

THE COPPERBELT UNIVERSITY



SCHOOL OF BUSINESS

BS 120/BF 120

PRINCIPLES OF FINANCIAL ACCOUNTING

TEST ONE

WEDNESDAY 22ND MARCH 2023

INSTRUCTIONS:

1. Time Allowed: **2 HOURS**
2. This **TEST** consists of **TWO SECTIONS**
3. Attempt **ALL THE QUESTIONS** in both sections.
4. Section A consists of **TEN (10)** Multiple Choice Questions
5. Section B consists of **TWO (2)** questions of **20 Marks each**.

ALL THE BEST!!!

SECTION A

Multiple Choice Section (1 Mark Each: Total = 10 Marks)

- 1) Which of the following are enhancing qualities of the qualitative characteristics of Reliability in accordance with the International Financial Reporting Standards (IFRSs)?
- i. Relevance
 - ii. Substance over form
 - iii. Verifiability
 - iv. Prudence
- a) (i), (ii) and (iii)
 - b) (ii) and (iii) ✓
 - ~~c)~~ (i) and (iii)
 - d) (iii) only
- 2) Which of the following fully explains what an asset is in accordance with the Conceptual Framework for Financial Reporting 2018?
- a) A tangible property owned by a company as a result of past events and from which future economic benefits are expected.
 - ~~b)~~ A resource controlled by the entity because of past events and from which future economic benefits are expected to flow to the entity.
 - c) An investment owned by the company as a result of the capital contributed by the shareholders.
 - ~~d)~~ A valuable and useful resource that a company holds and is recorded on the debit side of the balance sheet.
- 3) Which of the following is a source document for a "returns outward" transaction?
- ~~a)~~ Debit note
 - b) Credit note
 - c) Invoice
 - d) Receipt
- 4) Which of the following are considered as "Day Books" under any bookkeeping system?
- i) Sales ledger
 - ii) General Ledger
 - iii) Sales Journal
 - iv) General Journal
- a) All of them
 - b) (i) and (iv)

~~e)~~ (ii) and (iii)

~~d)~~ (iii) and (iv)

- 5) When performing a bank reconciliation, the accountant discovers that a cheque for K22,000 for sundries had been entered in the cash book as receipt instead of a payment. What are the correct entries for the discovery during bank reconciliation?
- a) Debit the Updated cash book with K22000
 - b) Debit the Updated Cash book with K44,000
 - c) Credit the Updated Cash book with K22,000
 - ~~d)~~ Credit the Updated Cash book with K44,000
- 6) Muleya and company extracted a trial balance for the years ended 31st December 2022 and the total of the credit side was less the debit side by K3,000. Which of the following statements could explain the difference?
- a) A cash receipt of K1,500 from a customer was not entered in the accounts
 - ~~b)~~ A Debit Note of K3,000 was recorded on the debit side of the payable's account and the credit side of the purchases returns account.
 - c) Carriage Inwards of K3000 cost was added to the purchases account and credited to cash account.
 - ~~d)~~ A payment of K1,500 from for rentals was correctly entered in the rentals account and debited in the cashbook.
- 7) Pep and Dapp are in partnership and at the beginning of the year ended 31st December 2022, the had assets of K419,400 and liabilities of 262840. During the year 2022, Dapp contributed K55,000 more capital to the business and they paid rentals of K9,000 and water bills of K600 for the year. On 31 December 2022, the partnership had assets of K514,130 and liabilities of K269,770.
What is the profit for the year 2022 for the Partnership?
- a) K22,000
 - b) K40,600
 - ~~c)~~ K42,400
 - d) K79,200

Q8 to Q10 relates to the following:

HH Ltd produces their financial statements on a monthly basis and the following is selected information relating to the January 2023.

| Detail | K | Detail | K |
|-------------------------|---------|-------------------------|---------|
| Motor Vehicles | 200,000 | Sundries | 80,000 |
| Bank | 160,000 | Accounts Receivable | 180,000 |
| Service Revenue | 720,000 | Remuneration | 14,000 |
| Electricity | 220,000 | Investment | 330,000 |
| Capital opening balance | 200,000 | Owner's takings in kind | 100,000 |

Determine the Total Assets, Net Income, and Owner's Equity for HH Ltd for January 2023.

| | (Q8) Total Assets | (Q9) Net Income | (Q10) Owner's Equity |
|-----|-------------------|-----------------|----------------------|
| (a) | 540,000 | 306,000 | 506,000 |
| (b) | 710,000 | 406,000 | 100,000 |
| (c) | 870,000 | 736,000 | 306,000 |
| (d) | 884,000 | 420,000 | 606,000 |

SECTION B

QUESTION ONE

Kingtrade Ltd is a manufacturing company whose financial year end is the 31st of December. On 31st December the bank statement balance showed a positive balance of K1,885,530 and the company records shows a debit cash balance of K1,657,950 and the following information came to light.

- The bank teller recorded a deposit of K69,000 as a payment in error. ^{BR}
- Kingtrade issued cheques to one of their suppliers for goods bought but the bank has not yet paid the last two cheques. Each cheque was to be paid on the Friday of each week of the month of December as follows:

| | | | |
|------------|--------|----------|------------|
| • Cheque 1 | Week 1 | K195,590 | |
| • Cheque 2 | Week 2 | K150,000 | |
| • Cheque 3 | Week 3 | K297,500 | } unpf u/c |
| • Cheque 4 | Week 4 | K298,090 | |
- At the beginning of the month, sales of K300,000 were incorrectly recorded as K3,000,000 by the company. During some routine internal audits, this error was discovered and corrected on the 21st of December in the company records.
- Kingtrade's accountant incorrectly recorded sales of K170,000 as K185,000. The bank on the other hand received this deposit on the 15th of December and captured it correctly on the bank statement.
- Together with dishonoured cheques returned, the bank sent a credit memorandum ^{u/c} indicating that the bank was in receipt of a promissory note from Covid Ltd one of Kingtrade's clients in the amount of K140,000 plus K10,000 in interest on the note. A debit memorandum was also enclosed for the K2,500 collection fee. The company had not entered these amounts in its records.
- On the 27th of December, the company's bank account received a credit of 10% interest on the company's average balance of K78,100. This was only discovered by Kingtrade upon collection of the bank statement at the year end.
- Monthly maintenance fees of K6250 were charged on the company's account but not yet recognised by the company.
- Also on the bank statement was a Non-Sufficient Fund (NSF) fee of K64,070 which was not yet recorded on the cashbook.
- A K300,000 cheque received and recorded by Kingtrade on the 29th of December, had not yet cleared at the bank by "bank statement" date. ^{unpf}

27 82810

Required:

- Show what adjustments you would make in Kingtrade Ltd's cash book as at 31st December 2022.
- Prepare a bank reconciliation statement as at 31st December 2022.

20 Marks

QUESTION 2

Lineo is a sole trader who has been running his business for several years. His accounting record balances at 28th February, 2023 were as follows:

Purchases and Sales K92,370 and K163,920 respectively, Inventory at 1/03/22 K13,350, Returns inwards K4,760, Returns Outwards K3,220, Carriage inwards K1,840, Carriage outwards K2,955, Bank loan (5 years loan) K15,000, Insurance K3,580, Staff costs K20,976, Electricity bills K5,015, Business rates and rent K6,710, Debentures K39,000. General expenses K4,140, Bad debts written off K778, Furniture and Equipment at cost K18,400, Motor van at cost K16,000, Trade receivables K10,000, Trade payables K8,575, Bank and Cash K37,490, Drawings K27,330, Capital K27,864, Discounts allowed K2,375, Discounts received K9,475 and Commission received K1,015.

ALLEG
Dr Cr
Drawings Capital

The following information whose "double-entry" has not yet been done is also available:

- The cost of the inventory on 28th February 2023 was K14,890 and the net realisable value was K16,000 and financial statements are produced on a going concern assumption.
- The purchases figure shown in the trial balance includes K3,400 for goods that Lineo took home for his own personal use.
- Interest on Bank loan and Debenture is 10% and 20% on the opening balances of the loans respectively. This is owing at the end of the year as it has not yet been paid.
- During the last month of the year, Lineo made a repayment by cheque of K5,000 towards his bank loan and K9,000 towards his debenture loan that has not yet been accounted for in his books.

Required:

Prepare a Trial Balance for the account balances given before additional information above and the Income Statement for the year to 28th February 2023 and the Statement of Financial Position at 28th February, 2023.

20 Marks

| | |
|--------------------|--------|
| Inventory at 1/3 | |
| Inventory | 14 890 |
| Drawings | 3 400 |
| Bank loan interest | 1 500 |
| Debenture interest | 7 800 |

Cr
229 069

5
268 069

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SECTION A

- | | |
|------|-------|
| 1. C | 6. D |
| 2. B | 7. C |
| 3. A | 8. C |
| 4. D | 9. B |
| 5. D | 10. A |

Prince Daniels Tutor

0972286191

SECTION B

Q1

@ Kingstrade Ltd Updated Cash Book

| | K | | K |
|---------------------|----------------|------------------|----------------|
| Balance b/f | 1657950 | Note 4 | 15000 |
| Note ⑤ Promisory | 140000 | Collection fee ⑤ | 2500 |
| Interest ⑤ | 10000 | Maintenance fee | 6250 |
| Interest Received ⑥ | 7810 | NSF ⑧ | 64070 |
| | | Balance c/f | 1727940 |
| | <u>1815760</u> | | <u>1815760</u> |
| Balance b/f | 1727940 | | |

⑥ Bank Reconciliation

| | K | K |
|--|---------------|----------------|
| Balance As Bank Statement | | 1885530 |
| Adjust Error (Note 1) $[69000 \times 2]$ | | <u>138000</u> |
| Adjusted Bank Balance | | 2023530 |
| Add Uncredited Cheques: | | |
| Note ⑨ | | <u>300000</u> |
| | | 2323530 |
| Less Unpresented Cheques: | | |
| Chq 3 | 297500 | |
| Chq 4 | <u>298090</u> | |
| | | (595590) |
| Balance As the Updated Cash Book | | <u>1727940</u> |

Q2

Linco Trial Balance as at 28th February 2023

| | Dr | Cr |
|-----------------------|--------|---------|
| Purchases & Sales | 92 370 | 163 920 |
| Inventory 1/03/22 | 13 350 | |
| | 4 760 | |
| Returns Inwards | | 3 220 |
| Returns Outwards | | |
| Carnage Inwards | 1 840 | |
| Carnage Outwards | 2 955 | 15 000 |
| Bank loan (5 years) | | |
| Insurance | 3 580 | |
| Staff Costs | 20 976 | |
| Electricity Bills | 5 015 | |
| Business Rates | 6 710 | 39 000 |
| Debentures | | |
| General Expenses | 4 140 | |
| Bad debts | 778 | |
| Furniture & Equipment | 18 400 | |
| Motor Van | 16 000 | |
| Trade Receivables | 10 000 | |
| Trade Payables | | 8 575 |

Bank & Cash

37490

Drawings

27330

Capital

27864

Discount Allowed

2375

Discount Received

9475

Commission Received

1015

268069

268069

Adjustments

① Cost of Inventory = K14890 (You Pick the lower value)

② Purchases = 92370 - 3400 = K88970

Drawings = 27330 + 3400 = K30730

③ Interest On loans = 10% of 15000
= K1500

Interest On Debentures = 20% of K39000
= K7800

(4)

$$\text{Bank loan} = 15000 - 5000 = \underline{\underline{K10000}}$$

$$\text{Cash \& Bank} = 37490 - 5000 = K32490$$

$$\text{Debenture loan} = K39000 - 9000$$

$$= \underline{\underline{K30000}}$$

$$\text{Cash \& Bank} = 32490 - 9000$$

$$= \underline{\underline{K23490}}$$

Lineo Income statement for the Year ending 28/2/23

| | k | k |
|------------------------|---------|---------|
| Sales | 163920 | |
| less Sales Returns | (4760) | |
| Turn Over | | 159160 |
| Opening stock | 13350 | |
| Purchases | 88970 | |
| Carriage Inwards | 1840 | |
| | 104160 | |
| less Purchases Returns | (3220) | |
| | 100940 | |
| Closing stock | (14890) | |
| Cost of Goods Sold | | (86050) |
| GROSS PROFIT | | 73110 |
| Add Other Incomes | | |
| Discount Received | 9475 | |
| Commission Received | 1015 | |
| | | 10490 |
| Total Incomes | | 83600 |

LESS EXPENSES

| | | |
|------------------------|-------|---------|
| Carnage Outwards | 2955 | |
| Insurance | 3580 | |
| Staff Costs | 20976 | |
| Electricity bills | 5015 | |
| Business Rates | 6710 | |
| General Expenses | 4140 | |
| Bad debts | 778 | |
| Discount Allowed | 2375 | |
| Interest On loans | 1500 | |
| Interest On Debentures | 7800 | |
| Total Expenses | | (55829) |
| NET PROFIT | | 27771 |

Income Statement of Financial Position as at 28/02/23

ASSETS.

Non Current Assets.

Furniture & Equipment

Motor Van

K

COST

K

DEP

K

N.B.V

18400

—

18400

16000

—

16000

34400

—

34400

Current Assets

Inventory

Trade Receivable

Cash & Bank

14890

10000

23490

48380

TOTAL ASSETS

82780

| | | | |
|----------------------------------|-------|---------|-------|
| <u>Financed By:</u> | | | |
| Capital | 27864 | | |
| Add Profit | 27771 | | |
| | | 55635 | |
| | | (30730) | |
| less Drawings | | | 24905 |
| Accumulated Capital | | | |
| <u>Non - Current liabilities</u> | | | |
| Bank loan | | 10000 | |
| Debentures | | 30000 | |
| | | | 40000 |
| <u>Current liabilities</u> | | | |
| Trade Payables | | 8575 | |
| Interest Payable On loans | | 1500 | |
| Interest Payable on Debentures | | 7800 | |
| | | | 17875 |
| | | | |
| Total Capital & liabilities | | | 82780 |