**MAY 2013 INTRODUCTION TO BUSINESS ACCOUNTING**

**SOLUTIONS**

**SECTION A**

|  |  |
| --- | --- |
| No | Answer |
| 1 | C |
| 2 | B |
| 3 | C |
| 4 | A |
| 5 | B |
| 6 | C |
| 7 | C |
| 8 | C |
| 9 | C |
| 10 | B |
| 11 | D |
| 12 | C |
| 13 | D |
| 14 | A |
| 15 | C |
| 16 | B |
| 17 | C |
| 18 | B |
| 19 | A |
| 20 | B |

**SECTION B**

**QUESTION ONE**

1. Company’s analysed petty cash book for the month of January 2013

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Details | Amount | Date | Details | Amount | Cleaning | Stationery | Motor vehicle |
| 1 Jan | Bank | 60,000\* | 1 Jan | Cleaning | 1,800\* | 1,800\* |  |  |
|  |  |  | 2 | Stationery | 4,100\* |  | 4,100\* |  |
|  |  |  | 2 | Motor vehicle repairs | 6,700\* |  |  | 6,700\* |
|  |  |  | 4 | Cleaning | 400\* | 400\* |  |  |
|  |  |  | 5 | Stationery | 1,100\* |  | 1,100\* |  |
|  |  |  | 7 | Petrol | 2.200\* |  |  | 2,200\* |
|  |  |  | 10 | Cleaning | 1,600\* | 1,600\* |  |  |
|  |  |  | 12 | Petrol | 800\* |  |  | 800\* |
|  |  |  | 13 | Stationery | 2,200\* |  | 2,200\* |  |
|  |  |  | 14 | Motor license | 9,700\* |  |  | 9,700\* |
|  |  |  | 16 | Cleaning | 1,900\* | 1,900\* |  |  |
|  |  |  | 17 | Stationery | 1,400\* |  | 1,400\* |  |
|  |  |  | 20 | Motor vehicle repairs | 2,700\* |  |  | 2,700\* |
|  |  |  | 21 | Cleaning | 800\* | 800\* |  |  |
|  |  |  | 22 | Photocopying paper | 2,000\* |  | 2,000\* |  |
|  |  |  | 23 | Motor repairs | 8,300\* |  |  | 8,300\* |
|  |  |  | 25 | Petrol | 2,400\* |  |  | 2,400\* |
|  |  |  | 30 | Cleaning | 2,100\* | 2,100\* |  |  |
|  |  |  |  | Total | 52,200 |  |  |  |
|  |  |  | 31 | Bal c/d | **7,800\*** |  |  |  |
|  | Total | 60,000 |  | Total | 60,000 | **8,600** | **10,800** | **32,800** |
| 1 Feb | Bal b/d | 7,800 |  |  |  |  |  |  |
| 1 Feb | Bank | **52,200\*\*** |  |  |  |  |  |  |

\*0.5 mark, \*\*1 mark

**QUESTION TWO**

1. Differences between financial accounting and management accounting: (one marks each for any five points)

|  |  |  |
| --- | --- | --- |
|  | Financial Accounting | Management Accounting |
| 1 | External use | Internal use |
| 2 | Format prescribed by accounting standards | No prescribed format |
| 3 | Historical (focuses on the past) | Historical and future oriented |
| 4 | Required by law | Not a legal requirement |
| 5 | Focuses on the organisation as a whole | Can focus on any aspect of the business i.e. product, department etc |
| 6 | Produced annually | Can be produced for any period |

1. Importance of selected accounting concepts

|  |  |  |  |
| --- | --- | --- | --- |
|  | Concept | Importance | Marks |
| 1 | Business Entity | Shows separation of transactions of a business and its owners and these should be treated as being separate for accounting purposes | 2 |
| 2 | Going Concern | Affects how the net assets of the business should be valued depending on the assumption of the existence of an entity into the foreseeable future | 2 |
| 3 | Prudence | Ensures that profits should not be overstated and losses to be recorded as soon as they have been foreseen | 2 |
| 4 | Consistency | Similar transaction should be treated in a similar manner and over the years in order to facilitate comparison. But is possible to change accounting policies | 2 |
| 5 | Materiality | Ensures that attention is not focused on petty accounting issues | 2 |

1. Five elements that make up the regulatory environment for companies: (1 mark for each point)
   1. Accounting standards
   2. Stock exchange rules
   3. Corporate governance
   4. Environmental and social reporting
   5. Companies Act

**QUESTION THREE**

1. Items on the wrong side of the trial balance (0.5 marks per point) :
2. Purchases
3. Sales
4. Cash in hand
5. Capital
6. Drawings
7. Wages and salaries
8. Accounts receivables
9. Accounts payables
10. Inventory
11. Motor vehicle
12. **Income Statement for the year ended 31 March 2013**

|  |  |  |  |
| --- | --- | --- | --- |
| Sales (0.5) |  | 1,571,650 |  |
| Opening Balance (0.5) | 41,200 |  |  |
| Purchases (0.5) | 928,000 |  |  |
|  | 969,200 |  |  |
| Closing Inventories (0.5) | (24,000) |  |  |
| Cost of Sales (0.5) |  | 945,200 |  |
| Gross Profit (0.5) |  | 626,450 |  |
| Discount Received (0.5) |  | 1,600 |  |
|  |  | 628,050 |  |
| **Expenses** |  |  |  |
| Depreciation (380+1250) (0.5) | 16,300 |  |  |
| Rent (3400-230) (0.5) | 31,700 |  |  |
| Wages and salaries (0.5) | 314,000 |  |  |
| Discount Allowed (0.5) | 8,200 |  |  |
| Allowance for receivables (0.5) | 910 |  |  |
| Van running costs(6,150+720) (0.5) | 6,870 |  |  |
| Irrecoverable debts (0.5) | 7,300 |  |  |
|  |  | (385,280) | (0.5) |
|  |  | 242,770 | (0.5) |
|  |  |  |  |

1. **Statement of Financial Position as at 31 March 2013**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Non Current Assets** | **Cost** | **Depreciation** | **Net Book Value** |  |
| Office Fittings | 29,000 | 3,800 | 25,200 | **(0.5)** |
| Delivery Van | 37,500 | 12,500 | 25,000 | **(0.5)** |
|  |  |  | 50,200 |  |
| **Current Assets** |  |  |  |  |
| Inventory |  | 24,000 |  | **(0.5)** |
| Accounts Receivable (123,160-4,960) |  | 118,200 |  | **(0.5)** |
| Prepayments |  | 2,300 |  | **(0.5)** |
| Cash |  | 3,240 |  | **(0.5)** |
| Bank |  | 41,000 |  | **(0.5)** |
|  |  |  | 188,740 |  |
|  |  |  | **238,940** | **(0.5)** |
|  |  |  |  |  |
|  |  |  |  |  |
| **Capital and Reserves** |  |  |  |  |
| Capital |  |  | 114,000 | **(0.5)** |
| Net Profit |  |  | 242,770 | **(0.5)** |
|  |  |  | 356,770 |  |
| **Current Liabilities** |  |  |  |  |
| Payables |  | 52,450 |  | **(0.5)** |
| Accruals |  | 720 |  | **(0.5)** |
|  |  |  | 53,170 |  |
|  |  |  | 409,940 |  |
| Drawings |  |  | (171,000) | **(0.5)** |
|  |  |  | **238,940** | **(0.5)** |

**QUESTION FOUR**

1. Reasons for having irrecoverable debts: ( 1 mark each up to 3 points)
2. Death of a customer
3. Customer declared has vanished without settling the debt
4. Customer has been declared bankrupt
5. Customer disputing invoices
6. Allowance for receivables Account

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Details | Amount | Date | Details | Amount |
| 31 Dec 2010 | Bal c/d | 6,000\* | 1 Jan 2010 | Bal b/d | 5,000\* |
|  |  |  | 31 Dec 2010 | Income Statement(IS) | 1,000\*\* |
|  |  |  |  |  |  |
| 31 Dec 2011 | IS | 2,000\*\* | 1 Jan 2011 | Bal b/d | 6,000 |
| 31 Dec 2011 | Bal c/d | 4,000\* |  |  |  |
|  |  |  |  |  |  |
| 31 Dec 2012 | Bal c/d | 4,500\* | 1 Jan 2012 | Bal b/d | 4,000 |
|  |  |  | 31 Dec 2012 | IS | 500\*\* |

\*0.5 mark, \*\*1 mark

Income statement extracts

* 2010 increase in the allowance for receivables (Expense) K1,000 (1 mark)
* 2011 decrease in the allowance (income) K2,000 (1 mark)
* 2012 Increase in the allowance (expense) K500 (1 mark)

1. Internal controls

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | controls | Marks |
| 1 | Cash sales and collections | * Issue pre-numbered receipts * Limiting number of staff to receive cash * Cashiers should not have access to sales ledgers | 1 mark for each point |
| 2 | Cheque payments | * Custody of cheques * All cheques to be crossed * Signatories of cheques | 1 mark for each point |
| 3 | Cash deposits | * Cash to be banked intact * Take care of security issues i.e. use of guards * Check deposits slips against entries on the bank statement | 1 mark for each point |

**QUESTION FIVE**

1. Advantages of preparing a bank reconciliation:
2. For control purposes i.e. to deter and detect fraud (1 mark)
3. Making sure that the bank is handling our bank transactions properly (1 mark)
4. Updating cash book before reconciliation:

This ensures that emphasis should be placed on reconciling items i.e. those items that are not appearing on the bank statement but have been recorded in our cash book. (2 marks)

1. **Updated cash book**

|  |  |  |  |
| --- | --- | --- | --- |
| Details | Amount | Details | Amount |
| Bal b/d | 24,000 (1) | Direct debits | 29,000(1) |
| Interest | 9,000(1) | Bank charges | 14,000(1) |
| Direct credit | 50,000(1) | Bal c/d | 60,000(2) |
| Dividend | 20,000(1) |  |  |
|  | 103,000 |  | 103,000 |

1. **Bank reconciliation as at 31 January 2013**

|  |  |  |
| --- | --- | --- |
|  |  | **Marks** |
| Balance as per updated cash book | 60,000 |  |
| Add : Unpresented cheques |  |  |
| No 4 | 28,000 | **1** |
| No 5 | 14,000 | **1** |
| No 7 | 20,000 | **1** |
| No 8 | 40,000 | **1** |
|  |  |  |
| Less : Outstanding lodgments (Deposits) | (81,000) | **1** |
|  |  |  |
| Balance as per bank statement as 31 January 2013 | 81,000 | **1** |
|  |  |  |