



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
2019_2 EXAMINATION

Course Code: ACC812 **Credit Units:** 3
Course Title: INTRODUCTION TO ACCOUNTING
Time Allowed: 2 ½ Hrs

- Instructions:**
1. Attempt question number one (1) and any other three.
 2. Question number 1 is compulsory and carries 25 marks, while the other questions carry 15 marks each.
 3. Present all your points in coherent and orderly manner.
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QUESTION 1

The following Trial Balance was extracted from the books of DRIZZLE, a sole proprietor, whose business is known as DRIZZLE Enterprise as at 31st December, 20X1.

	DR	CR
	N ^o 000	N ^o 000
Capital		112,000
Motor Van	40,000	
Inventories	32,800	
Balance at bank	24,800	
Purchases	320,000	
Sales		446,000
Trade receivables	58,000	

Trade payables		33,120
Rent and rates	11,216	
Salaries	70,080	
General expenses	8,944	
Motor expenses	5,120	
Discount allowed	8,080	
Discount received	7,920	
Insurance	3,920	
Bad debts	6,080	
Drawings	10,000	
	<u>599,040</u>	<u>599,040</u>

The following matters are to be taken into account:

- Inventories in trade as at 31st December 2011 was ₦40,320,000
- Salaries and wages outstanding as at 31/12/11 amounted to ₦24,000,000.
- Insurance paid in advance was ₦1,400,000

One fourth of the general expenses were for private purposes.

Required:

Prepare a Statement of financial performance for the year ended 31st December, 20X1 and a Statement of financial position as at that date. **(20 marks)**

b) Briefly explain the following terms:

- Prime cost
- Overheads

(2.5 marks)

c) Financial statement audits play an important role in the functioning of our economy, and thus our society expects auditors to exercise professional judgement and maintain professional scepticism in their work. What is the auditing standard's provision for auditors' responsibilities?

(2.5 marks)

QUESTION 2

The following is a list of the balances appearing in the general ledger of TRINKLES at 30 September 20X2:

	₤
Capital	32,890
Drawings	5,200
Loan from Michael	10,000
Cash	510
Bank overdraft	1,720
Sales	45,600
Purchases	29,300
Return inwards	3,800
Return outwards	2,700
Carriage inwards	960
Carriage outwards	820
Trade receivables	7,390
Trade payables	4,620
Land and Building	26,000
Plant and Machinery	13,500
Listed Investments	4,800
Interest paid	1,200
Interest received	450
Rent received	630
Salaries	3,720
Repairs to building	810
Plant hire charges	360
Bank charges	240

Required: Prepare a trial balance for TRINKLES.

(10 marks)

b) Explain the main purpose of a trial balance.

(5 marks)

QUESTION 3

From the transactions in the table below, indicate one by one which account should be debited and credited. (4 marks)

	Debit	Credit
a) Bought office computer for cash		
b) Bought lorry for cash		
c) A loan of N20,000 is received by cheque from Ige		
d) Paid stationery by cheque		
e) Paid rates by cash		
f) Owner wrote a cheque to himself		
g) Owner put cash into the business		
h) Owner buys a washing machine for his home and pay by cheque		

b) Describe the nature of trade discount and cash discount. (6 marks)

c) Distinguish between cash transactions and credit transactions. (5 marks)

QUESTION 4

a) Big Sparkle is an electrical goods wholesaler. The transactions during June 20X3, which are all on credit, were as follows:

1 June	Bought on credit from Lightings Ltd various bulbs with a retail price of N1,000,000 and received 20 per cent trade discount
4 June	Sold goods on credit to Electric Reserves Ltd for N500,000 and allowed them 10 per cent trade discount on this amount
8 June	Sent Electric Reserves Ltd a credit note for goods returned that had a retail value of N300,000
10 June	Sold goods on credit to Swiggle Ltd for N600,000 after deducting 40 per cent trade discount
12 June	Purchased goods with a retail value of N1,000,000 from Swatch Ltd who allowed 30 percent trade discount.
15 June	Purchases on credit from Cables Ltd goods costing N550,000.
16 June	Sent Swiggles Ltd a credit note' for goods returned that had a retail value of N100,000.
18 June	Swatch Ltd sent us a credit note for N300,000 in respect of goods returned
19 June	Received a credit note for goods returned to Lightings Ltd that had a retail value of N250,000
25 June	Sold goods to Gross Retails Ltd on credit for N250,000
27 June	Sent Gross Retails Ltd a credit note for N50,000 to rectify an overcharge on their invoice

- 28 June** Sold goods on credit to Electric Reserves Ltd at a price of N569,000.
29 June Purchased on credit a motor van from Baba Ltd that cost N800,000.
30 June Sold on credit to Lagos Trading Co. some fixtures and fittings no longer required in the shop for 350,000. (Prior. to this the business owned fixtures costing N1,000,000.)

Required

Make the necessary entries in the books of prime entry. **(8 marks)**

b) What is a book of prime entry. Explain any 5 books of prime entry. **(7 marks)**

QUESTION 5

D. McDonald has an accounting year ending on 31 December. On 1 January 20X3 he purchased a machine for N1,000, which has an expected useful life of three years and an estimated residual value of N343.

Required

- i. Calculate the amount of depreciation in each year of the asset's useful life using: (i) the straight-line method; (ii) the reducing balance method; and (iii) the sum of the years' digits method. **(5 marks)**
- ii. Show the journal and ledger entries relating to the purchase and the provision for depreciation in each year (using the amounts calculated from the straight-line method). **(5 marks)**
- iii. Show the relevant entries on the statement of financial position for 20X4 (using the amounts calculated from the straight-line method). **(5 marks)**

QUESTION 6

The balance sheet below is extracted from the books of Kate Ltd.

Balance Sheet as at 31st December

	2008		2009	
	₦'000	₦'000	₦'000	₦'000
Fixed Asset at cost		8,300		5,600
Less Depreciation		<u>3,150</u>		<u>2,300</u>
		5,150		3,300

Current Assets:

Stock		5,516		7,204
			3,994	3,120
	<u>180</u>	3,814	<u>210</u>	2,910
		<u>90</u>		<u>60</u>
Cash		9,420		10,174

Current Liabilities due within one year:

Creditors		1,416		1,520
Taxation		735		580
Proposed Dividend		1,200		800
Bank Overdraft	<u>629</u>	<u>3,980</u>	<u>105</u>	<u>3,005</u>
			5,400	7,169
			10,590	10,489

Working Capital

Less: Creditors Failing

Due after one year		<u>500</u>		3,000
Loan Capital		<u>10,090</u>		7,469

Financed By:

Capital and Reserves:		₦ 000		₦ 000
Share Capital		5,000		4,000
Share Premium		1,000		-

Profit and Loss Account	<u>4,090</u>	<u>3,469</u>
	<u>10,090</u>	<u>7,469</u>
Profit for the year		
Less Taxation for the accounting year		2,556
	<u>735</u>	1,821
Undistributed profit b/f	3,469	5,290
Less: Proposed dividend	<u>1,200</u>	<u>4,090</u>

Notes:

1. An item of fixed asset which has cost of N1,120,000 and having been depreciated at N740,000 was sold during the year for N465,000. The profit thereof had been included in the net profit for the year.
2. 1,000,000 shares of N1.00 had been issued at a par of 1 per share.

From the information above, prepare a cash flow statement for the year ended 31st December 2009.
(15 marks)