Gross Profit.

3) Taxation will be charged at 30% of Net Profit and this will be the only outstanding tax liability at the year end.

4) Working Capital : Throughout the year the following relations are planned

- a) Stock - 2 months' usage
- b) Trade debtors - 1.5 month's sales
- c) Trade creditors - 2.5 months' purchases

At the year end other working capital items will be provision for tax , dividends and cash.

5) Dividend : The company plans to pay a dividend on its Ordinary Share Capital of 30% of the nominal value.

6) Share Capital and Reserves - The company is financed by 500 000 ordinary shares of \$1 each fully paid. At the start of the year reserves totaled \$230 000.

7) Fixed Assets: At the start of the year the only Fixed Assets will be plant which cost \$800 000 and on which accumulated depreciation is \$150 000. During the year \$100 000 is planned to be spent on new plant. Depreciation for the year ( already included in other expenses in note 2 will be charged at 20% on the cost of the plant owned at the year end.

#### **REQUIRED**

- a) Prepare a projected Trading and Profit and Loss account and a Balance Sheet **(18 marks)**
- b) State the ratio limitations **( 7 marks)**

#### **QUESTION 4 ( Total 25 marks)**

The Authorised and Issued Share Capital of Prospective plc Ltd was 100 000 Ordinary Shares of \$1 each. The Authorised Share Capital was increased to 200 000 divided into Ordinary Shares of \$1 each and the company issued 75 000 Ordinary Shares of \$1 each at 150 cents per share payable as :

On application(including premium)	\$0.75
On allotment	\$0.40
On call	Balance

120 000 applications were received and applications for 20 000 shares were unsuccessful and the cash paid in respect of such shares was returned. All other applications were reduced proportionately and the balance of application moneys being applied to the amount due on allotment.

The balance due on allotment was received except in the case of one allottee of 300 shares. These shares were forfeited and re- issued as fully paid at 140 cents per share. The remaining shareholders paid the call due.

#### **REQUIRED**

Show:

- a) The ledger accounts necessary to record the above transactions **( 20 marks )**
- b) Extracts of the accounts in the company's balance sheet as at 31 December 2008. **( 5 marks )**