Exam in Fundamentals of Financial Accounting

**Time allowed: 2 hours**

**ALL the questions are compulsory and MUST be attempted.**

**Open-ended questions**

**Question 1**

Ray’s financial year ends on 31 December each year.

On 1 April 2022 he purchases a car for $12,000. The car is expected to last for 5 years and to have a scrap value at the end of 5 years of GEL 2,000.

*You are required to calculate the depreciation charge for each of the first three accounting periods, and to show extracts from the Statement of Financial Position and Statement of Profit or Loss for each of the three accounting periods (10 points).*

**Question 2**

Steve started business on 1 January 2020.

During the year to 31 December 2020, he made the following payments for rent:

6 January 2020 - GEL 800 for the 6 months to 30 June 2020

14 June 2020 GEL 2,000 for the 12 months to 30 June 2021

*(a) Show extracts from the Statement of Profit or Loss and Statement of Financial Position*

*(b) Write up the t-account for Insurance for the year to 31 December 2020*

*(c) Close off the t-account (10 points).*

**Question 3**

At the end of the first year of trading Sigma LTD has a balance on the receivables account of GEL 62,500.

This amount is includes two debts from A plc and B plc which are to be regarded as irrecoverable. The amounts owing are GEL 2,500 and GEL 1,600 respectively.

In addition, there is GEL 2,800 owing from Z plc which is regarded as doubtful. Sigma LTD has a policy of maintaining a general allowance for receivables of 4%.

*Show extracts from the Statement of Financial Position and Statement of Profit or Loss of Sigma LTD (10 points)*.

**Question 4**

Rico’s draft financial statements show a net profit for the year of GEL 52,380. Eventually, the following errors have been identified:

(a) No entry has been made for GEL 563 cash received from a customer whose debt was written off last year as irrecoverable.

(b) Closing inventory valued in the draft accounts at its cost of GEL 8,920, was believed to have a potential sales value of GEL 7,930

(c) Goods which had cost GEL 2,000 had been sent to a customer just before the year end on a sale or return basis. These had been accounted for as a firm sale, with a profit of 20% of cost. No confirmation of the sale had been received from the customer.

(d) A payment for rent charged in full to the current year included GEL 490 which relates to the next accounting period. No adjustment had been made for this when preparing the draft accounts.

*Make any relevant entries in the suspense account (10 points).*

**Question 5**

At 31 December 2017, the balance on the cash account was GEL 11,820 (DR). The balance appearing on the bank statement was GEL 15,000 (CR).

The reasons for the difference were as follows:

(1) Bank charges of GEL 20

(2) A payment of GEL 1,200 had been entered in the cash account as GEL 2,100

(3) A cheque for GEL 200 had been dishonoured

(4) There were unpresented cheques totalling GEL 6,500

(5) Lodgements of GEL 4,000 had not yet appeared on the bank statement

*Calculate the correct balance on the cash account, and prepare a bank reconciliation statement (10 points).*

**Multiple Choice Questions (***each correct answer is worth of 2 points***)**

1. Which of the following is an example of a contra revenue account?

A. sales

B. merchandise inventory

C. sales discounts

D. accounts payable **(correct answer)**

2. Which of the following is not considered a current liability?

A. Accounts Payable

B. Unearned Revenue

C. the component of a note payable due in year 10 **(correct answer)**

D. current portion of a noncurrent note payable

3. The following is an extract from financial data of GiGa LLC:



How much does the company have in current liabilities?

A. GEL 19,800

B. GEL 18,300

C. GEL 12,300

D. GEL 25,800 **(correct answer)**

4. What is not a drawback of financial accounting?

A. Inadequate information to fix up the price of products manufactured

B. Lack of data for comparison of cost of operation of the firm with other firms in the industry

C. The data available is historical in nature

D. Complies with the various legal requirements **(correct answer)**

**5.** General purpose of financial accounting is to summarize financial activity in business inthe **\_\_\_\_\_\_**

A. profit and loss statement

B. balance sheet

C. cash flow statement

D. all of the above **(correct answer)**

6.\_\_\_\_\_\_ is not a primary source of long-term debt financing.

A. Accounts payable **(correct answer)**

B. Notes payable

C. Leases

D. Bonds

7. Trademark, Copyrights & Patents are \_\_\_\_\_ assets.

A. Intangible **(correct answer)**

B. Fixed

C. Current

D. Tangible

8. Capital increases when \_\_\_\_\_\_

A. cost increases

B. Expenses increases

C. Revenue increases **(correct answer)**

D. Interest on capital increases

9. Current assets minus current liabilities is equal to \_\_\_\_\_\_

A. losing capital

B. gaining capital

C. fixed capital

D. working capital **(correct answer)**

10. A sole trader had an opening capital of EUR 18,000 and closing capital of EUR 9,000. During the period the owner invested further EUR 8,000 into the business and withdrew EUR 16,000 for personal use. Calculate her profit/loss during the period.

A. 1,000 loss

B. 4,000 loss

C. 1,000 profit

D. 21,000 loss **(correct answer)**

11. Which of the following is true about the effects of a dividend payouts?

A. Share capital: No change; Retained earnings: no changes

B. Share capital: decreases; Retained earnings: no changes

C. Share capital: No change; Retained earnings: decreases **(correct answer)**

D. Share capital: decreases; Retained earnings: decreases

12. Chris launched his business on 1 Mat 2021 and is charged a rent of GEL 18,000 annually. During the period to 31 December 2021 he actually paid GEL 13,800. Wat is his rent figure in the Profit and Loss account?

A. GEL 100

B. GEL 900

C. GEL 4,200

D. none of the above **(correct answer)**

13. Which of the below is the second year reducing balance depreciation charge for a car with an original cost of GEL 4,000 and residual value of GEL 400 and depreciation rate of 25%?

1. 675 **(correct answer)**
2. 900
3. 1,000
4. 750

14. Company had a share capital of 1,500,000 shares with GEL 1.2 nominal value of each. It then made a Bonus Issue of one share for every three shares held. What would the share capital after the issue?

A. GEL 2,000,000

B. GEL 7,200,000

C. GEL 1,800,000

D. GEL 2,400,000 **(correct answer)**

15. Rick has extracted the following list of balances for a financial year:

Sales 258,642

Opening Inventory 9,649

Purchases 142,958

N/C Assets 63,960

Rent 34,835

Receivables 31,746

Cash 1,783

Payables 13,864

Capital 12,525

The total of Rick’s debit balances is:

A. GEL 275,282

B. GEL 284,931 **(correct answer)**

C. GEL 283,148

D. 267,049

16. Gross profit of a company is EUR 4,300. What was the net profit of the company if only the following data is available:

Rent expense EUR 1,000

Interest EUR 300

Rent received EUR 200

A. 5,600

B. 3,000

C. 3,200 **(correct answer)**

D. 3,500

17. Credo owned GEL 60 to suppliers on 1 July 2022 and GEL 90 on 30 June 2023. Total credit purchases of the year were GEL 3,000. How much cash was paid to the creditors during the year?

A. 2,970 **(correct answer)**

B. 3,030

C. 3,150

D. 2,850

18. Which of these best explains fixed assets?

A. Are bought to be used in the business

B. Are expensive items bought for the business

C. Are items which will not wear out quickly

D. Are of long life and are not purchased specifically for resale **(correct answer)**

19. The charges of placing commodities into a saleable condition should be charged to

A. Trading account

B. Profit&Loss **(correct answer)**

C. Balance Sheet

D. None of the above

20. The following items are entered in the Purchases Journal

A. Discounts received

B. Purchases invoices **(correct answer)**

C. Payments to suppliers

D. Trade discounts

21. If a trial balance totals do not agree, the difference must be entered in

A. The Profit and Loss Account

B. A Nominal Account

C. The Capital Account

D. A Suspense Account **(correct answer)**

22. Gross profit is

A. Cost of goods sold + Opening stock

B. Sales – cost of goods sold **(correct answer)**

C. Sales – Purchases

D. Net profit – expenses

23. The debts which are to be repaid within a short period (a year or less) are referred to as

A. Current Liabilities **(correct answer)**

B. Fixed liabilities

C. Contingent liabilities

D. All the above

24. Long term assets without any physical existence but, possessing a value are called

A. Intangible assets **(correct answer)**

B. Fixed assets

C. Current assets

D. Investments

25. Which of the following is true with regards to the Prudence Principle?

A. Taking care of future losses **(correct answer)**

B. Taking care of future profits

C. Taking care of bad debts

D. Taking care of inventory

**Answer 1**

Depreciation = (12,000 – 2,000)/5 = 2,000 p.a.

2022: 9/12 × 2,000 1,500

2023: 2,000

2024: 2,000

31.12.2022 31.12.2023 31.12.2024

Statement of Profit or Loss:

Depreciation 1,500 2,000 2,000

Statement of Financial Position:

Cost 12,000 12,000 12,000

Less: Accumulated Depreciation (1,500) (3,500) (5,500)

Carrying Amount 10,500 8,500 6,500

**Answer 2**

Insurance Prepayments

Dr. Cash 800 Cr. Prepayment 1,000 Dr. 1,000

Cash 2,000 SOPL 1,800

SOPL SOFP

Expenses: Current Assets:   
 Insurance 1,800 Prepayments 1,000

**Answer 3**

SOFP

Current Assets:

Receivables 62,500 – 2,500 – 1,600 = GEL 58,400

Less: Allowance for receivables 2,800+ (4% × (58,400 – 2,800)) = 5,024

Total 53,376

SPL

Expenses:

Bad debts (2,500 + 1,600) = 4,100

Increase in allowance for receivables 5,024

Total 9,124

**Answer 4**

Statement of SPL:

Draft profit 52,380

Debt recovered 563

Closing inventories (8,920 – 7,930) (990)

Sales or return (400)

Prepayment 490

Adjusted profit GEL 52,043

**Answer 5**

Cash

Balance 11,820 Bank charges 20

Error in payment 900 Dishonoured cheque 200

Balance 12,500

Total 12,720 12,720

Balance 12,500

Bank reconciliation statement

Balance at bank 150,000

Add: Lodgements not credited 4,000

Less: Unpresented cheques (6,500)

Balance per cash account GEL 12,500