**Introduction to Business accounting**

**Suggested answers**

**2016 examination**

**SECTION A**

**ANSWERS**

1. **C**
2. **A**
3. **B**
4. **B**
5. **A**
6. **C**
7. **D**
8. **A**
9. **C**
10. **C**
11. **A**
12. **D**
13. **B**
14. **C**
15. **D**
16. **A**
17. **C**
18. **C**
19. **B**
20. **C**

**SECTION B**

**Question 2**

**(a)**

**INCOME STATEMENT FOR ABJ TRADERS FOR THE YEAR TO 30TH SEPTEMBER 2015**

|  |  |  |  |
| --- | --- | --- | --- |
| Sales |  |  | 9,000,000.00 |
| Less: Return Inwards |  |  | (200,000.00) |
| **Turnover** |  |  | **8,800,000.00** |
|  |  |  |  |
| **Less: Cost of Sales** |  |  |  |
| Opening Inventories | 800,000.00 |  |  |
| Purchases | 4,800,000.00 |  |  |
| Carriage Inwards | 250,000.00 |  |  |
| Return Outwards | (150,000.00) |  |  |
| Closing Inventories | (840,000.00) |  | 4,860,000.00 |
| Gross Profit |  |  | 3,940,000.00 |
|  |  |  |  |
| **Less: Expenses** |  |  |  |
| Salaries | 900,000.00 |  |  |
| Rent | 100,000.00 |  |  |
| Electricity (50,000 + 30,000) | 80,000.00 |  |  |
| Water (40,000 + 10,000) | 50,000.00 |  |  |
| Bank Charges | 20,100.00 |  |  |
| Motor Expenses (240,000 + 40,000) | 200,000.00 |  |  |
| Stationery Expenses | 140,000.00 |  |  |
| Sundry Expenses | 80,000.00 |  |  |
| Carriage Outward | 300,000.00 |  |  |
| Travel Expenses | 180,000.00 |  |  |
| Repairs - Equipment | 120,900.00 |  |  |
| Provision for Doubtful Debts | 30,420.00 |  |  |
| Depreciation - Motor Vehicles | 900,000.00 |  |  |
| Depreciation - Equipment | 320,000.00 |  | 3,430,420.00 |
| **Profit for the Year** |  |  | **500,580.00** |

**b)**

**STATEMENT OF FINANCIAL POSITION AS AT 30TH SEPTEMBER 2015**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Non-Current Assets** | **Cost** |  | **Depr** |  | **Book Value** |
|  | MK |  | MK |  | MK |
| Land | 2,000,000 |  |  |  | 2,000,000 |
| Motor Vehicles | 4,500,000 |  | 2,600,000 |  | 1,900,000 |
| Equipment | 2,000,000 |  | 720,000 |  | 1,280,000 |
|  |  |  |  |  | 5,180,000 |
| **Current Assets** |  |  |  |  |  |
| Inventories |  |  | 840,000 |  |  |
| Receivables (57,000 - 3,420) |  |  | 530,580 |  |  |
| Prepayments |  |  | 40,000 |  |  |
| Bank |  |  | 180,000 |  |  |
| Cash |  |  | 30,000 |  | 1,620,580 |
| **Total Assets** |  |  |  |  | **6,800,580** |
|  |  |  |  |  |  |
| **Capital Reserves** |  |  |  |  |  |
| Capital |  |  |  |  | 6,000,000 |
| Profits |  |  |  |  | 500,580 |
| Drawings |  |  |  |  | (140,000) |
|  |  |  |  |  | 6,360,580 |
| **Current Liabilities** |  |  |  |  |  |
| Payables |  |  | 400,000 |  |  |
| Accruals |  |  | 40,000 |  | 4,40,000 |
| **Total Capita and Liabilities** |  |  |  |  | **6,800,580** |

**Question 3**

1. Errors that will affect the agreement of the Trial Balance are:
2. Overcasting of the Purchase Day Book by MK 6,000.00
3. MK 3,800.00 Bank charges not posted.
4. Overstatement of personal account of debtor by MK 27,000.00 that is (MK 96,000.00 less MK 69,000.00)
5. The journal entries to correct the errors:

Dr Cr

MK MK

1. Cash Book 5,500.00

Fixed Assets Disposal A/C 5,500.00

Being realisation of sales proceeds from office equipment.

1. Suspense 6,000.00

Purchases 6,000.00

Being correction of an overstatement in Purchases Day Book.

1. Drawings 11,500.00

Purchases 11,500.00

Being correction of private purchases originally booked as business purchases.

1. Bank Charges 3,800.00

Suspense A/C 3,800.00

Being booking of bank charges not previously booked

1. Suspense 27,000.00

Debtor/Masapende Canners 27,000.00

Being correction of debtor’s account following an overstatement in debtor’s personal account.

|  |  |  |  |
| --- | --- | --- | --- |
| **SUSPENSE ACCOUNT** | | | |
| Purchases | 6,000 | Bank Charges | 3,800 |
| Debtor/Masakapende Canners | 27,000 | Balance c/d | 29,200 |
|  | **33,000** |  | **33,000** |
|  |  |  |  |
|  |  |  |  |

1. **CALCULATION OF THE CORRECT PROFIT FIGURE**

MK MK

Originally Calculated Profit 1,137,000.00

Add back: Purchase Overcast 6,000.00

Private Purchases 11,500.00 175,000.00

Less: Bank Charges (13,700.00)

**1,150,700.00**

(Optional: Less proceeds from equipment sale MK 5,500.00 = MK 1,145,200.00 profit from ordinary activities).

1. Six types of errors which do not affect the agreement of the Trial Balance and examples:
2. Error of Omission

The MK 2 million sales to James Banda not entered at all in the books

1. Error of Commission

MK 500.00 purchases from Smoke wrongly credited to Utsi with debit entry correctly booked to purchases.

1. Error of Principle

Purchases of Machinery for MK 5 million debited to Machinery Expenses Account.

1. Compensating Errors

Errors cancel each other out. MK 2 million overstated credt cancelled by MK 2 million overstated debits.

1. Error of Original Entry

MK 150.00 invoice booked as MK 105.00 in the Purchase Day Book but double entry correctly observed throughout.

1. Complete Reversal of Entries

Debit entry posted as credit and vice versa. For example credit sale to Mary, Debit Sales Account and Credit Mary’s Account.

1. Transposition Errors

Wrong sequence in digits used correctly for example MK 142.00 used as MK 124.00 in accounts.

**Question 4**

1. **i FIFO**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE 2015** | **RECEIPTS** | | | **ISSUES** | | | **BALANCE** | | |
| **Oty** | **Price (MK)** | **Value (MK)** | **Oty** | **Price (MK)** | **Value (MK)** | **Oty** | **Price (MK)** | **Value (MK)** |
| January | 10 | 3,000,000 | 30,000,000 |  |  |  | 10 | 3,000,000 | 30,000,000 |
|  |  |  |  |  |  |  |  |  |
| March | 10 | 3,400,000 | 34,000,000 |  |  |  | 10 | 3,000,000 | 30,000,000 |
|  |  |  |  |  |  | 10 | 3,400,000 | 34,000,000 |
|  |  |  |  |  |  |  | | **64,000,000** |
|  |  |  |  |  |  |  |  |  |
| April | 0 |  |  | 8 | 3,000,000 | 24,000,000 | 2 | 3,000,000 | 6,000,000 |
|  |  |  |  |  |  | 10 | 3,400,000 | 34,000,000 |
|  |  |  |  |  |  |  | | **40,000,000** |
|  |  |  |  |  |  |  |  |  |
| September | 20 | 4,000,000 | 80,000,000 |  |  |  | 2 | 3,000,000 | 6,000,000 |
|  |  |  |  |  |  |  | 10 | 3,400,000 | 34,000,000 |
|  |  |  |  |  |  |  | 20 | 4,000,000 | 80,000,000 |
|  |  |  |  |  |  |  |  | | **120,000,000** |
|  |  |  |  |  |  |  |  |  |  |
| December | 0 |  |  | 2 | 3,000,000 | 6,000,000 |  |  |  |
|  |  |  |  | 10 | 3,400,000 | 34,000,000 | 20 | 4,000,000 | 80,000,000 |
|  |  |  |  |  |  | 40,000,000 |  | | **80,000,000** |
|  |  |  |  |  |  |  |  |  |  |

**ii AVCO**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **DATE 2015** | **RECEIPTS** | | | **ISSUES** | | | **BALANCE** | | |
| **Oty** | **Price (MK)** | **Value (MK)** | **Oty** | **Price (MK)** | **Value (MK)** | **Oty** | **Price (MK)** | **Value (MK)** |
| January | 10 | 3,000,000 | 30,000,000 |  |  |  | 10 | 3,000,000 | 30,000,000 |
| March |  | 3,400,000 | 34,000,000 |  |  |  | 20 | 3,200,000 | 64,000,000 |
| April |  |  |  | 8 | 3,200,000 | 25,600,000 | 12 | 3,200,000 | 38,400,000 |
| September | 20 | 4,000,000 | 80,000,000 |  |  |  | 32 | 3,700,000 | 118,400,000 |
| December |  |  |  | 12 | 3,700,000 | 44,400,000 | 20 | 3,700,000 | 74,000,000 |

**Background workings.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SALES** | | | | |
| **Quantity** |  | **Price** |  | **Value** |
| **(Vehicles)** |  | **MK** |  | **MK** |
| 8 |  | 3,400,000 |  | 27,200,000 |
| 12 |  | 5,600,000 |  | 67,200,000 |
| **TOTAL** | | | | **94,400,000** |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
| **PURCHASES** | | | | |
| **Quantity** |  | **Price** |  | **Value** |
| **(Vehicles)** |  | **MK** |  | **MK** |
| 10 |  | 3,000,000 |  | 30,000,000 |
| 10 |  | 3,400,000 |  | 34,000,000 |
| 20 |  | 4,000,000 |  | 80,000,000 |
| **TOTAL** | | | | **144,000,000** |
|  |  |  |  |  |

2. Trading Account Using FIFO

**MK MK**

Sales 94,400,000.00

Less: Cost of Sales 144,000,000.00

Less: Closing Inventory (80,000,000.00) 64,000,000.00

**Gross Profit 30,400,000.00**

1. Trading Account Using AVCO

**MK MK**

Sales 94,400,000.00

Less Cost of Sales

Purchases 144,000,000.00

Less: Closing Inventory (74,000,000.00) 70,000,000.00

**Gross Profit 24,400,000.00**

1. The prudence concept states that inventories should be valued at the lower of cost or net realisable value and ensures that the value of inventories is not overstated in the financial statements.
2. Two advantages of using FIFO as a method of inventory valuation are:
3. It is practical and represents what actually happens in practice whereby the first items to be purchased will be the first to be sold.
4. It is easy to compute and understand.
5. Closing inventories are valued at relatively present value or cost.
6. It is recommended by International Accounting Standard Number 2.

Two Disadvantages of using FIFO as a method of inventory valuation are:

1. It is arithmetically cumbersome.
2. The cost of production relates to out of date prices.

**Question 5**

1. Two Characteristics of Management Accounting which make it more suitable for decision making are:
2. Management accounting is based on present and future information which is relevant for decision making.
3. Information can be presented in any format which makes it flexible for comparing financial and operational data for decision making.
4. Management accounts can be produced anytime. This makes management accounts more convenient in decision making.
6. Prudence Concept
7. Accruals Concept
8. Going Concern Concept
9. Business Entity Concept
10. Consistency Concept
11. **RENT ACCOUNT AND ELECTRICITY ACCOUNT**

|  |  |  |  |
| --- | --- | --- | --- |
| **Rent Account** | | | |
| Balance b/f | 12,000 | Income Statement | 82,000 |
| Bank | 86,000 | Balance c/f | 16,000 |
|  | 98,000 |  | 98,000 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Electricity Account** | | | |
| Bank | 49,000 | Balance b/f | 19,000 |
| Balance c/f | 11,000 | Income Statement | 41,000 |
|  | 60,000 |  | 60,000 |
|  |  |  |  |

**Question 6**

1. **REID AND BENSON**

**INCOME STATEMENT FOR THE YEAR ENDING 31ST DECEMBER 2014**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **MK,000** |  | **MK,000** |
|  |  |  |  |
| Sales |  |  | 541,750.00 |
| Less: Return Inwards |  |  | (800.00) |
| **Turover** |  |  | **540,950.00** |
|  |  |  |  |
| **Less: Cost of Sales** |  |  |  |
| Purchases | 291,830.00 |  |  |
| Return Outwards | (330.00) |  |  |
| Carriage Inwards | 3,150.00 |  |  |
| Closing Inventories | (1,500.00) |  | 293,150.00 |
| Gross Profit |  |  | 247,800.00 |
|  |  |  |  |
| **Less: Expenses** |  |  |  |
| Staff Salaries | 141,150.00 |  |  |
| Rent | 2,500.00 |  |  |
| Compensation | 10,000.00 |  |  |
| General Expenses | 9,500.00 |  |  |
| Bad Debts | 1,150.00 |  |  |
| Allowance for Doubtful Debts | 1,500.00 |  |  |
| Depreciation | 7,400.00 |  |  |
| Insurance | 2,350.00 |  | 175,550.00 |
| **Net Profit Transferred to Appropriation Account** | | | **72,250.00** |

**APPROPRIATION ACCOUNT FOR THE YEAR ENDING 31ST DECEMBER 2014**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  | **MK,000** |  | **MK,000** |
| Net Profit |  |  |  |  | 72,250 |
| Less: Salary - Reid | |  |  |  | (18,000) |
|  |  |  |  |  | 54,250 |
|  |  |  |  |  |  |
| Add: Interest on Drawings: | |  |  |  |  |
|  | Reid |  | 1,050 |  |  |
|  | Benson |  | 550 |  | 1,600 |
|  |  |  |  |  | 55,850 |
| Less: Interest on Capital | |  |  |  |  |
|  | Reid |  | 3,750 |  |  |
|  | Benson |  | 2,500 |  | (6,250) |
|  |  |  |  |  | 49,600 |
| Less: Interest on Current Account: | | | |  |  |
|  | Reid |  | 250 |  |  |
|  | Benson |  | 200 |  | (450) |
|  |  |  |  |  | 49,150 |
| Balance of Profits: | |  |  |  |  |
| Shared | Reid |  | 29,490 |  |  |
|  | Benson |  | 19,660 |  | 49,150 |

1. **Statement of Financial Position as at 31st December 2014**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | **MK,000** |  | **MK,000** |  | **MK,000** |
|  |  | **Cost** |  | **Depr.** |  | **Net Book Value** |
| **Non-Current Assets** | |  |  |  |  |  |
| Fixture & Fittings |  | 74,000 |  | 19,400 |  | 54,600 |
|  |  |  |  |  |  |  |
| **Current Assets** |  |  |  |  |  |  |
| Inventory |  |  |  | 1,500 |  |  |
| Accounts Receivable |  |  |  | 136,000 |  |  |
| Prepayments |  |  |  | 150 |  |  |
| Cash |  |  |  | 400 |  | 138,050 |
| **Total Assets** |  |  |  |  |  | **192,650** |
|  |  |  |  |  |  |  |
| **Capital and Liabilities** | | |  |  |  |  |
| Capital Accounts | Reid |  |  | 75,000 |  |  |
|  | Benson |  |  | 50,000 |  | 125,000 |
|  |  |  |  |  |  |  |
| Current Accounts | Reid |  |  | 38,440 |  |  |
|  | Benson |  |  | 5,810 |  | 44,250 |
|  |  |  |  |  |  |  |
| **Current Liabilities** |  |  |  |  |  |  |
| Account Payables |  |  |  |  |  | 23,400 |
| **Total Capital and Liabilities** | | | | |  | **192,650** |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **CURRENT ACCOUNT** | | | | | | | |
|  | Reid |  | Benson |  | Reid |  | Benson |
|  | MK,000 |  | MK,000 |  | MK,000 |  | MK,000 |
| Drawings | 17,000 |  | 20,000 | Balance b/d | 5,000 |  | 4,000 |
| Interest on Drawings | 1,050 |  | 550 | Salary | 18,000 |  | 0 |
| Balance C/d | 38,440 |  | 5,810 | Interest on Capital | 3,750 |  | 2,500 |
|  |  |  |  | Interest on Current | 250 |  | 200 |
|  |  |  |  | Profit | 29,490 |  | 19,660 |
|  | **56,490** |  | **26,360** |  | **56,490** |  | **26,360** |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |