



University of Fort Hare
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NKUHLU DEPARTMENT OF ACCOUNTING

ACCOUNTING 1B

AIA 121

**SUPPLEMENTARY EXAMINATION
JANUARY 2019**

ASSESSORS: Mr M Msakatya
Mr M Bomba
Moderator: Mrs. L.H. Mtshwelo

TIME: 3 HOURS

MARKS: 150

- THE EXAM PAPER CONSISTS OF 4 QUESTIONS AND 11 PAGES (front page included).
- SILENT PROGRAMMABLE CALCULATORS ARE ALLOWED.
- SHOW ALL CALCULATIONS.

START EVERY QUESTION AT THE TOP OF A PAGE

BREACH OF THE EXAM RULES OF THE UNIVERSITY OF FORT HARE MAY BE SEVERELY PUNISHED

| Question | Topics covered | MARKS | TIME |
|----------|---|------------|------------|
| | | Marks | Minutes |
| 1 | Theory | 15 | 18 |
| 2 | Accounting equation and General journal | 47 | 56 |
| 3 | Share capital | 20 | 24 |
| 4 | Adjustments and financial statements | 68 | 82 |
| | TOTAL | 150 | 180 |

QUESTION 1**15 MARKS (18 MINUTES)****Part A**

| QUESTION 1 PART A REQUIRED | Marks | |
|---|-----------|----------|
| | Sub-total | Total |
| List any four(4) enhancing qualitative characteristics of useful financial information provided by the financial statements as identified by the 'Conceptual framework for Financial Reporting' | 4 | |
| Totals | | 4 |

Part B

Ace Ltd, a trading entity that only enters into credit transactions, bought office equipment on the very last day of its financial year for R115 000.

The equipment was delivered on the day of purchase together with the invoice made out in the name of Ace Ltd for the correct amount of the equipment.

The bookkeeper immediately processed the following journal entry for this transaction:

| | | |
|--------------------------------------|---------|---------|
| | DR | CR |
| | R | R |
| Office equipment (Asset) | 115 000 | |
| Trade and other payables (Liability) | | 115 000 |

| QUESTION 1 PART B REQUIRED | Marks | |
|--|-----------|----------|
| | Sub-total | Total |
| a) Explain, giving reasons, why has the bookkeeper classified the 'trade and other payables' as the liability of Ace Ltd | 9 | |
| Totals | | 9 |

QUESTION 1 CONTNUED:

Part C

| QUESTION 1 PART C REQUIRED | Marks | |
|--|------------------|--------------|
| | Sub-total | Total |
| Give any two(2) types of decisions that the existing investors are likely to make about the useful financial information provided by the entity for the benefits of the primary users. | 2 | |
| Totals | | 2 |

QUESTION 2**47 MARKS (56 MINUTES)**

Amaze Traders had the following post-closing trial balance on 31 December 20.11:

| | Dr | Cr |
|---------------------|-----------|----------|
| Capital | | 210 000 |
| Accumulated profits | | 787 200 |
| Inventory | 75 000 | |
| Bank | 100 000 | |
| Land | 560 000 | |
| Trade receivables | 376 200 | |
| Stationery (asset) | 0 | |
| Trade payables | | 114 000 |
| | 1 111 200 | 1111 200 |

Additional information:

The following transactions occurred in the business during the year ended 31 December 20.2:

1. The owner deposited R105 000 cash into the business's bank account on 1 Jan 20.2.
2. The business bought R450 000 worth of inventory from various suppliers during the year. 80% of these purchases were on credit and the remaining 20% were paid for in cash.
3. The employees earned R104 000 in salaries and wages during the year. These were paid in cash by the end of the year.
4. During the year the business paid creditors R400 000.
5. The business received R1 010 000 in payments from debtors during the year.
6. The business made cash sales of R410 400 and credit sales of R957 600 during the year.
7. The cost of the inventory sold during the year was R480 000.
8. A customer had returned goods on the 15 December 20.2, selling price of R2 280. The cost price was R912. The original sale had been for cash, and so the customer was refunded R2 280 in cash. The item was returned to inventory.

QUESTION 2 CONTINUED:

9. The business rents the land out. The rental is R15 200 per month. All rentals owing by tenants had been received by year-end and no amounts had been paid in advance for 20.3.
10. During the year the owner took R55 000 out of the business inventories for his own personal use.
11. The business pays R6 333 per month for the rental of some business premises. All rentals were paid in cash during the year.
12. R114 000 worth of stationery was purchased on credit during the year. The bookkeeper counted R20 000 worth of stationery on hand on 31 December 20.2.

| QUESTION 2 REQUIRED | Marks | |
|---|-----------|-----------|
| | Sub-total | Total |
| a) Record the above transactions in the accounting equation, clearly showing whether the affected element increases or decreases using the plus (+) and minus (-) signs as well as the particular accounts and amounts. | 23 | |
| b) Process general journal entries for inventory transactions(refer to points: 2, 6, 7 and 8) for the year ended 31 December 20.12 using 'the perpetual inventory system of recording' | 24 | |
| Totals | | 47 |

Note: 1. Opening balance must be ignored for purposes of answering this question.

2. **A = E + L** must be used for answering (a)

QUESTION 3**20 MARKS (24 MINUTES)**

You have been provided with the information of Sweets Ltd for the year ended 31 December 2014:

1. The company has an authorized share capital of 500 000 Class A shares and 100 000 Class B shares.
2. At the beginning of the current year the company had 300 000 unissued Class A shares and all the Class B shares were unissued.
3. On 1 March 2014, Sweets Ltd offered 150 000 Class A shares at R4 per share. By 1 May 2014, the closing date for applications, the share issue had been oversubscribed by 30% and the directors decided not to issue the oversubscribed shares.
4. On 1 June 2014, Sweets Ltd offered 100 000 Class B shares at R2 per share. By 15 July 2014, the closing date, the public had applied for 80 000 shares. The share issue was underwritten by F2B Bank at a commission of 6%. The commission was paid on 20 July 2014, the date by which the shares were allotted.

| QUESTION 3 REQUIRED | Marks | |
|---|------------------|--------------|
| | Sub-total | Total |
| Record the above transactions as they would be recorded in the general journal of Sweets Ltd. | 20 | |
| Totals | | 20 |

QUESTION 4**68 MARKS (82 MINUTES)**

The pre-adjustment trial balance of Amanzi Traders for the year-ended 31 December 20.10 as prepared by the bookkeeper is provided below.

Amanzi Traders
Pre-adjustment trial balance for the year-ended 31 December 20.10

| | DR | CR |
|------------------------------------|--------------------------|--------------------------|
| | R | R |
| Capital | | 130 100.00 |
| Drawings | 2 000.00 | |
| Land and buildings at cost | 100 000.00 | |
| Vehicles at cost | 90 000.00 | |
| Equipment at cost | 55 000.00 | |
| Accumulated depreciation-vehicles | | 20 000.00 |
| Accumulated depreciation-equipment | | 15 450.00 |
| 7% Loan | | 55 000.00 |
| Inventories | 6 000.00 | |
| Receivables | 5 500.00 | |
| Bank | 8 000.00 | |
| Payables | | 43 800.00 |
| Allowance for doubtful debts | | 400.00 |
| Sales | | 95 000.00 |
| Sales returns | 1 500.00 | |
| Purchases | 85 000.00 | |
| Freight-in | 1 500.00 | |
| Purchases returns | | 3 200.00 |
| Bad debts | 950.00 | |
| Salaries and wages | 2 500.00 | |
| Water and electricity | 3 500.00 | |
| Stationery expense | 1 500.00 | |
| Rent income | | 6 500.00 |
| Insurance expense | 5 000.00 | |
| Interest expense | 1 500.00 | |
| | <u>369 450.00</u> | <u>369 450.00</u> |

QUESTION 4 CONTINUED:

Additional information

1. Land and building is not depreciable.
2. Depreciation on vehicles is written off at 20% p.a using the straight line method the depreciation for the year is not yet recorded.

On 1 September 20.10 Amanzi Traders bought additional vehicles costing R40 000 cash. The bookkeeper erroneously included the vehicles on purchases but correctly credited the bank account for the cash payment.

3. Equipment is written off at a rate of 10% using the diminishing balance method. No entries have been recorded regarding the annual depreciation on equipment.

On 31 July 20.10, Amanzi Traders sold equipment for R20 000 on credit. This equipment had a cost and accumulated depreciation on 31 December 20.9 of R30 000 and R5 000 respectively. The bookkeeper was unable to record this transaction but reported it to the accountant.

4. Closing inventories were as follows:

| | |
|--------------------|---------|
| Merchandise | R 3 000 |
| Stationery on hand | R 1 000 |

5. Salaries and wages amounting to R600 relate to 20.11
6. Water and electricity amounting to R800 were not paid at 31 December 20.10
7. Mr. Jim, a receivable of the business with an outstanding balance of R1000 was declared insolvent at 31 December 2.10 and his outstanding balance was irrecoverable.
8. The building apartment is leased out at a rate of R 500 per month.
9. Insurance is paid for 24 months
10. Allowance for doubtful debts must be adjusted to 2% of the outstanding balance of trade receivables.
11. The owner took inventories amounting to R2 000 for personal use.

QUESTION 4 CONTINUED:

| QUESTION 4 REQUIRED | Marks | |
|--|------------------|--------------|
| | Sub-total | Total |
| a) Prepare all the necessary adjusting journal entries using the attached 4-column worksheet for the year ended 31 December 20.10(cost of sales and net sales must be calculated in the 4-column worksheet) | 61 | 61 |
| b) Prepare the statement of profit/loss of Amanzi Traders for the year ended 31 December 20.10 | 7 | 7 |
| Totals | | 68 |

- Note:**
1. All workings must be done neatly and clearly shown.
 2. VAT must be ignored for purposes of answering this question

Annexure A : QUESTION 4

Student number :

Surname and Initial(s):

Amanzi Traders

Pre-adjustment trial balance for the year-ended 31 December 20.10

| | DR | CR | DR | CR |
|-------------------|-------------------|-------------------|----|----|
| | R | R | | R |
| Rent income | | 6 500.00 | | |
| Insurance expense | 5 000.00 | | | |
| | | | | |
| | | | | |
| | | | | |
| Interest expense | 1 500.00 | | | |
| | 369 450.00 | 369 450.00 | | |
| | | | | |
| | DR | CR | DR | CR |
| | R | R | | R |
| | | | | |
| | | | | |
| Cost of sales | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |