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SCHOOL OF BUSINESS
BF 120 FINANCIAL ACCOUNTING

TEST 1

4th March 2021

INSTRUCTIONS:

1. Time Allowed: 1 hour 30 minutes
2. Answer ALL questions
3. This test consists of twenty five (25) multiple choice questions.
Please circle the correct answer in the question paper. Only the letter of the correct answer must be circled in the question paper.
NO workings are required.

1. The following transactions relate to KIEA Ltd for the month of December 2020.

- 1 Dec Started business with K200, 000 capital deposited into the bank account. On the same day K4, 000 was paid for fuel by cheque for December, January and February.
- 2 Dec K50, 000 was withdrawn from the bank account to the cash till and used to buy furniture K36, 000, Computers K6, 000 and Printers K6, 000.
- 7 Dec Withdrew K12, 000 to the cash till and on the same day bought stationery K10, 000 cash.
- 15 Dec Paid wages K2, 000 cash and salaries K46, 000 by cheque.
- 30 Dec Paid for electricity K100 cash and wages K1, 000 by cheque.
- 31 Dec A water bill of K600 was received but would not be paid until 2nd January 2021 as the cashier was unavailable. On the same day it was discovered that one employee's salary for K2, 000 was not paid and would also be paid on 2nd January.

What were the closing balances on the following accounts as at 31st December 2020? (All amounts in K')

	Bank	Cash	Capital	Salaries and wages	Water and electricity	Fuel
A	37,000	1,900	200,000	50,000	700	4,000
B	200,000	1,900	0	41,000	600	2,667
C	87,000	1,900	200,000	49,000	100	4,000
D	87,000	1,900	200,000	51,000	700	1,333

2. What are the totals on the trial balance for the ledger accounts in question (1) above?

	Dr (K')	Cr (K')
A	202,600	202,600
B	200,000	200,000
C	251,600	151,600
D	51,600	151,600
E	None of the above	

3. Which of the following are examples of qualitative characteristics?

- (1) Accruals
- (2) Faithful representation
- (3) Going concern
- (4) Neutrality

- Answer
- ↑ A. 1 and 2
- ↓ B. 2 and 4
- ↓ C. 2 and 3
- ↓ D. 1 and 4
- Wrong

4. William Tembo sells his motor vehicle to Makasa Nyondo for K150, 000. However, after Makasa purchases the motor vehicle, he has to spend K10, 000 to fix a problem in the engine which William was aware of but did not mention. If Makasa had known about this, he would not have purchased the vehicle. Which accounting concept does this scenario describe?

- A. Money measurement concept
- B. Realisation concept
- ☒ C. Materiality concept
- D. Accruals concept

5. During an annual audit of the financial statements of Timely Functions Ltd, John Gee noticed that all the assets and liabilities were shown at their current disposal values. This was not so at the end of the previous financial year although it was noted that the company was having liquidity problems. Is Timely Functions expected to be in existence in the next 12 months?

- A. Yes, but it is expected to be liquidated after those 12 months
- B. No, unless the assets and liabilities are shown at present value
- ☒ C. No because the business is not considered to be a going concern
- D. Yes, because a business can decide how it shows its assets and liabilities in its accounts

6. Chola Manda is a sole trader and prepares her accounts to 31st March each year. During the year to 31st March 2020 she included cash received in May 2020 for sales made in February and also included fuel expenses that she decided to pay while she had cash on hand in March but which related to fuel for April 2020. Does the accruals concept allow this treatment?

- A. Yes because they are income and expenses respectively
- B. No because the income was only received in May and the fuel was paid for in advance
- C. No to the income because it was received after the year end but yes to the expense because it was paid for in March
- ☒ D. No to the expense because it related to April but yes to the income because it related to February.

7. Which accounting concept explains that accounting has two aspects namely assets and claims against those assets? AND which one states that if the omission or misstatement of an item affects the decisions of users then it is important to users of financial statements?

- A. Matching concept and prudence concept
- B. Accruals concept and dual aspect concept
- ☒ C. Dual aspect concept and materiality concept
- D. Going concern and business entity concept

8. A credit balance of K900, 000 brought down on Y Ltd's account in the books of X Ltd means that:

- A. X Ltd owes Y Ltd K900, 000
- ☒ B. Y Ltd owes X Ltd K900, 000
- C. X Ltd has paid Y Ltd K900, 000
- D. X Ltd is owed K900, 000 by Y Ltd

9. According to the dual aspect concept:

- A. There are two sides to accounting, the receiver who is debited and the giver who is credited
- ☒ B. There are two aspects to accounting, the assets and the claims against those assets
- C. There are two aspects to accounting, debits and credits
- ☒ D. There are two sides to accounting, the incomes and expenses

wrong

10. Mulela Ltd is owed K25, 000 by its debtors. 20% of these have been outstanding for the past two years and it is unlikely that the money will be collected. In addition it has a machine that is valued at K90, 000 in its books but due to new technology, it cannot be used in the business and can only be sold for K40, 000. At the end of the most recent financial year, the company showed the debtors and machine at K25, 000 and K90, 000 respectively. What accounting concept has been deviated from?

- ☒ A. Realisation concept
- B. Consistency concept
- C. Prudence concept
- D. Money measurement concept

11. It is said that in order for information to be useful to its users, it must be free from material error and bias. What qualitative characteristic is this?

- A. Relevant
- ☒ B. Reliability
- C. Understandable
- D. Complete

12. Mark Shane would like to invest in a company with good financial performance and approaches Ali Isaacs for advice on whether Kapalongo Plc is one such company. After a few days Ali gives Mark the future investment plans of the business and tells him that the company recently employed a new CEO whose vision is to take it to 5 different countries in the region. Is this information relevant to Mark?

- A. Yes because a company that has future investment plans will be in existence for the foreseeable future
- B. Yes because a CEO with such a vision is bound to take the company to greater heights and give it a large market share
- C. No because the CEO is not a guarantee of future performance
- ☒ D. No because the information given will not affect Mark's decision

13. If a company is seen to be in existence in the foreseeable future, the financial statements are said to have been prepared using which concept?

- A. Entity concept
- ☒ B. Going concern concept
- C. Prudence concept
- D. Dual aspect concept

14. Nathan Bowa decided to record the value of assets as K40, 000 even if they could be sold for K45, 000. In addition he recognises all liabilities, including those that many people would not find necessary for inclusion in the financial statements. What concept is he going by?

- A. Materiality Concept

- B. Consistency Concept
- ☒ C. Prudence Concept
- D. Entity Concept

15. Which users of financial statements would require information to compare performance with set objectives in order to make corrections where necessary?

- A. Employees
- ☒ B. Managers
- C. Shareholders
- D. Unions

16. Which of the following statements are true?

- (1) The trial balance provides a check that no errors exist in the accounting records of a business
- (2) The trial balance is a first step in the preparation of the financial statements.

- A. 1 only
- ☒ B. 2 only
- C. both 1 and 2
- ☒ D. Neither 1 nor 2

17. Information is complete when it:

- A. Includes all the material aspects of the financial performance and position of a company
- ☒ B. Includes all the transactions of a company
- C. Is free from any errors and bias
- D. It is prepared in a timely manner

18. The accounting equation can change as a result of certain transactions. Which one of the following transactions would leave the balances as they were before the transaction took place?

- ☒ A. Selling goods at a profit
- B. Purchasing a non-current asset on credit
- C. The owner withdrawing cash
- D. Debtors paying their accounts in full, in cash

19. A receives goods from B on credit terms and A subsequently pays by cheque. A then discovers that the goods are faulty and cancels the cheque before it is cashed by B. How should A record the cancellation of the cheque in his books?

Debit

Credit

- | | |
|---|-----------------|
| A. Trade Payables | Return outwards |
| B. Trade Payables | Bank |
| C. Bank | Trade Payables |
| <input checked="" type="radio"/> D. Return outwards | Trade Payables |

20. Which users of financial statements require it to negotiate for better conditions of service?

- A. Employees

- ☒ B. Unions
- C. Customers
- D. Government

21. Which users of financial statements require it to for job opportunities and job security?

- ☒ A. Employees
- B. Unions
- C. Management
- D. Clients

22. It is necessary to show the outstanding liabilities of an organization for the benefit of:

- A. Government
- B. Competitors
- C. Employees
- ☒ D. Creditors

23. Which group of users require financial information so as to take corrective action where they have gone wrong?

- A. Employees
- ☒ B. Management
- C. Debtors
- D. Tax authorities

24. Why do competitors need information about other companies in their industry?

- A. To ensure that they are not doing the same thing that their competitors are doing
- ☒ B. To copy the good strategies of the other companies
- C. To report other companies for failure to follow regulations
- D. To ensure that the other companies are not selling to their customers

25. Which one of the following transactions will increase the total assets in a business?

- A. Payment made for the repair and maintenance of a motor vehicle
- B. Settlement of a bill for the credit purchase of a motor vehicle
- ☒ C. Credit purchase of goods from AM suppliers
- D. Cash withdrawal by the owner of the business to pay for his daughter's motor vehicle

Total Marks: 50

END OF TEST