

**BS 120 TEST 1 PAPERS  
FROM  
2012-2016**

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**The Institute of  
Internal Auditors**

**THE COPPERBELT UNIVERSITY CHAPTER**

**BY**

**IIA-CBU CHAPTER LIBRARIAN 2017**

**EMMANUEL MWANSA.**

# THE COPPERBELT UNIVERSITY



## SCHOOL OF BUSINESS

BS 120/BF120/BSP220

BASIC FINANCIAL ACCOUNTING

TEST ONE (1)

10/07/12

Mate 81110

0968105521

### INSTRUCTIONS:

1. Time Allowed: 1.5 hours
2. This test consists of THREE (3) Questions
3. Attempt ANY TWO (2) questions.\*

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

## QUESTION ONE

At the yearend of Angela Chendaeka & sons, the trial balance did not balance, the debits exceeding credits by K270, 575. This imbalance in the trial balance resulted in the creation of a suspense account..

Investigations revealed the following errors.

1. A supplier's account had been debited with K349, 000 sales invoices (which had been correctly recorded in the sales account).
2. A sale of goods on credit for K1, 245, 921 had been omitted from the sales account.
3. The heat and light account had been credited with gas paid K122, 960.
4. Delivery and installation costs of K161, 517 on new mining equipment had been recorded as a revenue expense.
5. C. Chinyimba had been credited with a cheque received from C. Chinyemba, K2, 869, 000. Both are receivables.
6. Stock of stationary at the end of the period of K241, 900 had been ignored.
7. The purchase returns day book included a sales credit note for K320, 000 which had been entered correctly in the account of the customer concerned, but included with purchase returns in the nominal ledger.
8. Cash discount of K150, 000 on paying a supplier, Kingston, had been taken, even though the payment was made outside the time limit.
9. A purchase of raw materials of K350, 000 had been recorded in the purchase account as K850, 000.
10. The purchases returns account had been overcast by K589, 426.

REQUIRED:

- a) Prepare journal entries to each of the above errors. Narratives are not required. At the same time, open a suspense account and show the corrections to be made.
- b) Prior to the discovery of the errors, Angela Chendaeka & Sons gross profit was calculated at K21, 245, 921 and the net profit for the year at K1, 200, 000. Calculate the revised gross and net profit figures after the correction of the errors.

25 Marks

## QUESTION TWO

- 1) Bwalya starts a business and introduces K3, 000,000 in cash.
- 2) He buys a motor van for K1, 000,000 and some shop fittings for K800, 000.
- 3) He buys some stock from Mulenga costing K500, 000 on credit. *250 000*
- 4) He sells one half of the goods to Chanda for K650, 000 cash. *500 000*
- 5) He pays K500, 000 to Mulenga. *Capital*
- 6) He draws K50, 000 of cash from the business for his own use. *Via*

7) He buys goods costing K1,000,000 on credit terms from Mulenga.

8) He sells goods which cost him K900,000 to Chileshe on credit terms for K1.2 million.

9) He receives K500,000 from Chileshe.

10) He pays wages of K100,000 to Mukuka his employee.

580  
4800  
1050

3650  
365

5636  
3650 - 365

Required:

a) Prepare ledger entries for Bwalya's business for the above transactions.

b) Prepare a trial balance for the above transactions.

147 932

25 Marks



### QUESTION THREE

Friday Bwalya drew up the following trial balance as at 30 September 2008.

	Dr K'000	Cr K'000
B/S Capital		49,675
B/S Drawings	28,600	
B/S Cash at bank ✓	4,420	
B/S Cash in hand ✓	112	
B/S Debtors ✓	38,100	
B/S Creditors		26,300
Stock as at 30/09/07 ✓	72,410	
K Motor Van at cost ✓	5,650	
B/S Motor van Acc. Dep. as at 30/09/07		2000
B/S Office equipment at cost ✓	7,470	
B/S Office equipment Acc. Dep. As at 30/09/07		1500
Purchases/Sales ✓	254,810	391,400
Returns ✓	2,110	1240
Carriage inwards ✓	760	
Carriage outwards ✓	2,850	
Motor expenses ✓	1,490	
Rent ✓	8,200	
Telephone charges ✓	680	
Wages and salaries ✓	39,600	
Insurance ✓	745	
Office expenses ✓	392	
Sundry expenses ✓	216	
Suspense ✓	3,500	
	472,115	472,115

Additional information:

1) Stock as at 30 September 2008 was K89,404

2) Depreciation is to be charged at 10% per annum on cost on the office equipment and 10% on the reduced balance method on the motor van.

565

Required:

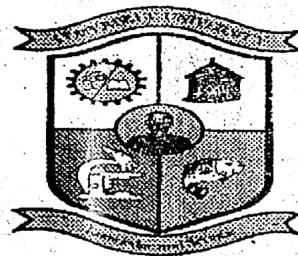
Draw up the income statement for the year ended 30 September 2008 and the statement of financial position as at 30 September 2008.

25 Marks

1700 020

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# THE COPPERBELT UNIVERSITY



## SCHOOL OF BUSINESS

BS 120/BF120/BEC120

### BASIC FINANCIAL ACCOUNTING

TEST ONE

27/06/13

#### INSTRUCTIONS:

1. Time Allowed: **2hrs 15minutes**
2. This Test consists of **Three** questions
3. Attempt **All questions**
4. Show your **workings**

WISHING YOU ALL THE BEST AND A WONDERFUL BREAK!!!

## QUESTION ONE

1. Which of the following calculates a sole trader's net profit for a period?
  - A. Closing net assets + drawings - capital introduced - opening net assets
  - B. Closing net assets - drawings + capital introduced - opening net assets
  - C. Closing net assets - drawings - capital introduced - opening net assets
  - D. Closing net assets + drawings + capital introduced - opening net assets
  
2. Which TWO of the following errors would cause the total of the debit column and the total of the credit column of a trial balance not to agree?
  - (1) A transposition error was made when entering a sales invoice into the sales day book
  - (2) A cheque received from a customer was credited to cash and correctly recognized in receivables
  - (3) A purchase of non-current assets was omitted from the accounting records
  - (4) Rent received was included in the trial balance as a debit balance  
  - A. 1 and 2
  - B. 1 and 3
  - C. 2 and 3
  - D. 2 and 4
  
3. A company's income statement for the year ended 31 December 20X5 showed a net profit of K83,600. It was later found that K18,000 paid for the purchase of a motor van had been debited to the motor expenses account. It is the company's policy to depreciate motor vans at 25% per year on the straight line basis, with a full year's charge in the year of acquisition.  
What would the net profit be after adjusting for this error?  
  
~~283,600  
18,000  
165,600  
41,500  
21,500  
20,100~~  
  
  - A. K106,100
  - B. K70,100
  - C. K97,100
  - D. K101,600
  
4. At 30 June 20X5 a company's allowance for receivables was K 39,000. At 30 June 20X6 trade receivables totaled K517,000. It was decided to write off debts totaling K37,000 and to adjust the allowance for receivables to the equivalent of 5% of the trade receivables based on past events.  
What figure should appear in the income statement for the year ended 30 June 20X6 for receivables expense?  
  
~~517,000  
37,000  
480,000~~  
  
  - A. K61,000
  - B. K52,000
  - C. K22,000
  - D. K37,000
  
5. Which of the following are differences between sole traders and limited liability companies?

- (1) A sole trader's financial statements are private and never made available to third parties; a company's financial statements are sent to shareholders and may be publicly filed  
 (2) Only companies have share capital  
 (3) A sole trader is fully and personally liable for any losses that the business might make  
 (4) Only drawings would appear in a sole trader's financial statements

- A .1 and 4 only  
 B .2, 3 and 4  
 C .2 and 3 only  
 D .1, 3 and 4

6.A company receives rent from a large number of properties. The total received in the year ended 30 April 20X6 was K 481,200.

The following were the amounts of rent in advance and in arrears at 30 April 20X5 and 20X6:

	30.4.20X5	30.4.20X6
K	K	K
Rent received in advance	28,700	31,200
Rent in arrears (all subsequently received)	21,200	18,400

What amount of rental income should appear in the company's income statement for the year ended 30 April 20X6?

- A .K486,500.  
 B .K 460,900  
 C .K 501,500  
 D .K 475,900

7. The IASB's *Framework for the Preparation and Presentation of Financial Statements* gives qualitative characteristics that make financial information reliable. Which of the following are examples of those qualitative characteristics?

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

- A .1 and 2  
 B .2 and 4  
 C .2 and 3  
 D .1 and 4

8.Bumbly Co extracted the trial balance for the year ended 31 December 20X7. The total of the debits exceeded the credits by \$300.

Which of the following could explain the imbalance?

- A. Sales of \$300 were omitted from the sales day book  
 B. Returns inward of \$150 were extracted to the debit column of the trial balance  
 C. Discounts received of \$150 were extracted to the debit column of the trial balance  
 D .The bank ledger account did not agree with the bank statement by a debit of \$300

9. Theta prepares its financial statements for the year to 30 April each year. The company pays rent for its premises quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was \$84,000 per year until 30 June 20X5. It was increased from that date to \$96,000 per year.

What rent expense and end of year prepayment should be included in the financial statements for the year ended 30 April 20X6?

	Expense	Prepayment
A	\$93,000	\$8,000
B	\$93,000	\$16,000
C	\$94,000	\$8,000
D	\$94,000	\$16,000

10. A supplier sends you a statement showing a balance outstanding of K14,350,000. Your own record shows a balance outstanding of K14,500,000. The reason for this difference could be that

- A. The supplier sent an invoice for K150,000 that you have not yet received
- B. The supplier has allowed K150,000 cash discount that you had omitted to enter in your ledgers.
- C. You have paid the supplier K150,000 that ha has not yet accounted for.
- D. You have returned goods worth K150,000 that the supplier has not yet accounted for.

11. A suspense account shows a credit balance of K130,000. This could be due to:

- A. Omitting a sale of K130,000 from sales ledger
- B. Recording a purchase of K130,000 twice in the purchases account
- C. Failing to write off a bad debt of K130,000
- D. Recording an electricity bill paid of K65,000 by debiting the bank account and crediting the electricity account

12. Cash discounts allowed are:

- A. Deducted when we pay for goods by cash
- B. Given by us when we sell goods on credit
- C. Deducted by us when we pay our accounts promptly
- D. Deducted from monies received when our debtors settle their accounts promptly.

13. Which of the following explains the imprest system of operating petty cash?

- A. Weekly expenditure cannot exceed a set amount
- B. The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
- C. All expenditure out of the petty cash must be properly authorised
- D. Regular equal amounts of cash are transferred into petty cash at intervals

14. 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

15. Chomba received an invoice for the purchase of fixed asset equipment which was credited to the correct suppliers ledger account, but debited to the equipment repairs account, instead of the equipment account. The effect of not correcting this error on the financial statements would be:

- A. Profit would be overstated and fixed assets would be understated
- B. Profit would be overstated and fixed assets would be overstated
- C. Profit would be understated and fixed assets would be overstated
- D. Profit would be understated and fixed assets would be understated.

16. 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. T/Payables	return outwards
B. T/Payables	bank
C. Bank	T/Payables
D. Return outwards	T/Payables

17. The accounting equation can change as a result of certain transactions. Which one of the following transactions would not affect the accounting equation?

- A. Selling goods for more than their cost
- B. Purchasing a fixed asset on credit
- C. The owner withdrawing cash
- D. Debtors paying their accounts in full, in cash

18. A non-current asset was purchased at the beginning of year 1 for K2,400 and depreciated by 20% per annum using the reducing balance method. At the beginning of year 4 it was sold for K1,200. The result of this was:

- A. a loss on disposal of K240
- B. a loss on disposal of K28.8
- C. a profit on disposal of K28.8
- D. a profit on disposal of K240

19. On 1 January 2007 a company purchased some plant.

The invoice showed:

*1,171.2*

<i>1920</i>	<i>2,400</i>	<i>1,200</i>
<i>1536</i>	<i>228.8</i>	<i>1,169.2</i>
<i>K</i>	<i>1536</i>	<i>1,169.2</i>

Cost of plant	48,000
Delivery to factory	400
One year warranty covering breakdown	<u>800</u>
	<u>49,200</u>

Modifications to the factory building costing K2,200 were necessary to enable the plant to be installed.

What amount should be capitalized for the plant in the company's records?

- A. K51,400
- B. K48,000
- C. K50,600
- D. K48,400

20. 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

## QUESTION TWO

The trial balance of Manicmi plc did not balance; the debits exceeded the credits by K405,862.5. After careful investigations, certain errors were discovered and a suspense account was opened.

Errors include:

1. The purchase returns account had been overcast by K884,139 <sup>or suspense</sup>
2. Freight costs of K242,275.5 on fixtures and fittings had been recorded as transport expenses.
3. Returns of goods worth K1868,881.5 had been omitted from the purchases returns account but correctly recorded in the suppliers account
4. The rent account had been credited with rent paid of K184,440
5. M. Mowa had been credited with a cheque of received from M. Mowe K4,303,500

6. A purchase of stock of K525,000 had been recorded in the purchase account as K1,275,000
7. The purchase returns day book included a sales credit note for K480,000 which had been entered correctly in the account of the customer concerned, but included with purchase returns in the nominal ledger
8. A suppliers account had been debited with K523,500 sales invoices (which had been correctly recorded in the sales account)
9. Cash discount of K225,000 on paying a supplier, Dundee had been taken even though the payment was made outside the time limit.

**REQUIRED:**

- a) Prepare Journal entries to each of the above errors. Narratives are not required. At the same time, open a suspense account and show the corrections to be made. (20 Marks)
- b) Prior to the discovery of the errors, Manicmi gross profit was calculated at K31,868,881.5. Calculate the revised gross profit figure after the corrections of the errors (5 Marks)

**QUESTION THREE**

The following trial balance has been extracted from the nominal ledger of Sausage Phiri on 30 November 2003. Trial balance of Sausage Phiri at 30 November 2003.

	K	K
Purchases and Sales	64,726,000	125,658,000
Returns	6,341,000	1,902,000
Debtors and creditors	11,257,000	<u>7,983,000</u>
Office equipment		
Cost	10,000,000	
Depreciation at 1/12/02		1,550,000
Vehicles		
Cost	3,500,000	

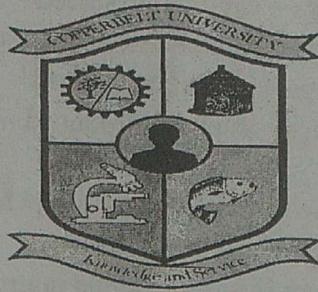
750

Depreciation at 1/12/02		700,000
Stock at 01/12/02	5,000,000	
Carriage in	908,000	
Carriage out	272,000	
Vehicle expenses X	1,349,000	
Electricity	1,803,000	
Wages and salaries X	11,550,000	
Rent and business rates X	8,800,000	
Stationery and postages	2,681,000	
Bank deposit account	10,000,000	
Bank	4,797,000	
Discounts	5,652,000	3,765,000
VAT creditor		1,325,000
PAYE Creditor		453,000
Capital at 1/12/02		4,300,000
Drawings	15,000,000	
Loan		16,000,000
	<u>164,000,000</u>	<u>164,000,000</u>

Following the extraction of the above trial balance from the ledgers and an examination of the accounting records, the following additional information was obtained.

1. After stocktaking which was conducted at 30 November 2003, the value of stock on hand was K5, 700,000. ✓

# THE COPPERBELT UNIVERSITY



## SCHOOL OF BUSINESS

BF/BS/BEC 120

### BASIC FINANCIAL ACCOUNTING

TEST ONE (1)

MONDAY 14/07/14

#### INSTRUCTIONS:

1. Time Allowed: **1 hour 50 minutes**
2. This test consists of two sections A and B
3. Section A consists of **20 multiple choice** questions and section B consists of **two full (2) Questions**
4. Attempt all the questions from the two sections.

**DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO**

**SECTION A [Total Marks = 20]**

1. Which of the following calculates a sole trader's net profit for a period?
  - A Closing net assets + drawings - capital introduced - opening net assets
  - B Closing net assets - drawings + capital introduced - opening net assets
  - C Closing net assets - drawings - capital introduced - opening net assets
  - D Closing net assets + drawings + capital introduced - opening net assets
2. Which of the following explains the imprest system of operating petty cash?
  - A Monthly expenditure cannot exceed a set amount
  - B The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
  - C All expenditure out of the petty cash must be properly authorised
  - D Regular equal amounts of cash are transferred into petty cash at intervals
3. A company uses the imprest system to control its petty cash, keeping a float of K50. Since the cash was last replenished it had the following transactions:
  - I) K12.50 to the Milkman
  - II) K10.00 on taxis
  - III) K5.70 on stationary
  - IV) K20.00 advance taken by the director for a taxi fare, returned unused
  - V) K18.50 to the cleanerHow much should now be drawn out of the bank?
  - A. K50.00
  - B. K41.70
  - C. K46.70
  - D. K31.70
4. After calculating your company's profit for the year, you discover that:
  - I) These two errors have had the effect of a non-current asset costing K50,000 has been included in the purchases account;
  - II) Stationery costing K10,000 has been included as closing inventory of raw materials instead of inventory of stationery.

*Raw materials purchase overcast 50000 closing*

  - A. Understating gross profit by K40,000 and understating net profit by K50,000
  - B. Understating both gross profit and net profit by K40,000
  - C. Understating gross profit by K60,000 and understating net profit by K50,000
  - D. Overstating both gross profit and net profit by K60,000

*Closing inventory - increases Gross profit*

5. The IASB's Conceptual Framework for Financial Reporting identifies characteristics which make financial information faithfully represent what it purports to represent.

Which of the following are examples of those characteristics?

- I) Accruals
- II) Completeness
- III) Going concern
- IV) Neutrality

- A. 1 and 2
- B. 2 and 4
- C. 2 and 3
- D. 1 and 4

6. Amy is a sole trader and had assets of K569, 400 and liabilities of K412, 840 on 1 January 20X8. During the year ended 31 December 20X8 she paid K65, 000 capital into the business and she paid herself wages of K800 per month. At 31 December 20X8, Amy had assets of K614, 130 and liabilities of K369,770.

What is Amy's profit for the year ended 31 December 20X8?

Assets → 569  
Equity → 412

Capital → 65 000

7. Which ONE of the following is an error of principle?

- A. A gas bill credited to the gas account and debited to the bank account
- B. The purchase of a non-current asset credited to the asset account at cost and debited to the payable's account
- C. The purchase of a non-current asset debited to the purchases account and credited to the payable's account
- D. The payment of wages debited and credited to the correct accounts, but using the wrong amount

*in wrong class of ac*

8.

- I) A debit entry in the cashbook will increase an overdraft.
- II) A debit entry in the cashbook will increase a bank balance.

Are these statements true?

- A. Both true
  - B. Both false
  - C. (i) true and (ii) false
  - D. (i) false and (ii) true
9. A credit balance on a ledger account indicates
- A. An asset or an expense
  - B. A liability or an expense
  - C. An amount owing to the organisation
  - D. A liability or a revenue
10. Which of the following is not an objective of financial statements?
- A. Providing information regarding the financial position of a business
  - B. Providing information regarding the performance of a business
  - C. Enabling users to assess the performance of management to aid decision making
  - D. Helping to assess the going concern status of a business

11. The double-entry system of bookkeeping normally results in which of the following balances on the ledger accounts?

**Debit balances**

- A. Assets and revenues
- B. Revenues, capital and liabilities
- C. Assets and expenses
- D. Assets, expenses and capital

**Credit balances**

- Liabilities, capital and expenses
- Assets and expenses
- Liabilities, capital and revenues
- Liabilities and revenues

12. A credit entry of K450 on X's account in the receivables ledger of Y could have arisen by

- A X buying goods on credit from Y
- B Y paying X K450
- C Y returning goods to X
- D X returning goods to Y

Customer      450      450

13. A sole trader had opening capital of K10, 000 and closing capital of K4, 500. During the period, the owner introduced capital of K4, 000 and withdrew K8, 000 for her own use. Her profit or loss during the period was.

Opening Capital — K10,000      4,000      — 4,500

- A. K9,500 loss  
B. K1,500 loss  
C. K7,500 profit  
D. K17,500 profit
14. Sales revenue should be recognised when goods and services have been supplied; costs are incurred when goods and services have been received. The accounting concept which governs the above is the
- A Accruals concept  
B Materiality concept  
C Realisation concept  
D Dual aspect concept
15. Where a transaction is credited to the correct ledger account, but debited incorrectly to the repairs and renewals account instead of to the plant and machinery account, the error is known as an error of
- A. Omission  
B. Commission  
C. Principle  
D. Original entry
16. If a purchase return of K48 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the supplier's account, the total of the trial balance would show
- A. The credit side to be K48 more than the debit side  
B. The debit side to be K48 more than the credit side  
C. The credit side to be K96 more than the debit side  
D. The debit side to be K96 more than the credit side
17. You are the accountant of ABC and have extracted a trial balance at 31 October 20X4. The sum of the debit column of the trial balance exceeds the sum of the credit column by K829. A suspense account has been opened to record the difference. After preliminary investigations failed to locate any errors, you have decided to prepare draft final accounts in accordance with the prudence concept.

The suspense account balance would be treated as

<u>S. Return</u>	
K48	K48
Purchase Re	K48

debit	S. Return	K48
48		K48

Credit Bal : 829 Payables 48  
Suspense 110

- A. An expense in the income statement
- B. Additional income in the income statement
- C. An asset in the statement of financial position
- D. A liability in the statement of financial position

18. Carriage inwards K5,000 has been recorded in the I/S account as an expense, as a result?

- A. Net profit is understated by K15,000
- B. Gross profit is overstated by K15,000, net profit is unchanged
- C. Gross profit is understated by K15,000
- D. Net profit is overstated by K15,000

Expense  
Overcast → Reduce  
Purchase  
Undercast - Increase  
Close

19. When a trial balance was prepared, a suspense account was opened. It was discovered that the only error that had been made was to record K2,050 of discounts received on the wrong side of the trial balance. What is the journal to correct this error?

- A. Dr discounts received K2,050 Cr suspense K2,050
- B. Dr suspense K2,050 Cr discounts received K2,050
- C. Dr discounts received K4,100 Cr suspense K4,100
- D. Dr suspense K4,100 Cr discounts received K4,100

<u>Dr Rec</u>	<u>xx xx</u>
<u>Cr</u>	<u>2,050</u>
<u>bld</u>	<u>2,050</u>
	<u>TTT</u>

20. When a trial balance was prepared, the closing inventory of K20,400 was omitted. To make the trial balance agree, a suspense account was opened.

What was the balance on the suspense account?

- A. Nil
- B. Debit K20,400
- C. Credit K20,400
- D. Debit K40,800

<u>Dr Rec 2050</u>	<u>xx xx</u>
	<u>20,400</u>
	<u>20,400</u>
	<u>20,400</u>

## SECTION B

### QUESTION ONE

During the end closing for September 2013 a bookkeeper of Monk Square Ltd found the total of the debits of the trial balance did not equal its credits. A suspense account was opened to record the difference.

Trial Balance Extract

	Dr	Cr
Total	584,112,042.75	584,018,830.75

The following errors and omissions were discovered.

1. The total of one page of the sales day book had been carried forward as K8,154, whereas the correct amount was K8,514
2. An electricity bill in the sum of K152, not yet accrued for, is discovered in a filling tray
3. Included in the credit balance on the sales ledger is a balance of K600 in the name of H Solye. This arose because a sales invoice for K600 had earlier been posted in error from the sales day book to the debit of the account of M Solya in the purchases ledger.
4. A credit note for K179 received from a supplier had been posted to the wrong side of his account.
5. K470 has been included in the wages account and K340 in the purchases account. These amounts represent expenditure on an extension to the business buildings.
6. Cash sales for the amount of K560 had been correctly recorded in the cash book but debited to the purchases account as K650.
7. A receipt of cash from J Mojo K88,000 had been entered on the credit side of the cash book and the debit side of J.Moyo's account
8. The discount allowed balance of K 6,000 and the discount received balance of K 14,000 had both been entered on the wrong side of the trial balance.
9. An item of K 500 had been omitted from the sales records – i.e. the sales day book.
10. The purchase ledger account balance of K 467,572 had been included in the trial balance as K 474,772.
11. Purchase of a delivery vehicle on credit for K 57,200 had been recorded by debiting the supplier account and crediting the motor vehicle expense account.
12. A cheque for K 1,600 received from a customer to whom goods are regularly supplied on credit was correctly entered into the cash book, but posted to the debit side of the sales account
13. A loan of K 40,000 from one of the directors had been entered correctly in the cash book but posted to the wrong side of the loan account.

**Required:**

- a. Show the journal entries to correct each of the above errors and omissions. (*Narratives are not required*)
  - b. Post and balance the suspense account
- (6.5 Marks)
- c. Assuming that the errors were not discovered in the current accounting period, how would you account for the suspense account difference in the financial statements
- (2 Marks)

[Total Marks = 25]

## QUESTION TWO

Chipo started in business on 1 January 2009. The following is a list of her transactions for her first month of trading.

- 1.1.09      Opened a business bank account with INDO bank with K30, 000 obtained from private resources and thereafter paid rent of K2, 500 by cheque.
- 2.1.09      Paid one month's insurance of K5, 000 by cheque and withdrew K6, 000 cash from the bank for petty cash
- 3.1.09      Bought goods costing K5, 000 for cash from Mubotu
- 4.1.09      Purchased motor car from M.O.B General Dealers for K4, 000 on credit
- 5.1.09      Purchased goods costing K5, 000 on credit from Kalyabuga
- 6.1.09      Chipo brought in one of his personal computers worth K5, 000 into the business to be used for business operations from his home.
- 9.1.09      Chipo met the financial director of M.O.B General Dealers at a workshop on financial issues and took advantage of the occasion to pay the K4,000 she owed M.O.B General Dealers which she got from her own cash in her purse.
- 10.1.09     Made cash sales of K8, 000 for goods that cost her K4, 000.
- 15.1.09     More goods costing K15, 000 purchased from Mubotu on credit
- 20.1.09     Sold goods that cost had cost her K3, 000 to Kasimu for K8, 000 on credit terms.
- 21.1.09     Chipo decided to enhance the financial basis of the business by acquiring a debenture loan of K20, 000 from ZANACO which was all given to her in form of cash.
- 22.1.09     Chipo Returned K2, 000 worth of goods to Mubotu and Kasimu returned K1, 000 worth of goods
- 25.1.09     Chipo withdraw K5, 000 Cash from the bank to pay for her child's school fees.
- 26.1.09     A Cheque was received from Kasimu for K5, 500 who was then allowed a cash discount of K500.
- 30.1.09     Cheques sent to Mubotu and Kalyabuga for K8, 000 and K5, 000, respectively and cash discounts of K700 and 10% were received from Mubotu and Kalyabuga, respectively for prompt payment.

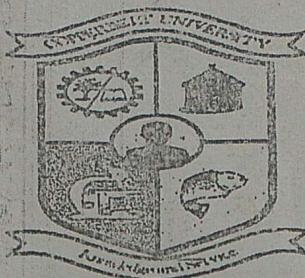
### Required

- Enter the above transactions in Chipo's ledger accounts for January 2009, balance off the accounts and bring down the balances as at 1 February 2009.
- Compile a trial balance as at 31 January 2009

[Total Marks = 25]

MYT Properties

# THE COPPERBELT UNIVERSITY



## SCHOOL OF BUSINESS

BF/BS/120

## BASIC FINANCIAL ACCOUNTING

TEST ONE Q1

### INSTRUCTIONS:

1. Time Allowed: 2 hours
2. This test consists of THREE QUESTIONS
3. Attempt all the questions .

DO NOT TURN OVER UNTIL YOU ARE TOLD TO DO SO

## QUESTION ONE (10 marks)

- 1) Sales revenue should be recognized when goods and services have been supplied; costs are incurred when goods and services have been received.

The accounting concept which governs the above is the

- a) Prudence concept
- b) Materiality concept
- c) Accruals concept
- d) Dual aspect concept

- 2) Making allowances for receivables and valuing inventory of the same basis in each accounting period are examples of which accounting concept?

	Allowance for receivables	Inventory valuation
a)	Accruals	Consistency
b)	Accruals	Going Concern
c)	Prudence	Consistency
d)	Prudence	Going Concern

- 3) Which of the following is not an external user of Financial Statement?

- a) Shareholder
- b) Director
- c) Trade payable
- d) Auditor

- 4) What is the purpose of a trial balance?

- a) To balance up all the accounts from different ledger books
- b) To show the accountant whether a mistake has been made or not
- c) To test the accuracy of double entry bookkeeping
- d) So that we can now prepare the trading, profit and loss account and balance sheet.

- 5) Sales returns of K460, 000 have inadvertently been posted to purchases returns, although the correct entry has been made to the accounts receivable control. A suspense account needs to set up for how much?

- A 1) K460,000 debit
- B 2) K460,000 credit
- C 3) K920,000 debit
- D 4) K920,000 credit

- 6) Which one of the following costs would be classified as revenue expenditure on the invoice for a new COBUSU bus?
- a) Delivery costs
  - b) Number plates
  - c) Road tax
  - d) A stereo radio and a CD loader
- 7) Which of the following calculates a sole trader's net profit for a period?
- a) Closing net assets + drawings - capital introduced - opening net assets
  - b) Closing net assets - drawings + capital introduced - opening net assets
  - c) Closing net assets - drawings - capital introduced - opening net assets
  - d) Closing net assets + drawings + capital introduced - opening net assets
- 8) Which of the following explains the imprest system of operating petty cash?
- a) Monthly expenditure cannot exceed a set amount
  - b) The exact amount of expenditure is reimbursed at intervals to maintain a fixed float
  - c) All expenditure out of the petty cash must be properly authorised
  - d) Regular equal amounts of cash are transferred into petty cash at intervals
- 9) Which ONE of the following is an error of principle?
- a) A gas bill credited to the gas account and debited to the bank account
  - b) The purchase of a non-current asset credited to the asset account at cost and debited to the payable's account
  - c) The purchase of a non-current asset debited to the purchases account and credited to the payable's account
  - d) The payment of wages debited and credited to the correct accounts, but using the wrong amount
- 10) Where a transaction is credited to the correct ledger account, but debited incorrectly to the repairs and renewals account instead of to the plant and machinery account, the error is known as an error of
- a) Omission
  - b) Commission
  - c) Principle
  - d) Original entry

## QUESTION TWO

At the year end of John Solyebwali & Sons, the trial balance did not balance, the debits exceeding credits by K274,000. This imbalance in the trial balance resulted in the creation of a suspense account.

A group CBU BS-120 students were sent to John Solyebwali & Sons. Investigations revealed the following errors.

1. A payment of K141, 000 for staff wages has been credited in the cash book but no entry has been made in the wages account.
2. A receipt of K41,000 from Simon Smith, a trade receivable has been debited to his personal account
3. A discount allowed of K128,000 has not been recorded in the personal account of Jarbo Limited
4. A returns outwards of K38,000 has been posted as K83,000 in Olinda's personal account
5. A cheque to a supplier for K450,000 has been correctly shown as this amount in the bank and trade payables but has been recorded as K540,000 in the company's cash book
6. Delivery and installation costs of K161, 000 on new mining equipment had been recorded as a revenue expense.
7. Cash discount of K225,000 on a paying a supplier Bungwe had been taken even though the payment was made outside the time limit
8. The proceeds for the disposal of a plant for K25, 800 had been correctly debited to bank but credited to sales. The plant had originally cost K65, 000 for which K32, 600 had been provided as depreciation.
9. Several credit sales invoices totalling K75, 000 for the month had been found in the accounting manager's tray no entries had yet been made.
10. Discount allowed of K125, 000 had been posted to the credit side of the discount received account.
11. A purchase of raw materials of K350,000 had been recorded in the purchases account as K850,000

### REQUIRED:

- (a) Prepare journal entries to correct each of the above errors (*Narratives are not required*). (11 marks)
- (b) Open a suspense account and show the corrections to be made (10 marks)
- (c) Prior to the discovery of the errors the net profit for the year was K1,200,000. Calculate the revised net profit figure after the correction of the errors (4 marks)

### QUESTION THREE

On 1<sup>st</sup> January 2015, Linchi started up business as a sole trader with K20, 000 cash taken from a trust fund that his parents set up for him. He also transferred from his personal account another K30, 000 into a bank account opened specifically for the business on which the bank immediately charged 2% service charge. He also paid K600 cash from his personal money from his wallet for the cost of registering the business with Pacra.

The following additional transactions took place in the month of January:

- ✓ - He ordered the bank to make a direct debit of K5, 000 for rentals for the building where the business would operate from.
- ✓ - He sent a K2, 000 cheque in part payment for office equipment which cost K3, 000 delivered by the supplier Canival Furnitures.
- ✓ - He paid K1, 000 cash salary to an office assistant and K500 for cleaning services for the month of January.
- ✗ - Bought goods from Bebele ltd for cash worth K4, 000 which he later sold for K10, 000 to Kuya ltd offering him a cash discount of 2% if he paid within 7 days of purchase.
- ✗ - He bought goods on credit from Soli ltd for K6, 500.
- ✗ - He took advantage of a trade discount by Ula ltd which allowed for the purchase of goods for K 10 per item for bulk buying instead of the original cost K15 each and bought 1230 units of inventories paying cash of K12, 300.
- ✗ - K2, 300 worth of goods bought from Ula ltd were damaged and so were returned back to the supplier and a cheque of the amount collected and deposited in the bank account.
- After two weeks from the time of purchase of goods, Kuya ltd settled their outstanding bill with Linchi ltd in full by cheque,
- Bought K15, 000 worth of Machinery by a loan repayable over ten years.
- Sold goods which had cost K2, 000 for K4, 000 for cash.
- Made a K5, 000 cash Payment to Soli ltd receiving a cash discount of K500.
- Raised a K 2,000 cheque for office expenses.

Required:

Show the relevant ledger entries for Linchi ltd and extract trial balance for the month of January.  
(25 marks)

## Question One

In this section there are twenty (20) multiple choice questions. You are required to attempt all of them. You should answer each question by writing your answer in the booklet of the relevant number and the alphabetical references which best represent your selected answer.

1. Winn Ltd has opening trade payables of K24,183 and closing trade payables of K34,655. Purchases for the period totalled K254,192 (K31,590 relating to cash purchases). Total payments recorded in the payables ledger for the period were

- A K212,130
- B K233,074
- C K243,720
- D K264,664

2. Which of the following documents is **not** a component of financial statements according to I.A.S.

1 "Presentation of Financial statements"

- A the Balance Sheet.
- B the Annual Budget.
- C the Cash Flow Statement.
- D the Income Statement.

3. According to the Conceptual Framework for Financial Reporting, which qualitative characteristics enhance the usefulness of information that is relevant and faithfully represented?

- A Comparability, understandability, timeliness, verifiability
- B Consistency, prudence, measurability, verifiability
- C Consistency, reliability, measurability, timeliness
- D Materiality, understandability, measurability, reliability

4. According to IAS 1 (revised) Presentation of Financial Statements which TWO of the following are objectives of financial statements?

- A To show the results of management's stewardship of the resources entrusted to it
- B To provide a basis for valuing the entity
- C To provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions
- D To facilitate comparison of financial performance between entities operating in different industries
- E To assist management and those charged with governance in making timely economic decisions about deployment of the entity's resources

5. Listed below are some comments on accounting conventions.

1. According to the Conceptual Framework for Financial Reporting, financial information must be either relevant or faithfully represented if it is to be useful.

2. Materiality means that only items having a physical existence may be recognised as assets.
3. The substance over form convention means that the legal interpretation of a transaction must always be shown in financial statements, even if this differs from the commercial effect.

Which, if any, of these comments is correct?

- A 1 only
- B 2 only
- C 3 only
- D None of them

6. The accounting equation can be written as:

- A Assets + profits – drawings – liabilities = closing capital
- B Assets – liabilities – drawings = opening capital + profit
- C Assets – liabilities – opening capital + drawings = profit
- D Opening capital + profit – drawings – liabilities = assets

7. The capital of a sole trader would change as a result of

- A A credit customer paying by cheque
- B Raw materials being purchased on credit
- C Non-current assets being purchased on credit
- D Personal petrol being paid for out of the business's petty cash

8. A sole trader is K5,000 overdrawn at her bank and receives K1,000 from a credit customer in respect of its account. Which elements of the accounting equation will change due to this transaction?

- A Assets and liabilities only
- B Liabilities only
- C Assets only
- D Assets, liabilities and capital

9. A sole trader borrows K10,000 from a bank.

Which elements of the accounting equation will change due to this transaction?

- A Assets and liabilities
- B Assets and capital
- C Capital and liabilities
- D Assets only

10. A sole trader sells goods for cash for K500 which had cost K300.

Which elements of the accounting equation will change due to this transaction?

- A Assets and liabilities
- B Assets and capital
- C Capital and liabilities
- D Assets only

11. Which of the following best explains the imprest system of petty cash?

- A Each month an equal amount of cash is transferred into petty cash
- B The exact amount of petty cash expenditure is reimbursed at intervals to maintain a fixed float
- C Petty cash must be kept under lock and key
- D The petty cash total must never fall below the imprest amount

12. G purchases goods on credit from H for K1,000. K100 of these goods are defective and G returns them to H. What document would H issue to G in respect of the returned goods?

- A Invoice
- B Remittance advice
- C Credit note
- D Delivery note

13. The petty cash float in a business has an imprest amount of K200. At the end of March vouchers in the petty cash box totalled K136 and the amount of cash remaining in the box was K54. Which of the following explains the difference?

- A A petty cash voucher for K10 is missing
- B An employee was given K10 too little when making a petty cash claim
- C An employee reimbursed petty cash with K10 in respect of postage stamps used, but no voucher was prepared
- D A voucher for K10 was put in the box but no payment was made to the employee

14. Which TWO of the following are source documents that are recorded in an entity's books of original entry?

- A Goods received note
- B Invoice to a customer
- C Purchase order to a supplier
- D Cheque to a supplier
- E Delivery note to a customer

15. What transaction is represented by the entries: debit rent, credit landlord?

- A The receipt of rental income by the business
- B The issue of an invoice for rent to a tenant
- C The receipt of an invoice for rent payable by the business

D The payment of rent by the business

16. A sole trader had receivables of K2,700 at 1 May and during May made cash sales of K7,200, credit sales of K16,500 and received K15,300 from his customers. The balance on his receivables account at the end of May was

- A K1,500
- B K3,900
- C K8,700
- D K11,100

17. In double-entry bookkeeping, which of the following statements is true?

- A Credit entries decrease liabilities and increase income
- B Debit entries decrease income and increase assets
- C Credit entries decrease expenses and increase assets
- D Debit entries decrease expenses and increase assets

18. The double entry to record a settlement or cash discount granted by a supplier is

- A Debit Payables, Credit Discounts allowed
- B Debit Payables, Credit Discounts received
- C Debit Discounts received, Credit Payables
- D Debit Discounts allowed, Credit Payables

19. What is the correct double entry for discounts allowed?

- A Debit Discounts allowed, Credit Receivables
- B Debit Discounts allowed, Credit Payables
- C Debit Receivables, Credit Discounts allowed
- D Debit Payables, Credit Discounts allowed

20. Which of the following statements concerning preparation of financial statements is true?

- A The balances on income and expense accounts are brought down at the end of the accounting period to be carried forward to the next accounting period
- B The balances on asset and liability accounts are summarised in an additional ledger account known as the statement of financial position ledger account
- C The profit and loss ledger account is a list of all the balances extracted from the business's accounts
- D A net loss is a credit entry in the profit and loss ledger account

[Total Marks = 20]

## Question Two

Mr Trump Dundumwezi runs a very successful business in farming selling maize to Zimbabwe. At the end of 31<sup>st</sup> December 2015. His book keeper Mrs Kudyabwino avails you with the following balances

K

Capital	1,516,769,000	BS
Bank charges	56,387,000	NE J
Short term loan	94,378,000	BS
Stationery and postages	29,857,000	NT
Bank savings interest	37,809,000	NE INV ✓
Commission received	53,426,000	INCOM ✓
Electricity	35,201,000	NE J
Carriage outwards	31,075,000	NE J
Carriage inwards	45,234,000	GP ✓
Loan interest	50,789,000	NE J
Long term loan	298,671,000	BS
Salaries	97,435,000	NE J
Wages	127,056,000	NE
Other receivables	45,279,000	NT INCOME ✓
Other expenses	32,856,000	NE
Trade receivables	345,768,000	BS
Other payables	45,270,000	BS
Trade payables	201,978,000	BS
Bad debts	53,879,000	NE
Discount allowed	23,867,000	NE
Van running expenses	27,456,000	NE
Premises	76,345,000	BS
Rent	34,568,000	NE
Motor van	745,690,000	BS
Discount received	168,573,000	NT INCOM
Purchases	165,368,000	GP ✓
Drawings	21,879,000	BS
Sales	276,442,000	GP ✓
Office furniture	572,234,000	BS
Inventory at 1 Jan 2015	31,020,000	NE ✓
Returns outwards	21,037,000	NE ✓

Returns inwards	14,576,000
Cash at bank	50,534,000
Cash in hand	45,772,000

Mr Dundumwezi after learning that you are an accounting student, he has informed you that the closing inventory amounted to K47,392,000 for the year ending 31 December 2015, he has also asked you to assist him construct the following from the above balances:

- a) Trial balance as at 31 December 2015
- b) The income statement for the year ending 31 December 2015
- c) The statement of financial position as at 31<sup>st</sup> December 2015

[Total Marks = 30]

### Question Three

Clinton Habasimbi started business on 1 January 2016. On this same date, she got a personal loan in her name of K40, 000 from Zanaco which she was given in form of cash and then she put this in her business.

The following is a list of her transactions for her first month of trading.

- 2.1.16 She realized that the financial basis of the business was not strong enough, she decided to obtain a loan of K30, 000 in the company's name with which she opened a business bank account with INDO bank (the lender).
- 2.1.16 Clinton realized that she needed a place to trade from and decided to change ownership of one of her buildings worth K50,000 from being hers to belonging to the business.
- 2.1.16 Paid one month's insurance of 5% of the cost of the building was paid by cheque.
- 3.1.16 Bought goods costing K10, 000 for cash from PEP.
- 4.1.16 Purchased motor car costing K20, 000 from M.O.B General Dealers paying cash. For this prompt payment, Clinton received a cash discount of 2%.
- 5.1.16 Purchased goods costing K6, 000 on credit from Jambo.
- 6.1.16 Clinton brought in one of his personal computers worth K5, 000 into the business used for business operations from his home.
- 10.1.16 Made cash sales of K8, 000 for goods that cost her K4, 000.
- 15.1.16 Goods costing K15, 000 purchased from Mubotu on credit.

- 9.1.16 Clinton met the Mubotu at a workshop on financial issues and took advantage of the occasion to pay the K 4,000 she owed Mubotu which she got from her own cash in her purse.
- 20.1.16 Sold goods that had cost her K3, 000 to Kafwembe for K8, 000 on credit terms.
- 21.1.16 Clinton paid her child's school fees of K3000 by cheque from the business' bank account.
- 22.1.16 Clinton Returned K2, 000 worth of goods to Jambo as they were of wrong quality and Kafwembe returned K1, 000 worth of goods which were of wrong color.
- 25.1.16 Clinton withdrew K2, 000 Cash from the bank to pay her private expenses (for the maid and garden boy working at her home of residence).
- 26.1.16 Kafwembe settled his bill for goods bought and was also allowed a cash discount of K500.
- 30.1.16 Cash paid to Mubotu of K5, 000, and settled bill with Jambo receiving cash discounts of 10% for prompt payment.

**Required**

- a. Enter the above transactions in Clinton's ledger accounts for January 2016, balance off the accounts and bring down the balances as at 1 February 2016.

[Total Marks = 20]

## Financial Accounting Class exercise

Time: 15 minutes

- 1) The income statement and the statement of financial position comprises of elements such as Revenue, Expenses, Assets, Liabilities, and Owner's Equity including capital, plus retained earnings less Drawings. Identify which element can be associated with the descriptions below.
- Residual interest in the net assets of the enterprise... Capital X
  - Increases assets through sale of product... Revenue ✓
  - Decreases assets by taking out resource for private use by the owner of the business... Drawings ✓
  - Items characterized by future economic benefit... Assets ✓
  - Obligation to transfer resources arising from a past transaction. Liabilities ✓
  - Directly Increases ownership interest... Owner's Equity X
  - Profits reinvested in the business... Retained earnings ✓
  - Day to day expenditure on business operations... Expenses ✓
- 2) A company might wish to report the least possible accounting income because....
- It wants to pay the least amount of taxes
  - It wants to discourage competition from entering its market
  - It wants to disclose its affairs with minimum compliance
  - It wants to be conservative by maximizing expenses and not reporting revenue. X
- 3) A business that is owned by stockholders is known as a;
- Partnership X
  - Corporation ✓
  - Sole proprietorship
  - Trust
- 4) Which of the following would be considered a liability?
- Accounts receivable
  - Petty cash fund
  - Electricity bill
  - Accounts payable ✓
- 5) If a company purchased goods on credit, what would occur?
- Trade receivable would increase
  - Trade receivable would decrease
  - Trade payable would increase ✓
  - Trade payable would decrease

- 6) All of the following have normal debit balances except;
- Assets
  - Expenses
  - ~~Capital~~ ✓
  - Drawings
- 7) Which of the following is true about a T account?
- When an expense is paid or due, it is credited.
  - When the owner withdraws money, the drawings account is credited.
  - ~~Liabilities will always increase on the credit side.~~ ✓
  - Revenue is only recorded when cash is actually received.
- 8) Which of the following statements is false regarding a sole proprietorship?
- A proprietorship has only one owner
  - ~~A proprietorship is legally a separate entity~~ ✓
  - The owner is subject to unlimited liability
  - Income of the proprietorship is taxed on the owner's personal return.
- 9) Match the following external users of financial accounting information with the type of decision that user will make with the information.
- Creditor
  - Investor
  - Regulatory Agency
  - Internal Revenue Service
- Regulatory Agency (1) Is the company operating within prescribed guidelines? ✓
- Internal Revenue Service (2) Is the company complying with tax laws? ✓
- Creditor (3) Is the company able to pay its debts? ✓
- Investor (4) Is the company a good investment? ✓
- 10) Use the accounting equation to answer the following question.

West Wind Co. has total assets of K120,000 and total liabilities of K35,000. What is stockholders' equity?

K 85 000 ✓

$$\text{ASSET} = \text{CAPITAL} + \text{LIABILITIES}$$

$$120000 = \text{EQUITY} + 35000$$

$$\text{EQUITY} = 120000 - 35000$$

THE END

$$= 85000$$

16

20