



TRIMESTER 2 2022 FINAL EXAMINATION

STUDENT ID	
STUDENT NAME	

SUBJECT NAME: **Accounting Systems and Processes**

SUBJECT CODE: **MCR004A**

TIME ALLOWED: **2 Hours**

PERMITTED MATERIALS:

- This is an Open Book exam.

INSTRUCTIONS FOR STUDENTS:

- You do not require a separate answer booklet. Please type your responses in the space provided.
- Type your full name and ID at the top of this page.
- This exam consists of two sections:
- Section A has THREE theory questions and is worth 30 marks in total.
- Section B has FIVE computational questions and is worth 70 marks in total.
- Total marks for this exam is 100.
- This exam is worth 60% of the total grade for this subject.

SECTION A

This section consists of THREE questions. Answer ALL questions. Total 30 marks for this section.

Question 1 (2 x 5 = 10 Marks)

Discuss the significance of the following assumptions in the preparation of an entity's financial statements:

- (i) Entity assumption

[Answer here]

Entity assumption is assumption that business owners and business are considered as separated entities. So all the transactions between owners and business are recorded from company perspective. For example all the drawings and additional capital made by owners are recorded in the books of accounts as separated transactions. So all the financial transactions are made using this assumption.

- (ii) Accrual basis assumption

[Answer here]

Accrual basis accounting can be explained as revenue is recognized when the service or goods are provided and expenses are recognized when the when the liabilities incurred or assets are consumed. So this is not required to occur cash transactions to record the transactions. So all financial statements are prepared on accrual basis except the cash flow statement.

Question 2 (10 Marks)

Compare the perpetual inventory system with the periodic inventory system. Discuss three differences.

[Answer here]

In the perpetual inventory system, details of cost of inventory are maintained. So any time cost of the inventory can be calculated. This perpetual inventory system basically used for similar, large quantities of items like in super markets. Cost of sales account is maintained in the profit and loss statement. In the periodic inventory system, details of cost of inventory is not maintained. So cost of the sales are determined by the physical inventory count at the end of the year. This is basically used for different, small quantities of items. Cost of sales account is not maintained in the profit and loss statement

Question 3 (10 x 1 = 10 Marks)

Column I	Column II
a) A present obligation of the entity, settlement of which will require an outflow of resources	1. Recognition criteria
b) It is probable, and measurable in monetary terms	2. Drawings
c) A decrease in assets has occurred and can be measured reliably	3. Prudence
d) Should match the pattern of consumption of the future economic benefit of a non-current asset	4. Expense recognition
e) The exercise of caution when uncertain in recording asset values	5. Liability
f) The amount that partners take from the business in anticipation of their share of the profit	6. Depreciation expense
g) Qualitative Characteristics of Financial Information	7. Relevant, Reliable, Comparable, Understandable
h) The description given to amounts set aside for warranty repairs or doubtful debts.	8. Materiality
i) An increase in equity has occurred and can be measured reliably	9. Income recognition
j) Relates to the relative size or importance of an item or event	10. Provision

Required: Match Column I with Column II

[Answer here]

A = 5 , B = 1 , C = 4 , D = 6 , E = 3 , F = 2 , G = 7 , H = 10 , I = 9 , J = 8

SECTION B

This section consists of FIVE questions. Answer ALL questions. Total 70 marks for this section.

Question 4 (3 x 5 = 15 Marks)

(a) A credit sale is made on 10 May for \$800, terms 2/10, n/30. On 12 July, \$80 of goods is returned for credit. Give the journal entry on 19 May to record the receipt of the balance due within the discount period.

[Answer and show workings here]

Cash/Bank	Dr	705.6
Discount allowed	Dr	14.4
Trade Receivables	Cr	720

(Recording receipts of payment from customer within the discount period)

(b) If equity at the beginning of the accounting period was \$150,000 and at the end of the period \$185,000 and profit made by the business during the period were \$80,000. Calculate the amount of Drawings that were made during the period.

[Answer and show workings here]

Profit = Equity at the End - Equity at the beginning + Drawings - Additional Capital
 $80,000 = 185,000 - 150,000 + X - 0$
45,000
Drawings = \$ 45,000

(c) A company disposed of a piece of equipment for \$20,500 on 30-06-2008. This equipment was purchased for \$60,000 on 1-07-2005 with a usual life of 6 years. Prepare the journal entry(s) recording this transaction.

[Show workings here]

Depreciation Expenses (for the year ended 30/06/2008) Dr	\$ 10,000
Accumulated depreciation of Equipment	Cr \$ 10,000
Cash on disposal	Dr \$ 20,500
Accumulated Depreciation	Dr \$ 30,000
Loss on Disposal	Dr \$ 9,500
Equipment's	Cr \$ 60,000
(Recording the sale of Equipment at a loss)	

Question 5 (5 x 2 = 10 Marks)

Prepare balance day adjusting entries for Biden Ltd as at 30 June for the following situations:

- a. The Supplies account shows a balance of \$1000, but a physical count shows only \$400 if supplies.

[Answer and show workings here]

Write off the Inventory	Dr	\$ 1,000
Inventory	Cr	\$ 1,000
(Write off the difference between suppliers account inventory balance and physical inventory balance)		

- b. The company purchased a 1-year insurance policy for \$6000 on 1 May, debiting Prepaid Insurance.

[Answer and show workings here]

Insurance Expenses	Dr	\$ 1,000
Prepaid Insurance	Cr	\$ 1,000
(Recording insurance cost for the month of May & June)		

- c. On 1 June, the company received \$12000 from another entity which is renting a small building from lasagne Ltd for 6 months. Lasagne Ltd credited Rent Revenue Received in Advance.

[Answer and show workings here]

Rent Received in Advance account	Dr	\$ 1,000
Rent Income		Cr \$ 1,000

(Recording rent income for the month of June)

- d. Biden Ltd's accountant discovered that the company had performed services for a client totalling \$9000 but has not yet invoiced the client or recorded the transaction.

[Answer and show workings here]

Trade Receivables	Dr	\$ 9,000
Service Revenue		Cr \$ 9,000

(Recording the missed service revenue)

- e. Biden Ltd pays employees \$2500 per 5 day working week, and 30 June falls on a Wednesday.

[Answer and show workings here]

Employees Salary Expenses	Dr	\$ 1,500
Payable employee Salary		Cr \$ 1,500

(Recording the first three days salary of last week in June month)

Question 6 (5 + 5 + 2 = 12 Marks)

Robertson Toys Store bought and sold a line of dolls of inventory and has the following records relating to its December 2019 inventory:

Date	Item	Quantity (units)	Unit Cost
1 st Dec.	Beginning inventory	11	\$10
3 rd Dec.	Sale	6	
9 th Dec.	Purchase	14	\$15
11 th Dec.	Sale	13	
15 th Dec.	Purchase	10	\$17

Required:

Robertson Toys uses the **perpetual inventory system**, compute the cost of goods sold under:

(a) FIFO

[Answer and show workings here]

Cost of goods Sold = \$ 230

(b) Average Cost (round amounts to the nearest cent – i.e., two decimal places)

[Answer and show workings here]

Cost of Goods Sold = \$ 287.89

(C) Which method results in the highest cost of goods sold?

[Answer here]

Average cost method

Question 7

(6 x 3 = 18 Marks)

The financial statements of Susan's Natural Food include the following items:

Details	Current Year (\$)	Preceding year (\$)
Cash	15000	20000
Short term investments	11000	27000
Accounts receivables	54000	73000
Inventory	77000	69000
Prepaid expenses	15000	9000
Total current assets	172000	198000
Income statement:		
Net credit sales	462000	
Cost of sales	315000	
Note: Current liability \$133000 for current year.		

Required:

Calculate the following ratios for the current year:

- a. Current ratio

[Answer and show workings here]

Current Ratio = Current Asset/ Current Liability
Current Ratio = $172,000/133,000$
Current Ratio = 1.23

- b. Acid test ratio

[Answer and show workings here]

Acid Test Ratio = $(172,000 - 77,000)/133,000$
Acid Test Ratio = 0.714

- c. Inventory turnover

[Answer and show workings here]

Inventory Turn over = Cost of Sales/ Average Inventory
Inventory Turn over = $315,000/ 73,000$

Inventory Turn over = 4.31

d. Days in inventory

[Answer and show workings here]

Days In Inventory = $365 / 4.31$

Days In Inventory = Days 84.6

e. Day's sales in accounts receivables

[Answer and show workings here]

Days in Receivables = $365 / 7.27$

Days in Receivables = Days 50.2

f. Gross profit margin

[Answer and show workings here]

Gross Profit Margin = $(\text{Gross Profit} / \text{Sales}) * 100$

Gross Profit Margin = $(147,000 / 462,000) * 100$

Gross Profit Margin = 31.8%

Question 8 (5 + 10 = 15 Marks)

The following accounts are extracted from KFC Company at 30/06/2021

Account	Balance \$
Cash	12 100
Accounts receivable	14 300
Prepaid insurance	700
Supplies	600
Building	411 000
Accumulated depreciation	314 100
Accounts payable	1 950
Salary payable	400
Unearned service revenue	1 400
Capital	114 740
Drawings	2 860
Service revenue	16 600
Salary expense	3 100
Insurance expense	1 600
Depreciation expense	1 600
Advertising expense	830
Supplies expense	500

Required:

1. (a) Prepare the statement of financial performance (income statement) for the period ended 30 June 2021.

[Answer and show workings here]

KFC Company		
Statement of Profit and Loss		
For the period ended 30th June 2021		
Service Revenue		16,600
Expenses		
Supplies Expenses	500	
Salary Expenses	3,100	
Insurance Expenses	1,600	
Depreciation Expenses	1,600	
Advertising Expenses	830	(7,630)
Profit Before Tax		8,970
Tax Expenses		0

Profit	8,970
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(b) Prepare the statement of financial position (balance sheet) as at 30 June 2021.

[Answer and show workings here]

KFC Company	
Statement of financial position	
As at 30th June 2021	
Assets	
Cash	12,100
Account Receivables	14,300
Prepaid Insurance	700
Supplies	600
Building	96,900
Liabilities	
Account Payable	1,950
Salary Payable	400
Unearned service revenue	1,400
Total Liabilities	(3,750)
Net Asset	120,850
Equity	
Share Capital	114,740
Retained Earnings	8,970
Drawings	(2,860)
Total Equity	120,850

END OF EXAM PAPER

[Extra writing/ working space if required]

