STRICTLY CONFIDENTIAL

2014 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER TC1: ACCOUNTING/1

THURSDAY 11 DECEMBER 2014 **TIME ALLOWED : 3 HOURS**

SUGGESTED SOLUTIONS

1. (a) (i)

		K	
Opening bank balance		(12,400)	
Lodged		768,460	
Payments made		(750,400)	Balancing figure
Closing balance		5,660	

(ii)

Total deposits	768,460
Add: Expenses	57,000
Drawings	78,000
	903,460
Less: Gift	60,000
Received from customers	843,460

(iii)

Opening balance	16,760
Add: sales	840,300
	857,060
Less: cash received	843,460
Outstanding trade receivables	13,600

(iv)

Payments made (i)		750,400	
Less: Expenses	34,000		
Drawings	20,000	54,000	
Paid to suppliers		696,400	Purchases as no credit

(v)

Sales		840,300
Opening inventory	52,500	
Purchases	696,400	
	748,900	
Closing inventory	41,900	
Cost of sales		707,000
Gross profit		133,300

(vi)

Gross profit		133,300
Expenses (cash)	57,000	
(bank)	34,000	91,000
Net profit		42,300

(b) Cost of sales + 20% = value of sales at 'normal' price

	K
Cost of sales	707,000
Mark up 20%	141,400
Sales at normal price	848,400
Actual sales	840,300
Thus reduction	8,100

(c) Gift Malizani

Statement of financial position as at 14 May 2014

	K	K
Non-current assets		
Motor vehicles	64,000	
Fixtures	29,900	
		93,900
Current assets		
Inventory	41,900	
Trade receivable	13,600	
Cash	5,660	61,160
Total assets		155,060
Current liabilities		-
Net assets		155,060
Financed by		
Capital		34,760
Drawings		78,000
Profit		42,300
Total equity		155,060

(d) Sales = cost of goods sold at 20%

Cost of goods sold = Opening inventories + Purchases *less* Closing inventories.

Answer = 4,000,000 + 52,000,000 – 6,000,000 = 50,000,000

It is known that cost of goods sold + Gross Profit = Sales

Use mark-up to find the profit, since :

Cost of goods sold + %age mark-up = Sales

So = K50,000,000 + 20% = sales

So sales = K50,000,000 + K10,000,000 = K60,000,000

Gross profit = K60,000,000 – K50,000,000 = K10,000,000

(e) (i) (1) Error of transposition – where wrong sequence of individual character within a number was entered.

(2) Error of casting figures – figures incorrectly added in books or ledger.

(ii) (1) Error of omission – transactions not recorded at all in the books.

(2) Error of principle – transaction is posted to the correct side of wrong class of account.

(3) Error of original entry – an incorrect figure is entered in records and yet double entry is still observed using incorrect figure.

2. (a)

	K
Machine traded in	
Cost	10,000,000
Depreciation to date (W1)	4,880,000
NBV	5,120,000
Proceeds	5,000,000
Loss	120,000

Working 1 Cost K10,000,000

Depreciation	Year 1	2,000,000	(K10m x 20%)
	Year 2	1,600,000	(K8m x 20%)
	Year 3	1,280,000	(K6.4m x 20%)
		4,880,000	

(b)

	K
Cost of assets (K70,000,000 + 20,000,000 – 10,000,000)	80,000,000
Depreciation to date:	
Opening balance (70,000,000 – K50,000,000)	20,000,000
Eliminated	4,880,000
Balance before current year charge	15,120,000
NBV = K80,000,000 – K15,120,000 = K64,880,000 ½	
Depreciation = NBV x 20% = charge	12,976,000

(c) (i) Machinery Cost Account

	K		K
Balance b/d	70,000,000	Disposal account (cost)	10,000,000
Disposal account (proceeds)	5,000,000		
Payables	15,000,000	Balance c/f	80,000,000
	90,000,000		90,000,000

(ii) Accumulated Depreciation Account

	K		K
Disposal account	4,880,000	Balance b/f	20,000,000
Payables	28,096,000	Depreciation charge account	12,976,000
	32,976,000		32,976,000

(d)

	K
Depreciation	12,976,000
Loss	120,000
	13,096,000

(e)

Non-current assets	80,000,000
Cost	28,096,000
Accumulated depreciation	51,904,000
Net book value	

*Accumulated depreciation is made of	15,120,000
b/f	12,976,000
charge	

Current liabilities	15,000,000
Payables	

i.e. new machine cost K20 million less trade-in value K5 million

3. (a) Forms a business can take are sole trader (sole proprietorship), partnership and limited liability company (or simply, a limited company).

(b) (i)

	K	K
Gross profit (no adjustment required)		157,846
Expenses (K157,846 – K51,024)	106,822	
Less: Payments to partners	30,000	76,822
Net Profit		81,024

(ii)

	Friday K	January K	K
Net profits per accounts			81,024
Less: Salary	18,000	12,000	
Interest on capital (w)	10,000	5,600	
	28,000	17,600	45,600
Residual profit			35,424
Shared: Friday (2/3) January (1/3)	23,616	11,808	
	51,616	29,408	

Working (w):

Interest on capital	Friday	K125,000 x 8% = K10,000
	January	K 70,000 x 8% = K 5,600

(iii)

	Friday	January
	K	K
Balance at 1 May 2013	34,568	(23,741)
Salary	18,000	12,000
Interest on capital	10,000	5,600
Residual profit	23,616	11,808
	86,184	5,667
Less drawings	15,000	15,000
Balances at 30 April 2014	71,184	(9,333)

(iv) The value of total net assets equals the total value of the partners' investment (i.e the total of the capital and current accounts). Thus:

	Friday	January	Total
	K	K	K
Capital accounts	125,000	70,000	195,000
Current accounts	71,184	(9,333)	61,851
	196,184	60,667	256,851

4. (a) Main advantages of using a computerized accounting system instead of a manual system are:

(i) Speed and accuracy

(ii) Errors detection

(iii) Enhanced reporting

Candidates who state 'volume factors', 'flexibility' and similar arguments should also be credited.

(b) Underlying accounting concepts are accounting concepts which have been applied ever since financial statements were first produced for external reporting purposes and they have now become second nature to accounts and are not generally enforced, other than through custom and practice. Examples: historic cost concept, money measurement concept, business entity concept, dual aspect concept and time interval concept.

Fundamental accounting concepts comprise of a set of concepts considered so important that they have been enforced through accounting standards and/or through the Companies Act. Examples: going concern concept, consistency concept, prudence concept, accruals concept, separate determination concept, substance over form concept and materiality concept.

Explanation is expected to contain the following for *underlying* concepts: (a) not enforceable (b) applied ever since (c) form basis of accounting (d) not quite important i.e. are minor, auxiliary or subordinate. *fundamental* concepts: (a) enforceable rules(b) relatively recent (c) give guidance to avoid mistakes in accounting (d) very important or major.

(c) Yamikani Useni

Income statement for the year to 30 June 2014

	K		K
Sales			410,234
Less Cost of sales			
Opening inventory	23,258		
Add Purchases	217,078		
	240,336		
Less Closing inventory	27,328		213,008
Gross profit			197,226
Wages	67,374		
Electricity	20,932	(19,052+1,880)	
Rent	12,000	(14,400-2,400)	
General expenses	9,576		
Depreciation	50,392		
Movement in allowance	356	(3,240-2,884)	
			160,630
Net profit			36,596

5. (a) **Two** differences between a *Receipts and Payments account* and an *Income and Expenditure account*

	Receipts and payments	Income and expenditure
1	Cash transactions only	Includes accruals and prepayments
2	Includes capital receipts and capital payments	Excludes capital receipts and capital payments
3	Balance represents cash in hand, bank balance, or bank overdraft	Balance represents surplus/deficiency of income over expenditure for a given period

(b) Return Inwards Daybook is a book of original entry (or book of prime entry) that records goods returned by customers. It is also called the Return Inwards Journal or the Sales Return Book. Similarly Return Outwards Daybook is a book of original entry but for goods returned to suppliers. It is also called Returns Outwards Journal or Purchases Returns Book.

For both books, the total at the end of the period is transferred to Returns Inwards or Returns Outwards account, as the case may be, in the general ledger. Commonly, the contents are:
Item description, note number, folio and amount.

(c) (i) Going concern – unless there is evidence to the contrary, it is assumed that the business will continue to trade normally for the foreseeable future.

(ii) Consistency – similar items should be accorded similar accounting treatment.

(iii) Materiality – only items material in amount or in their nature will affect the accounts.

(iv) Prudence – revenue and profits are included in financial reports only when they are realized (reasonable certainty of realizing them) but liabilities are included when there is reasonable possibility of incurring them.

(v) Accruals – revenue and expenses are recorded when they occur and not when cash is received or paid.

(vi) Subsistence over form – economic substance of transaction should be recorded in accounts rather than just their legal form.

(vii) Entity – a business is an entity distinct from its owners (shareholders).

(d) **Two** main methods of inventories valuation are:

(i) First In, First Out (FIFO) whereby the first goods to be received are the first to be issued.

(ii) Last In, First Out (LIFO) whereby as each issue of goods is made they are said to be from the last lot of goods received before that date. Where there is not enough left of the last lot of goods, then the balance of goods needed is said to come from the previous lot still unsold.

(iii) Average cost method (AVCO) or weighted average cost method, whereby with each receipt of goods the average cost for each item of stock is calculated.

(e) Two users of the final accounts of a business and one reason for each user being interested in the final accounts:

User	**Reason**
Owners	To assess the performance of managers
Managers	To understand the current position of the business, and to plan future actions
Customers	To assess the ability of the business to continue to supply goods or services
Suppliers	To assess creditworthiness of the business
Lenders	To assess the ability of the business to make the required repayments
Employees	To assess career prospects and job security

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