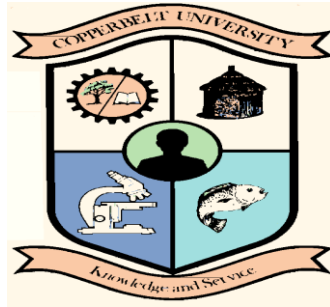


THE COPPERBELT UNIVERSITY



SCHOOL OF BUSINESS

BS 120/BF120/BSP220

BASIC FINANCIAL ACCOUNTING

TEST TWO (2)

09/05/12

INSTRUCTIONS:

1. Time Allowed: **1.5 hours**
2. This test consists of **FOUR (4)** Questions
3. Attempt **ANY TWO (2)** questions.
4. All questions carry equal marks.

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

QUESTION ONE

The following list of balances as at 31 July 2006 has been extracted from the books of Chanda Tembo who commenced business on 1 August 2005 as a designer and manufacturer of Kitchen furniture.

	K'000
Plant and Machinery, at cost on 01/08/05	60,000
Motor vehicles, at cost on 01/08/05	30,000
Loose tools, at cost	9,000
Sales revenue	170,000
Raw materials purchased	43,000
Direct factory wages	39,000
Light and power	5,000
Indirect factory wages	8,000
Machinery repairs	1,600
Motor vehicle running expenses	12,000
Rent and insurance	11,600
Administrative staff salaries	31,000
Administrative expenses	9,000
Sales and distribution staff salaries	13,000
Capital T 01/08/05	122,000
Trade receivables	16,500
Trade payables	11,200
Balance at bank	8,500
Drawings	6,000

Additional information for the year ended 31/07/06:

- 1) It is estimated that the plant and machinery will be used in the business for 10 years and the motor vehicles used for 4 years: in both cases it is estimated that the residual value will be nil. The straight line method of providing for depreciation is to be used.
- 2) Light and power charges accrued due at 31 July 2006 amounted to K1, 000,000 and insurance prepaid at 31 July 2006 totalled K800, 000.

3) Stocks were valued at cost at 31 July 2006 as follows:

Raw materials	K7, 000,000
Finished goods	K10, 000,000

- 4) The value of work in progress at 31 July 2006 included variable and fixed factory overheads and amounted to K12, 300,000.
- 5) Two-thirds of the light and power and rent and insurance costs are to be allocated to the factory costs and one-third to general administration costs.
- 6) Motor vehicle costs are to be allocated equally to factory costs and general administration costs.
- 7) Loose tools in hand on 31 July 2006 were valued at K5, 000,000.

Required:

Prepare a manufacturing, trading and profit and loss account for the year ended 31 July 2006 for Chanda Tembo's business.

25 Marks

QUESTION TWO

Shopleft Ltd has provided you with the following information about purchases and sales of its product Boom. The closing balance at the end of January was 800 units of boom each costing K900.

Month	Purchases	Sales
February	5,000 boom @ K1,000 each	500 boom @ K1,100 each
March		2,000 boom @ K1,500 each
April	3,000 boom @ K1,200 each	3,500 boom @ K2,000 each
May	4,500 boom @ K1,500 each	1,000 boom @ K2,200 each
June	2,500 boom @ K1,700 each	3,000 boom @ K2,300 each
July	5,500 boom @ K2,000 each	1,500 boom @ K2,500 each
August	2,500 boom @ K2,100 each	750 boom @ K2,500 each

Required:

- (a) Calculate the cost of the issues and closing stock for the above period using FIFO showing the balance in value of the closing stock at the end of each month.
- (b) Calculate the profit or loss for the period.

25 Marks

QUESTION THREE

Kasama stores' trial balance as at 31 December 2010 was as below:

	Dr	Cr
Sales		397,426,000
Purchases	220,888,000	
Premises	100,000,000	
Plant and Machinery	86,000,000	
Fixtures and fittings	18,000,000	
Motor vehicles	36,000,000	
Plant and machinery depreciation		29,150,000
Fixtures and fittings depreciation		3,425,000
Motor vehicles depreciation		17,300,000
Stock – 1 st January 2010	62,145,000	
Returns inwards	6,777,000	
Returns outwards		10,982,000
Carriage inwards	2,433,000	
Carriage outwards	5,200,000	
Wages	42,100,000	
Rent	3,200,000	
Light and heat	750,000	
Discounts received		1,212,000
Discounts allowed	3,788,000	
Telephone	1,489,000	
Printing and stationery	2,132,000	
Bad debts written off	1,344,000	
Motor expenses	5,128,000	
Repairs	2,510,000	
Provision for bad debts		6,000,000
Advertising	4,329,000	
Insurance	1,650,000	
Accountancy fees	2,750,000	
Loan interest	11,000,000	
Debtors	79,452,000	
Creditors		56,156,000
Bank overdraft		25,483,000
Cash	1,200,000	
10% Long term Loan		110,000,000
Capital		54,242,000
Bank interest	5,111,000	
Drawings	6,000,000	
	<u>711,376,000</u>	<u>711,376,000</u>

Additional information:

1) Depreciation is to be provided for as follows:

Plant and machinery	25%	straight line method
Fixtures and fittings	10%	straight line method
Motor vehicles	20%	straight line method

2) The shop accountant feels that to be prudent, a 10% provision for bad debts should be made.

3) The following amounts had not been provided for:

a) The ZESCO power cut team has just delivered the ZESCO bill amounting to K1, 250,000 for the shop for the year ended 31 December 2010. The cash book shows a payment of K750, 000 to date.

b) Telephone bills due at 31 December 2010 of K375, 000 are not yet paid.

c) Rentals for the year are K3, 600,000, only K3, 200,000 has been paid so far.

4) Insurance costs are K112, 500 per month.

5) Stocks at 31 December 2010 had a cost of K70, 427,000 and a net book value of K80, 000,000.

6) Stocks of stationery at 31 December 2010 amounted to K350, 000.

7) Kasama the owner of the shop took goods for his personal use valued at K500, 000.

Required:

Prepare kasama's shop's income statement and the statement of financial position.

25 Marks

QUESTION FOUR

The following is a summary from the cash book of spanners ltd for the month of October.

CASH BOOK			
	K'000		K'000
Balance b/d	1,407	Payments	15,520
Receipts	15,073	Balance c/d	960
	<u>16,480</u>		<u>16,480</u>

On investigation you discover that:

- 1) Bank charges of K35, 000 shown on the bank statement have not been entered in the cash book.
- 2) A cheque drawn for K47, 000 has been entered in error as a receipt.
- 3) A cheque for K18, 000 has been returned by the bank marked 'Refer to Drawer', but it has not been written back in the cash book.
- 4) The balance brought forward in the cash book should have been K1, 470,000.
- 5) Three cheques paid to suppliers for K214, 000, K370, 000 and K30, 000 have not yet been presented to the bank.
- 6) Takings of K1, 542,000 were placed in a night safe deposit on 31 October but were not credited by the bank until 3 November.
- 7) The bank charged a cheque for K72, 000 in error to the company's account.
- 8) The bank statement shows an overdraft of K124, 000.

Required:

- a) Show what adjustments you would make in the cash book.
- b) Prepare a bank reconciliation statement as at 31 October.

25 Marks

THE END

120 Part time 2012

Prince Daniels Tutor.

① Depreciation

$$\text{Dep} = \frac{\text{Cost} - \text{Residual Value}}{\text{Useful life}}$$

$$\begin{aligned}\text{Dep of Plant} &= \frac{60\,000\,000 - 0}{10} \\ &= \text{K}6000\,000\end{aligned}$$

$$\begin{aligned}\text{Dep of Motor Vehicles} &= \frac{30\,000\,000 - 0}{4} \\ &= \text{K}7500\,000\end{aligned}$$

2)

$$\begin{aligned}\text{Light \& Heat} &= 5000\,000 + 1000\,000 \\ &= \underline{\text{K}6000\,000}\end{aligned}$$

$$\begin{aligned}\text{Insurance} &= 11\,600\,000 - 800\,000 \\ &= \underline{\text{K}10800\,000}\end{aligned}$$

④ Allocation of Overheads

	factory ($\frac{2}{3}$) K'000	Admin ($\frac{1}{3}$) K'000
Power (K6m)	4000	2000
Rent (K10.8m)	7200	3600
Motor Vehicle Expenses (K12m)	6000	6000
Dep of MV (K7.5m)	3750	3750
Dep of Plant (6000	—
Inclused wages	8000	—
Machinery Repairs	1600	—
Admin Salaries	—	31000
Admin Exp	—	9000
	<u>36550</u>	<u>55350</u>

Chanda's Manufacturing Account for the Year Ending 31 July 2006

	K'000	K'000	K'000
<u>Raw Materials</u>			
Opening Stock		43000	
Purchases		(7000)	
Closing Stock			36000
Raw Materials Consumed			
<u>Loose Tools</u>			
Opening Stock		9000	
Purchases		(5000)	
Closing Stock			4000
Loose Tools Consumed			39000
<u>Direct Labour</u>			79000
Factory Wages			
PRIME COST			36550
<u>Indirect Costs</u>			115550
factory Overheads			
Add Opening WIP			115550
			(12300)
less Closing WIP			103250
PRODUCTION COST			

Chanda T Statement of Profit & Loss

	K'000	K'000	K'000
Sales		—	170000
Opening Stock		103250	
Purchases/Production Cost		(10000)	
Closing Stock			(93250)
Cost of Sales			<u>76750</u>
GROSS PROFIT			
<u>EXPENSES</u>		13000	
Distribution Expenses		55350	
Administration Expenses			<u>68350</u>
Total Expenses			<u>8400</u>
Net Profit.			

Q2

FIFO

Date	Purchases			Sales			Balance		
	Units	Price	Value	Units	Price	Value	Units	Price	Value
		K	K'000		K	K'000		K'	K'000
1 Feb							800	900	720
Feb	5000	1000	5000				800	900	720
							5000	1000	5000
Feb				500	900	450	300	900	270
							5000	1000	5000
March				3000	900	270	3300	1000	3300
				1700	1000	1700			
April	3000	1200	3600				3300	1000	3300
							3000	1200	3600
April				3300	1000	3300	2800	1200	3360
				200	1200	240			
May	4500	1500	6750	1			2800	1200	3360
							4500	1500	6750
May				1000	1200	1200	1800	1200	2160
							4500	21500	6750
June	2500	1700	4250				1800	1200	2160
							4500	1500	6750
							2500	1700	4250
June				1800	1200	2160	3300	1500	4950
				1200	1500	1800	2500	1700	4250

[illegible]

b)

Income Statement

	K/000	K/000
Sales		25 275
Opening stock	720	
Purchases	35850	
Closing stock	(22075)	
Cost of sales		(14495)
Gross Profit		10780

Q3

1) Depreciation

	K'000
Plant & Machinery (25% of K86m)	21500
Fixtures & Fittings (10% of K18m)	1800
Motor Vehicles (20% of K36m)	7200

2) Provision for Bad debts

$$\begin{aligned}\text{New Provision} &= 10\% \text{ of } K79\,452\,000 \\ &= \underline{K7,945,200}\end{aligned}$$

$$\begin{aligned}\text{Expense} &= 7945200 - 6000000 \\ &= K1,945,200\end{aligned}$$

3) a)

$$\begin{aligned}\text{Accrual} &= \text{K}1250000 - 750000 \\ &= \underline{\text{K}500000}\end{aligned}$$

$$\text{Electricity Expense} = \underline{\underline{\text{K}1250000}}$$

$$\begin{aligned}\text{b) Telephone Expenses} &= 1489000 + 375000 \\ &= \underline{\underline{\text{K}1864000}}\end{aligned}$$

$$\text{c) Rent Accrual} = \text{K}400000$$

$$\begin{aligned}\text{4) Insurance costs} &= 112500 \times 12 \\ &= \text{K}1350000\end{aligned}$$

$$\begin{aligned}\text{Insurance Prepaid} &= 1650000 - 1350000 \\ &= \text{K}300000\end{aligned}$$

$$5) \text{ Closing Stock} = \text{K}70\,427\,000$$

$$6) \text{ Prepayment} = \text{K}350\,000$$

(Stationery)

$$\begin{aligned} \text{Stationery Expense} &= 2132\,000 - 350\,000 \\ &= \text{K}1782\,000 \end{aligned}$$

$$\begin{aligned} 7) \text{ Drawings} &= 6\,000\,000 + 500\,000 \\ &= \underline{\underline{\text{K}6\,500\,000}} \end{aligned}$$

$$\begin{aligned} \text{Purchases} &= 220\,888\,000 - 500\,000 \\ &= \underline{\underline{\text{K}220\,388\,000}} \end{aligned}$$

Kasama's Income Statement for the Year Ending 31/12/2010

	K'000	K'000	K'000
Sales		397426	
Returns Inwards		<u>(6777)</u>	390649
Turn Over			
Opening Inventory		62145	
Purchases	220388		
Carriage Inwards	2433		
Returns Outwards	<u>10982</u>		
		<u>211839</u>	
		273984	
		<u>(70427)</u>	
Closing Stock			<u>(203557)</u>
Cost of Sales			187092
GROSS PROFIT			<u>1212</u>
Other Incomes: Dis Rec			188304
Total Income			
<u>EXPENSES</u>		5200	
Carriage Outwards		42100	
Wages		3600	
Rent		1250	
light & Heat (750+500)		3788	
Discount Allowed		1864	
Telephone		1782	
Stationery			

Bad debts	1344	
Motor Expenses	5128	
Repairs	2510	
Advertising	4329	
Insurance (1650-300)	1350	
Accountancy fees	2750	
Loan Interest	11000	
Bank Interest	511	
Dep: Plant	21500	
Fixtures	1800	
Motor Vehicles	7200	
	19452	
Provision for Bad debts	1250	(125051.2)
Electricity		(126301.2)
Total Expenses		<u>62752.8</u>
Net Profit		

Kanama's Statement of financial Position as at 31/12/2016

Non Current Assets

	K'000 Cost	K'000 DEP	K'000 N.B.V
Premises	100000	—	100000
Plant & Machinery	86000	50650	35350
Fixtures & fittings	18000	5225	12775
Motor Vehicles	36000	24500	11500
	<u>240000</u>	<u>80375</u>	<u>159625</u>

Current Assets

Inventories		70427	
Debtors	79452		
Provision	<u>(7945.2)</u>		
		71506.8	
		1200	
Cash (1200)		650	
Prepayments (350 + 300)		<u> </u>	<u>143783.8</u>
			<u>303408.8</u>
TOTAL ASSETS			

Financed By

Capital 54242
Profit 62752.8

116994.8

Drawings

(6500)

110494.8

Accumulated Profits

Non Current liabilities

110000

10% loan

Current liabilities

56156

Crediton

25483

Bank Overdraft

1275

Accruals (500 + 375 + 400)

82914

303408.8

Total Capital & liabilities

Q4

a)

UPDATED CASH BOOK

	K/000		K/000
Bal b/f	960	Bank Charges	35
Bal b/d Err	63	Chq drawn	94
		Dishonoured Chq	18
		Chq (Error 7)	72
		Bal c/f	804
	<u>1023</u>		<u>1023</u>

b) Bank Reconciliation

	K/000
Balance As the Bank Statement	(124)
Add Uncredited Chqs	1542
	<u>1418</u>
Unpresented Chqs (214 + 370 + 30)	(614)
Balance As the Updated Cash Book	<u>804</u>

Prince Daniels Tutor.

0972286191

for Tutorials.