NOVEMBER 2013 EXAMINATION

DATE: 6 NOVEMBER 2013

TIME: 14H00 – 17H00 TOTAL: 100 MARKS

DURATION: 3 HOURS PASS MARK: 40%

(LP-008)

FINANCIAL ACCOUNTING 1 (Elective)

THIS EXAMINATION PAPER CONSISTS OF 3 SECTIONS:

SECTION A: CONSISTS OF:
(i) 10 MULTIPLE-CHOICE QUESTIONS (10 MARKS)
(ii) 5 TRUE OR FALSE QUESTIONS (10 MARKS)
   ANSWER ALL THE QUESTIONS

SECTION B: CONSISTS OF 3 SHORT QUESTIONS
   ANSWER ALL THE QUESTIONS (50 MARKS)

SECTION C: CONSISTS OF 2 INTERPRETATIVE QUESTIONS
   ANSWER ONE OF THE QUESTIONS (30 MARKS)

INSTRUCTIONS:

1. Read the following instructions carefully before answering the paper, as failure to act upon them will result in a loss of marks.
2. Write your answers in your answer book, which is provided in the exam.
3. Ensure that your name and student number are clearly indicated on your answer book.
4. Write your answers in either blue or black ink in your answer book.
5. Read each question very carefully before you answer it and number your answers exactly as the questions are numbered.
6. Begin with the question for which you think you will get the best marks.
7. Note the mark allocations for each question – give enough facts to earn the marks allocated.
   Don't waste time by giving more information than required.
8. You are welcome to use diagrams to illustrate your answers.
9. Please write neatly – we cannot mark illegible handwriting.
10. Any student caught cheating will have his or her examination paper and notes confiscated.
    The College will take disciplinary measures to protect the integrity of these examinations.
11. If there is something wrong with or missing from your exam paper or your answer book, please inform your invigilator immediately. If you do not inform your invigilator about a problem, the College will not be able to rectify it afterwards, and your marks cannot be adjusted to allow for the problem.
12. This paper may be removed from the examination hall after the examination has taken place.

NOTE: YOU MAY USE A NON-PROGRAMMABLE CALCULATOR.
SECTION A

ANSWER ALL THE QUESTIONS

(i) MULTIPLE-CHOICE QUESTIONS

Choose the correct option for each of the following. Write only the question number and your chosen answer. For instance, if you think that the correct answer for number 1 is (a), then write it as 1. (a).

1. A Balance Sheet:
   (a) provides owner's, investors, and other interested parties with all the financial information they need to evaluate the financial strength, profitability, and future prospects of a given business entity.
   (b) shows the current market value of the owner's equity in the business at balance sheet date.
   (c) assists creditors in evaluating the debt-paying ability of a business by showing the assets and liabilities of the business combined with those of its owner/s.
   (d) shows the assets, liabilities and owner's equity of a business entity, valued in conformity with Accounting Standards, Conventions and Rules.

2. During the current year, the assets of Choppa's Talents increased by R29 000 and the liabilities decreased by R7 000. If the Owner's Equity in the business is R79 000 at the end of the year, the Owner's Equity at the beginning of the year must have been:
   (a) R57 000.
   (b) R43 000.
   (c) R115 000.
   (d) R101 000.

3. A transaction caused a R9 000 decrease in both assets and liabilities. This transaction could have been:
   (a) the purchase of a delivery truck for R9 000.
   (b) the collection of R9 000 accounts receivable.
   (c) the repayment of a R9 000 bank loan.
   (d) purchase of stock worth R9 000.

4. Which of the following statements about accounting procedures is not correct?
   (a) The journal shows in one place all the information about specific transactions, arranged in chronological order.
   (b) A ledger account shows in one place all the information about changes in a specific asset or liability, or in owner's equity.
   (c) Posting is the process of transferring debit and credit changes in account balances from the ledger to the journal.
   (d) The end product of the accounting cycle consists of formal financial statements, such as the Balance Sheet and the Income Statement.
5. On March 31, the ledger of Sibusiso Cleaning Services consists of the following balances:

<table>
<thead>
<tr>
<th>Cleaning Equipment</th>
<th>Accounts Receivable</th>
<th>R 1 780</th>
<th>R 2 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Cash</td>
<td>R 1 570</td>
<td>R 690</td>
</tr>
<tr>
<td>Sibusiso, Capital</td>
<td>Salaries Payable</td>
<td>R 3 500</td>
<td>R 960</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>Cleaning Supplies</td>
<td>R 1 200</td>
<td>R 260</td>
</tr>
</tbody>
</table>

In a trial balance prepared on March 31, the total credit column is:
(a) R6 030
(b) R2 530
(c) R9 530
(d) R8 560

6. The wages earned by employees of Judy's Salon during the month of September will not be paid until Monday, October 3. The best rationale for recognising these wages as expenses in September is:

(a) The realisation principle – Judy's Salon should realise that these salaries are owed to employees as of Friday, September 30.
(b) The time period principle – An equal amount of wages expense should be recognised in each month, regardless of when cash is paid or services are performed by employees.
(c) The matching principle – Wage expense is recognised in the period in which employees' services are used in the effort to produce revenue, regardless of when cash payments are made.
(d) The principles of objectivity and conservatism – Judy's Salon is able to objectively measure the amount owed to employees at September 30, and is conserving cash by delaying payment until October 3.

7. The purpose of Adjusting Entries is to:

(a) adjust the owner's capital account for the revenue, expense and withdrawal transactions which occurred during the year.
(b) adjust daily the balances in asset, liability, revenue and expense accounts for the effects of business transactions.
(c) apply the realisation principle and the matching principle to transactions affecting more than one accounting period.
(d) prepare revenue and expense accounts for recording the transactions for the next accounting period.

8. A distinguishing characteristic of the financial statements of a Trading company is that:

(a) the Balance Sheet shows a subtotal for working capital.
(b) the Income Statement discloses the amount of cash paid for merchandise, net of any purchase discounts or returns.
(c) the Income Statement includes an amount for the cost of goods sold.
(d) the Income Statement must be prepared in the multiple-step format.
9. When a perpetual inventory system is in use:
   (a) a single ledger is used to record the cost of goods sold.
   (b) there is no need to perform a physical count of inventory.
   (c) the ending inventory figure is more accurate than when a periodic
       inventory system is in use.
   (d) the inventory ledger account does not reflect the amount of
       merchandise on hand between financial statement dates.

10. Prepaid Expenses:
   (a) is an asset account.
   (b) a liability.
   (c) only for telephone expenses.
   (d) a basic credit account. [10]

(ii) TRUE OR FALSE QUESTIONS

Indicate whether the following statements are True or False. Motivate all your answers.

1. Ledgers are referred to as 'books of prime entry'.

2. The perpetual inventory system is used when it is difficult to
determine the cost price of every single article sold.

3. When using the periodic / indirect inventory system, the 'inventory
account' shows the value of the inventory at all times.

4. Closing entries are done before year-end adjustments.

5. The Balance Sheet reflects the income and expenses of a business /
entity. [5 × 2 = 10] [20]
SECTION B: SHORT QUESTIONS (50 MARKS)

ANSWER ALL THE QUESTIONS

QUESTION 1

(a) i. Define the term Liabilities. (3)
ii. Define the term Equity. (3)
iii. With reference to Statement AC000, state the two assumptions that form the basis of financial statements. (2)
iv. Adjustments are made at the end of a financial period. List seven of the most common type of adjustments. (7)
v. Explain briefly what is meant by the matching concept. (4)
vi. Write out the mathematical expression of the accounting equation. (1) [20]

QUESTION 2

(a) List the information that an entry in the General Journal should provide. (8)
(b) For what purpose does a commercial firm use a Debit note? (2) [10]

QUESTION 3

(a) If the selling price of a product is R350 (Vat Inclusive), calculate the vat amount. (2)
(b) If the selling price of a product is R500 (Vat Exclusive), calculate the vat amount. (2)
(c) Given that total Sales is R850 000 for the year and the Cost of Sales for the same period is R300 000, calculate the Gross Margin Percentage. (3)
(d) If the Mark-up on a product is 50%, what is the Gross Margin Percentage on this product? (2)
(e) If the Cost Price of a product is R235 and the Selling Price is R280, calculate both the Gross Margin Percentage and the Mark-up. (6)
(f) Assume that the cost price of a specific machine, on 1 January 2012, is R17 000 and that the life span of the asset is estimated to be four years. The estimated scrap value at the end of the fourth year is R1 000. In table format show the Annual depreciation and Accumulated depreciation for the first two years. (5) [20]

[50]
SECTION C: INTERPRETATIVE QUESTIONS

ANSWER ONE OF THE QUESTIONS

QUESTION 1

The following pre-adjustment trial balance was prepared from the books of Definite Deal Pty (Ltd), On 31 August 2012.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehicle</td>
<td>R 70 000</td>
</tr>
<tr>
<td>Bank</td>
<td>R 12 000</td>
</tr>
<tr>
<td>Debtors</td>
<td>R 15 000</td>
</tr>
<tr>
<td>Capital: R Smith</td>
<td>R 90 000</td>
</tr>
<tr>
<td>Drawings: R Smith</td>
<td>R 29 000</td>
</tr>
<tr>
<td>Creditors</td>
<td>R 5 000</td>
</tr>
<tr>
<td>Non-current loan</td>
<td>R 25 000</td>
</tr>
<tr>
<td>Commission earned</td>
<td>R 45 000</td>
</tr>
<tr>
<td>Insurance</td>
<td>R 6 000</td>
</tr>
<tr>
<td>Salaries</td>
<td>R 15 000</td>
</tr>
<tr>
<td>Rental</td>
<td>R 25 000</td>
</tr>
<tr>
<td>Telephone</td>
<td>R 3 000</td>
</tr>
<tr>
<td>Accumulated depreciation: Vehicle</td>
<td>R 10 000</td>
</tr>
</tbody>
</table>

| Total                        | R 175 000|

Additional information:

- Commission earned but not invoiced: R12 000
- Prepaid insurance on 31 August: R2 500
- Depreciation on vehicle not yet provided for: R3 500
- Accrued Interest on non-current loan: R3 300
- Salaries in arrears: R2 000
- Telephone due: R700

You are required to:

(a) Journalise the necessary adjustments. 
(b) Prepare a post-adjustment trial balance as at 31 August 2012.
QUESTION 2

Shown below is the adjusted trial balance of Mount Everest Insurance Agency for the month ended June 30, 2013:

Mount Everest Insurance Agency
Adjusted Trial Balance
June 30, 2013

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>127 500</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>60 500</td>
</tr>
<tr>
<td>Office equipment</td>
<td>600 000</td>
</tr>
<tr>
<td>Accumulated depreciation: Office equipment</td>
<td>15 000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>126 000</td>
</tr>
<tr>
<td>Sibusiso Vilane, Capital</td>
<td>800 000</td>
</tr>
<tr>
<td>Sibusiso Vilane, Drawing</td>
<td>100 000</td>
</tr>
<tr>
<td>Commissions earned</td>
<td>371 000</td>
</tr>
<tr>
<td>Advertising expenses</td>
<td>50 000</td>
</tr>
<tr>
<td>Rent expense</td>
<td>87 000</td>
</tr>
<tr>
<td>Telephone expense</td>
<td>12 000</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>270 000</td>
</tr>
<tr>
<td>Depreciation expense: Office equipment</td>
<td>R 5 000</td>
</tr>
<tr>
<td></td>
<td>1 312 000</td>
</tr>
</tbody>
</table>

You are required to:

(a) Prepare an Income Statement for the month ended June 30 2013.  (8)

(b) Prepare a Balance Sheet at June 30, 2013.  (10)

(c) Prepare journal entries to close the accounts at June 30, 2013. Do not include the narration to the closing journal entries, as no marks will be awarded for narrations.  (12) [30]

Section A: 20 marks
Section B: 50 marks
Section C: 30 marks
TOTAL: 100 MARKS