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# O-LEVEL ACCOUNTING

**PAPER 2 (TOPICAL & YEARLY)**

**All Variants (2017 edition)**

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# PREFACE

Being in accordance with the GCE O Level – 7110 (syllabus followed in Pakistan), the book provides an opportunity to strengthen the level of understanding and preparation for Cambridge exams.

The other books available in the market is based on Singaporean exams and does not include exams taken in Pakistan for November session. Moreover that book includes past papers on yearly basis whereas the book under review categorises them on **topical as well as yearly** basis.

In the book under review, the varying topics of the last **nine** years' papers have been categorised in such a way that one can attain optimum skills in each of these. This can be very helpful in revising the syllabus and for preparing their final exams. In addition, the last **five** years' papers at the end of the book provide compact questions with given references.

It is, however, advised that students must supplement their studies with the textbooks recommended by their teachers, since it is by no means a replacement for a good book.

I am indeed grateful to the students and the teachers who motivated me to undertake this task. Any further suggestions for improvement and intimation of errors will be much appreciated and acknowledged.

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# CHAPTER 1 ACCOUNTING BASICS

## QUESTION 1 SPECIMEN 2010 P2 Q1 (e)

John Trail recently started using computerised accounts software. State two benefits John Trail gains from using Information and Communications Technology (ICT) in book-keeping. **[2]**

## QUESTION 2 SPECIMEN 2010 P2 Q4 (c & d)

Jack Lightbourne is concerned that his business is not performing as well as those of his competitors. He is considering changing some of the figures in the final accounts so the results look better. He suggested the following:

**1** Inventory should be valued at sales price because that is how much it will bring into the business.
**2** An existing provision for doubtful debts based on past experience should be eliminated.

Bad debts should only be written off when clearly a customer will not pay.

**REQUIRED**

**(c)** **(i)** State the bases on which inventory and trade receivables should be valued. **[2]**
**(ii)** Identify and explain the accounting concept which should be applied when valuing inventory and trade receivables. **[3]**

**(d)** Explain two reasons why an accountant would consider it is professionally unethical to improve the financial results of Jack Lightbourne by making the adjustments suggested. **[4]**

## QUESTION 3 SPECIMEN 2010 P2 Q5 (e)

Large companies apply international accounting standards when preparing their accounts.

**REQUIRED**

Explain two benefits of a system of international accounting standards. **[2]**

## QUESTION 4 MAY 2010 P22 Q1

Leung commenced business on 1 April 2010 with inventory $500 and bank $6 000.
Leung also has a bank loan of $3 500 which is repayable in full on 31 March 2013.

**REQUIRED**

**(a)** Calculate on 1 April 2010, the
**(i)** owner's capital **[1]**
**(ii)** capital employed **[1]**

In the first days of trading, Leung completed the following transactions.

**(i)** Paid rent, $200, by cheque.
**(ii)** Purchased goods, $1 500, on credit from Ying.
**(iii)** Sold goods costing $1 000, for $1 800, on credit to Tung.
**(iv)** Purchased office equipment, $4 000, paying by cheque.
**(v)** Paid his account to Ying of $1 500 and was allowed 4% cash discount.

**REQUIRED**

**(b)** Complete the table below. The first item has been completed as an example.

| Item | Book of prime entry | Effect on current assets | Effect on current liabilities | Effect on capital |
|---|---|---|---|---|
| **(i)** | Cash book | -$200 | No effect | -$200 |
| **(ii)** | | | | |
| **(iii)** | | | | |
| **(iv)** | | | | |
| **(v)** | | | | |

**[16]**

On 31 May 2010, Leung extracted the following balances from his books.

| | $ |
|---|---|
| Gross profit | 6 650 |
| Inventory | 4 600 |
| Bank loan | 3 500 |
| Trade Receivables | 1 200 |
| Trade Payables | 2 100 |
| Office equipment | 4 000 |
| Bank (Dr) | 1 750 |
| Discount received | 150 |
| Rent and expenses | 3 850 |
| Capital | ? |

**REQUIRED**

**(c)** Prepare the trial balance at 31 May 2010. **[10]**

## QUESTION 5 NOVEMBER 2010 P22 Q2 (d)/NOVEMBER 2011 P21 Q2 (f)/MAY 2012 P22 Q1 (e)

Jayani is considering the purchase of a new computerised book-keeping system.

State two benefits that Jayani will gain from using Information and Communications Technology (ICT) in book-keeping. **[2]**

## QUESTION 6 NOVEMBER 2011 P22 Q1 (e)

Complete the table below to show the effect of each transaction on the assets, liabilities and capital of Akrnal. The first transaction has been completed as an example.

| | | Assets | Liabilities | Capital |
|---|---|---|---|---|
| **(i)** | Purchased goods on credit $130 | *+$130* | *+$130* | *No effect* |
| **(ii)** | Goods costing $800, sold on credit for $1 130 | | | |
| **(iii)** | Paid creditor $500 by cheque, less 3% cash discount. | | | |

**[6]**

## QUESTION 7 NOVEMBER 2011 P22 Q4 (d)

Anika is considering taking the following actions to improve her working capital.

**1** Obtain a long-term loan of $10 000.

**2** Hold a sale of 'slow moving' inventory with original cost of $4 000, the sale to raise $3200 in cash.

**3** Purchase non-current assets of $8 000 and additional inventory of $2 000.

**4** Pay accounts payable of $5 000, taking a cash discount of 4%.

**REQUIRED**

Complete the following table showing the changes to working capital. The first transaction has been completed as an example.

| Action | (Increase, decrease, unchanged) | Amount of change ($) |
|---|---|---|
| Obtain a long term loan, $10 000. | *Increased* | *$10,000* |
| Sale of inventory (cost $4 000) for $3 200 cash. | | |
| Purchase non-current assets $8 000 and inventory $2 000, on credit | | |
| Pay accounts payable, $5 000, taking cash discount of 4%. | | |

**[6]**

## QUESTION 8 — MAY 2014 P22 Q1 (a & e)

**(a)** **(i)** Explain the difference between book-keeping and accounting. **[2]**

**(ii)** Explain the accounting entity principle. **[2]**

The following balances were extracted from the books of Fashran on 30 April 2014.

| | $ |
|---|---|
| Trade payables | 6 450 |
| Trade receivables | 9 230 |
| Revenue | 68 400 |
| Purchases | 29 800 |
| Inventory 1 May 2013 | 5 100 |
| Expenses | 22 350 |
| Bank overdraft | 830 |
| Non-current assets | 24 000 |
| Provision for depreciation – Non-current assets | 7 800 |

**REQUIRED**

**(e)** Prepare the trial balance showing Fashran's capital at 30 April 2014. **[5]**

## QUESTION 9 — MAY 2015 P21 Q2 (d)

State **two** benefits to Arden of using Information Communication Technology (ICT) in his bookkeeping and accounting. **[2]**

## QUESTION 10 — NOVEMBER 2015 P21 Q3 (d)

Aina and Barry are considering ways to improve the profit for the year of the business. They suggest the following changes.

**1** Remove the provision for doubtful debts from the income statement.
**2** Increase the value of the premises from cost to the current market value.
**3** Reduce the depreciation rate on computers from 30% to 10% per annum.
**4** Record expenses paid without adjustment for amounts owing.

**REQUIRED**

Name the accounting principle/concept which would **not** be complied with if Aina and Barry implemented the suggestions.

| | Suggestions | Accounting principle/concept |
|---|---|---|
| **1** | Remove the provision for doubtful debts from the income statement. | |
| **2** | Increase the value of the premises from cost to the current market value. | |
| **3** | Reduce the depreciation rate on computers from 30% to 10% per annum. | |
| **4** | Record expenses paid without adjustment for amounts owing. | |

**[4]**

## QUESTION 11 MAY 2015 P21 Q4 (d)

John is considering the following proposals to improve his profit for the year.

**1** Change the depreciation methods for non-current assets.
**2** Remove the provision for doubtful debts from the financial statements.
**3** Value the inventory at market price.
**4** Place a value on the skill of the workforce in the financial statements.
**5** Exclude expenses owing from the income statement.

**REQUIRED**

Name the accounting principle/concept which would **not** be complied with if each proposal was implemented. The first one has been completed as an example.

| | Proposal | Accounting principle/concept |
|---|---|---|
| **1** | Change the depreciation methods for non-current Assets | *Consistency* |
| **2** | Remove the provision for doubtful debts from the financial statements | |
| **3** | Value the inventory at market price | |
| **4** | Place a value on the skill of the workforce in the financial statements | |
| **5** | Exclude expenses owing from the income statement | |

## QUESTION 12 NOVEMBER 2016 P21 Q2 (e)

Valda is considering the use of Information and Communications Technology (ICT) to prepare her books of account.

**REQUIRED**

State **two** benefits to Valda of using Information and Communications Technology (ICT). **[2]**

## QUESTION 13 NOVEMBER 2016 P22 Q4 (c)

Zahin is considering changes to his accounting policies.

**REQUIRED**

Complete the table naming one principle or concept which has not been complied with if each proposed action is implemented. The first item has been completed as an example.

| Proposed action | Principle or concept |
|---|---|
| Revalue his premises, recording the increase in market value as a profit | *Historic cost* |
| Include a value for business reputation in his income statement | |
| Record his drawings in the income Statement | |
| Stop charging depreciation on non-current assets for the year | |
| Do not provide for trade debts which are probably irrecoverable | |

**[4]**

# CHAPTER 1 SOLUTIONS

## QUESTION 1 SPECIMEN 2010 P2 Q1 (e)

- ✓ Improved accuracy
- ✓ Faster to process transactions
- ✓ Ability to process high volumes of information
- ✓ Automatic performance of reconciliations
- ✓ Ease of storing large amounts of data
- ✓ Security of data on computer records

## QUESTION 2 SPECIMEN 2010 P2 Q4 (c & d)

**(c)** **(i)** Inventory - lower of cost and net realisable value
Trade receivables - expected collectible amount

**(ii)** Prudence
The correct valuation base ensures profit is not overstated and assets are not overstated
OR True and fair view is shown

**(d)**
- Accountants work with generally accepted rules such as accounting standards
- Accountants are expected by profession and public to produce reliable financial information.
- Professional standards are more important than individual organisations
- Preparing accounts for the temporary benefit of one individual or organisation, even an employer, is against these rules and training
- An accountant could be penalised legally or professionally for not following agreed practice.

## QUESTION 3 SPECIMEN 2010 P2 Q5 (e)

- They improve comparability between financial statements internationally
- Fewer rules make accounts more understandable to an international audience
- Information is more reliable with fewer rules and practices to follow
- Reduces variability in accounting rules and practices internationally.

## QUESTION 4 MAY 2010 P22 Q1

**(a)** **(i)** Owner's capital is $3 000 ($6 000 + $500 – $3 500)
**(ii)** Capital employed is $6 500 ($6 000 + $500)

**(b)**

| Item | Book of prime entry | Effect on current assets | Effect on current liabilities | Effect on capital |
|---|---|---|---|---|
| **(i)** | Cash book | – $200 | No effect | – $200 |
| **(ii)** | Purchase journal | + $1 500 | + $1 500 | No effect |
| **(iii)** | Sales journal | + $800 | No effect | + $800 |
| **(iv)** | Cash book | – $4 000 | No effect | No effect |
| **(v)** | Cash book | – $1 440 | – $1 500 | + $60 |

**(c)** **Trial balance at 31 May 2010**

| | $ | $ |
|---|---|---|
| Gross profit | | 6 650 |
| Inventory | 4 600 | |
| Bank loan | | 3 500 |
| Trade Receivables | 1 200 | |
| Trade Payables | | 2 100 |
| Office equipment | 4 000 | |
| Bank (Dr) | 1 750 | |
| Discount received | | 150 |
| Rent and expenses | 3 850 | |
| Capital | | 3 000 |
| | 15 400 | 15 400 |

## QUESTION 5NOVEMBER 2010 P22 Q2 (d)/NOVEMBER 2011 P21 Q2 (f)/MAY 2012 P22 Q

- Faster processing speed
- capable of handling vast quantities of data
- facilitate to store large amounts of data
- facilitate enhanced security of data
- Improved accuracy
- Automatic final accounts and reconciliations

## QUESTION 6 NOVEMBER 2011 P22 Q1 (e)

**Analysis of Transactions**

| | | Assets | Liabilities | Capital |
|---|---|---|---|---|
| **(i)** | Purchased goods on credit $130 | *+$130* | *+$130* | *No effect* |
| **(ii)** | Goods costing $800, sold on credit for $1 130 | +$1 130<br>–$800 | No effect | + $330<br>($1130–$800) |
| **(iii)** | Paid creditor $500 by cheque, less 3% cash discount. | –$485<br>($500–$15) | –$500 | +$15(500×3%) |

## QUESTION 7 NOVEMBER 2011 P22 Q4 (d)

**Effects of Various Transactions on Working Capital**

| **Action** | **(Increase, decrease, unchanged)** | **Amount of change ($)** |
|---|---|---|
| Obtain a long term loan, $10 000. | *Increased* | *$10,000* |
| Sale of inventory (cost $4 000) for $3 200 cash. | Decreased | $800($4 000 – $3 200) |
| Purchase non-current assets $8 000 and inventory $2 000, on credit | Decreased | $8 000 |
| Pay accounts payable, $5 000, taking cash discount of 4%. | Increase | $200 ($5 000 × 4%) |

## QUESTION 8 MAY 2014 P22 Q1 (a & e)

**(a)** **(i)** Book-keeping is usually restricted to the maintaining of all double entry records whereas the role of accounting starts once the book-keeper finishes his work and that mainly includes the preparation and interpretation of financial statements

**(ii)** Under 'accounting entity concept' the business is treated as being completely separate and distinct from its owner(s). So in business records, personal transactions of the owner(s) are not recorded.

**(e)**

**Fashran**
**Trial Balance at 30 April 2014**

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Trade payables | | 6 450 |
| Trade receivables | 9 230 | |
| Revenue | | 68 400 |
| Purchases | 29 800 | |
| Inventory 1 May 2013 | 5 100 | |
| Expenses | 22 350 | |
| Bank overdraft | | 830 |
| Non-current assets | 24 000 | |
| Provision for depreciation – Non-current assets | | 7 800 |
| Capital | | 7 000 |
| | 90 480 | 90 480 |

## QUESTION 9 MAY 2015 P21 Q2 (d)

- Increased accuracy
- Large storage capacity
- High Processing speed
- Enhanced security of data
- Quick production of financial statements and other reports

## QUESTION 10 NOVEMBER 2015 P21 Q3 (d)

| | Suggestions | Accounting concept |
|---|---|---|
| **1** | Remove the provision for doubtful debts from the income statement. | Prudence/Matching |
| **2** | Increase the value of the premises from cost to the current market value. | Historic cost |
| **3** | Reduce the depreciation rate on computers from 30% to 10% per annum. | Consistency or Prudence |
| **4** | Record expenses paid without adjustment for amounts owing. | Accrual/Matching |

## QUESTION 11 MAY 2015 P21 Q4 (d)

| | Proposal | Accounting concept |
|---|---|---|
| **1** | Change the depreciation methods for noncurrent Assets | Consistency |
| **2** | Remove the provision for doubtful debts from the financial statements | Prudence or Matching |
| **3** | Value the inventory at market price | Historic cost |
| **4** | Place a value on the skill of the workforce in the financial statements | Money measurement |
| **5** | Exclude expenses owing from the income statement | Matching/Accruals |

## QUESTION 12 NOVEMBER 2016 P21 Q2 (e)

The benefits of using ICT equipment are as follows

**(i)** The use of ICT helps to work many times faster than human beings.
**(ii)** It can easily process large volumes of data.
**(iii)** It produces accurate results i.e.it does not make mistakes if programmed correctly.
**(iv)** It reduces the staff requirements for businesses.
**(v)** Large volumes of data can be stored in a single disk which could equate to several drawers in a filing cabinet.
**(vi)** It facilitates the preparation and automatic production of reports and analysis.
**(vii)** It facilitates automatic backup of accounting data
**(viii)** It can process multiple transactions simultaneously

## QUESTION 13 NOVEMBER 2016 P22 Q4 (c)

| | **Principle or concept** |
|---|---|
| Revalue his premises recording the increase in market value as a profit | *Historic cost* |
| Include a value for business reputation in his income statement | Money measurement |
| Record his drawings in the income statement | Entity concept |
| To stop charging depreciation on non-current assets for the year | Consistency / Matching |
| Not to provide for trade debts which are probably irrecoverable. | Prudence **/** Matching |

# CHAPTER 2 BOOKS OF ORIGINAL ENTRY

## QUESTION 1 MAY 2009 P2 Q1

Sanjev is a retailer of furniture. Some of his business transactions, which occurred during the month of April 2009, are listed below:

**(i)** Paid wages, $150, by cheque.
**(ii)** Sold on credit to D Sallis for $1 650, goods which had cost $950.
**(iii)** Returned surplus furniture, $325, to Evans & Co.
**(iv)** Received cheque from a trade receivable, G Black, who settled her account of $1 500 in full less 3 % cash discount.
**(v)** Closed the disposal of motor vehicle account. The vehicle had a net book value of $1 400 when it was sold for $2 000.

**REQUIRED**

**(a)** Complete the table below. The first item has been completed as an example.

| **Item** | **Book of original entry $** | **Account to be debited and amount $** | **Account to be credited and amount $** | **Effect on profit for the year $** |
|---|---|---|---|---|
| **(i)** | Cash Book | Wages $150 | Bank $150 | – $150 |
| **(ii)** | | | | |
| **(iii)** | | | | |
| **(iv)** | | | | |
| **(v)** | | | | |

**[17]**

**(b)** Explain the purpose of the following documents.
**(i)** Invoice
**(ii)** Credit note **[4]**

## QUESTION 2 NOVEMBER 2009 P2 Q1

The following balances were taken from the books of Salim Electrical Supplies on15 September 2009.

| | **$** |
|---|---|
| Sales | 14 950 Cr |
| Inventory | 1 800 Dr |
| Eastern Retailers | 1 200 Dr |
| Khan Ltd | 2 150 Dr |

The following transactions took place:

September 16 Sold goods, list price $500 less 20 % discount, on credit to Khan Ltd
18 Received a cheque from Eastern Retailers in full settlement of their account less 5 % cash discount
24 Khan Ltd returned goods, list price $50, purchased on 16 September
25 Sold goods, $250, on credit to Eastern Retailers
26 Sold goods, $500, to Khan Ltd for cash
30 Khan Ltd ceased trading. Salim Electrical Supplies decided to write off the balance of Khan Ltd as a bad debt.

**Additional information**

**1** The inventory was valued at $1 470 on 30 September 2009.

**2** The financial year of Salim Electrical Supplies ends on 30 September 2009.

**REQUIRED**

**(a)** Name the type of discount that was deducted on 16 September 2009. **[1]**

**(b)** **(i)** Name the document issued to Khan Ltd on 24 September 2009. **[1]**

**(ii)** Name the document issued to Eastern Retailers on 25 September 2009 **[1]**

**(c)** Prepare the following ledger accounts.
Close the accounts at 30 September 2009 either by balancing the account or by transfer to the income statement, as appropriate.

**(i)** Sales account **[4]**

**(ii)** Inventory account **[3]**

**(iii)** Eastern Retailers account **[4]**

**(iv)** Khan account **[3]**

## QUESTION 3 — SPECIMEN 2010 P2 Q1 (a to d)

John Trail recently started using computerised accounts software. He printed out the following account:

**Marianne Hindle account**

| **2009** | | **Dr ($)** | **Cr ($)** | **Balance ($)** |
|---|---|---|---|---|
| 14 June | Purchases | | 950 | 950 |
| 04 July | Bank | 931 | | 19 |
| 04 July | Discount | 19 | | 0 |
| 12 July | Purchases | | 460 | 460 |

**REQUIRED**

**(a)** Identify two documents that Jack Trail would have used as a source of information in preparing the above account. Tick the appropriate boxes

| Document | √ |
|---|---|
| Cheque | |
| Credit note | |
| Debit note | |
| Invoice | |

**[2]**

**(b)** State the type of discount recorded in the ledger account on 4 July. **[1]**

**(c)** List the two books of original entry that would be used by John Trail if the transactions with Marianne Hindle had been recorded in a manual book-keeping system. **[2]**

**(d)** Identify the heading under which Marianne Hindle's account would be recorded in John Trail's balance sheet at 12 July. Tick the appropriate box

| **Heading** | **√** |
|---|---|
| Non-current assets | |
| Current assets | |
| Current liabilities | |
| Non-current liabilities | |

**[1]**

## QUESTION 4 — MAY 2010 P21 Q1 (a & b)

Rahman is a debtor in the books of Goldy. On 1 April 2010 the balance on the account of Rahman was $300.

The following transactions related to the account of Rahman for the month of April 2010.

| | | |
|---|---|---|
| April | 6 | Sold goods to Rahman, list price $500; allowed 20% trade discount. |
| | 12 | Rahman returned goods bought on 6 April, list price $150. |
| | 18 | Sold goods to Rahman, list price $200; allowed 15% trade discount. |
| | 30 | Rahman paid the balance on his account on 1 April by cheque and was allowed 3% cash discount. |

**REQUIRED**

**(a)** Prepare the account of Rahman in the books of Goldy for the month of April 2010. Balance the account and bring down the balance on 1 May 2010. **[7]**

**(b)** **(i)** State **two** reasons why trade discount was given to Rahman. **[2]**

**(ii)** Name the book of prime entry in which Goldy will record the transaction on 12 April. **[1]**

**(iii)** Name the document to be issued by Goldy for the returned goods on 12 April. **[1]**

## QUESTION 5 NOVEMBER 2010 P22 Q1

The following balances were taken from the books of Dilshan on 1 September 2010:

| | $ |
|---|---|
| Insurance | 280 Dr |
| Gul& Co | 450 Dr |

The following transactions took place during September 2010:

| | |
|---|---|
| September 1 | Dilshan paid, by cheque, the annual insurance premium, $360, for the year to 31 August 2011. |
| September 15 | Dilshan sold, on credit to Gul and Co, goods with a list price of $1 600 and allowed 15% trade discount. |
| September 20 | Gul& Co paid the balance at 1 September 2010 less 2% cash discount. Dilshan prepared his financial statements on 30 September 2010. |

**REQUIRED**

**(a)** **(i)** Name an alternative format to 'T' accounts. **[1]**

**(ii)** State one benefit of this format compared with 'T' accounts. **[2]**

**(b)** Prepare the following ledger accounts for the month of September 2010. Make any necessary transfers to the income statement. Balance the accounts and bring down the balance.

**(i)** Insurance account

**(ii)** Gul & Co account **[10]**

**(c)** State in which of Dilshan's ledgers the following accounts would appear.

| Account | Ledger |
|---|---|
| Insurance | |
| Gul & Co | |

**[2]**

**(d)** **(i)** Name the document which was sent to Gul & Co recording the transaction of 15 September 2010. **[1]**

**(ii)** Name the book of prime (original) entry in which Dilshan recorded this transaction. **[1]**

**(e)** **(i)** Explain why Dilshan did not include all of the insurance paid on 1 September 2010 in his income statement for the year ended 30 September 2010. **[2]**

**(ii)** State the accounting principle that Dilshan applied. **[1]**

## QUESTION 6 MAY 2011 P21 Q1

Joe's business had the following assets and liabilities on 31 March 2011:

| | $ |
|---|---|
| Non-current assets | 120 000 |
| Liabilities due within one year | 25 000 |
| Current assets | 35 000 |
| Liabilities due in over one year | 50 000 |

**REQUIRED**

**(a)** Calculate the:

**(i)** Capital

**(ii)** Capital employed **[2]**

During the month of April 2011, Joe recorded the following transactions:

1 Bought goods on credit from Henry, $200.

2 Sold goods costing $300, to Mary for the selling price of $500, on credit.

3 Sent Henry a cheque for $190 in full settlement of his debt of $200.

4 Mary returned goods with a selling price of $50.

**REQUIRED**

**(b)** Complete the grid below and show the amount and effect on capital of each transaction. The first transaction has been completed as an example.

| Transaction | Book of prime entry | Accounts to be debited | Accounts to be credited | Effect on capital ($) |
|---|---|---|---|---|
| **1** | *Purchases Journal* | *Purchases* | *Henry* | *$ Nil* |
| **2** | | | | |
| **3** | | | | |
| **4** | | | | |

**[12]**

**(c)** State the purpose of the three documents used in transactions 2 to 4 above.

**(i)** Invoice **[2]**

**(ii)** Cheque counterfoil **[2]**

**(iii)** Credit note **[2]**

## QUESTION 7 MAY 2011 P22 Q1 (d)

Place a tick (✓) in the appropriate box to show whether **each** of the following is an account, a book of prime entry or both an account and a book of prime entry. The first item has been completed as an example.

| | ledger account | book of prime entry | a ledger account and a book of prime entry |
|---|---|---|---|
| Inventory | ✓ | | |
| Purchases journal | | | |
| Cash book | | | |
| Provision for depreciation | | | |

**[3]**

## QUESTION 8 NOVEMBER 2011 P21 Q1 (a & b)

Christos is in business buying and selling goods on credit. The following details relate to the account of his customer Michelle for the month of July 2011.

| | | $ |
|---|---|---|
| July 1 | Michelle owed Christos | 200 |
| July 7 | Christos sent an invoice to Michelle | 150 |
| July 16 | Christos sent a credit note to Michelle | 8 |
| July 31 | Michelle sent Christos a cheque | 195 |
| July 31 | Christos allowed Michelle cash discount | 5 |

**REQUIRED**

**(a)** Prepare the account of Michelle in the books of Christos. Bring down the balance on 1 August 2011. **[6]**

**(b)** Name the book of prime entry in which Christos would record the transaction of 16 July 2011. **[1]**

## QUESTION 9 — MAY 2012 P21 Q1 (a to c)

Yang is a supplier of goods to Win. The following transactions took place in March 2012.

**2012**

March 01 Win owed $3 000 to Yang.

March 17 Win purchased goods from Yang with a list price of $1 000. Yang allowed Win 20% trade discount.

March 20 Win returned goods purchased on 17 March, list price of $200.

March 30 Win informed Yang that he had ceased trading and was unable to pay his debt in full. Win offered Yang $650 in full settlement, which Yang accepted.

**REQUIRED**

**(a)** Prepare the account of Win in the ledger of Yang. **[7]**

**(b)** State the name of the document that Yang would send to Win, following delivery of the goods returned on 20 March 2012. **[1]**

**(c)** State the name of the book of prime entry used to write off the bad debt. **[1]**

## QUESTION 10 — MAY 2012 P22 Q1 (b & c)

Giorgos commenced business on 1 May 2012 with the following assets and liabilities.

The following were some of the transactions completed in early May:

May 1 Paid Early Ltd $570, after deducting $30 cash discount

May 2 Bought office furniture on credit for $3000

May 3 Paid wages in cash, $250

May 4 Customer returned goods selling price $745 (cost price $630)

**REQUIRED**

**(b)** Complete the following table for the above transactions. The first item has been completed as an example. State clearly if there is no effect on owner's capital.

| | | **Source document** | **Book of prime entry** | **Effect on owner's capital** |
|---|---|---|---|---|
| May 1 | Paid Early Ltd $570, after deducting $30 cash discount | *Cheque counterfoil* | *Cash book* | *+$30* |
| May 2 | Bought office furniture on credit for $3000 | | | |
| May 3 | Paid wages in cash, $250 | | | |
| May 4 | Customer returned goods selling price $745 (cost price $630) | | | |

**[9]**

**(c)** Prepare the account of Early Ltd.
Balance the account on 31 May 2012 and bring down the balance. **[3]**

## QUESTION 11 NOVEMBER 2011 P22 Q1 (a to d)

Savvas is a supplier of goods to Akmal. Savvas allows 15% trade discount on all purchases made by Akmal. The following transactions took place in September 2011.

| | |
|---|---|
| September 1 | Akmal owed $1 500 to Savvas. |
| September 8 | Akmal purchased goods from Savvas with a list price of $800. |
| September 10 | Akmal returned some of the goods purchased on 8 September with a list price of $240. |
| September 25 | Akmal sent a cheque in full settlement for the amount owing on 1 September, less 4% cash discount. |

**REQUIRED**

**(a)** Write up the account of Savvas in the ledger of Akmal. Bring down the balance on 1 October 2011. **[7]**

**(b)** State **one** reason why Savvas offers Akmal a trade discount. **[2]**

**(c)** State the name of the document that Savvas would send to Akmal for the return of goods on 10 September 2011. **[1]**

**(d)** Place a tick (√) under the correct heading to show the ledger in which Akmal would record **each** of the following accounts.
Item **(i)** has been completed as an example.

| | **Account** | **Sales Ledger** | **Purchase Ledger** | **Nominal/general Ledger** |
|---|---|---|---|---|
| **(i)** | Sales | | | √ |
| **(ii)** | Savvas (Supplier) | | | |
| **(iii)** | Heat & light | | | |
| **(iv)** | Capital | | | |
| **(v)** | G.R.G. Ltd (Customer) | | | |

**[4]**

## QUESTION 12 NOVEMBER 2012 P21 Q1

The following balances were taken from the books of Asir on 1 July 2012.

| | **$** |
|---|---|
| Stationery | 60 Dr |
| Rapid Office Supplies | 400 Cr |

The following transactions took place in the three months ended 30 September 2012:

July 30 Paid the balance owing on 1 July 2012 to Rapid Office Supplies by cheque, after deducting 4% cash discount.

August 18 Purchased stationery on credit from Rapid Office Supplies, list price $500, and received 10% trade discount.

August 20 Purchased stationery for cash, $150.

September 3 Returned to Rapid Office Supplies stationery purchased on 18 August, list price $50.

Asir prepared his financial statements on 30 September 2012. On that date inventory of stationery was valued at $225.

**REQUIRED**

**(a)** State the meaning of the debit balance on the stationery account on 1 July 2012. **[1]**

**(b)** Prepare Stationery account and Rapid Office Supplies account. Balance the accounts at 30 September 2012 and show the transfer to the income statement where appropriate. **[9]**

**(c)** State the document sent by Rapid Office Supplies to Asir for the:

**(i)** Purchase of stationery on 18 August 2012 **[1]**

**(ii)** Return of stationery on 3 September 2012. **[1]**

**(d)** On 30 September 2012 Asir extracted a trial balance and prepared his financial statements. State the amount for stationery which would appear in **each** of the following

| | $ |
|---|---|
| Trial balance | |
| Income statement | |
| Balance sheet | |

**[3]**

**(e)** State the section of Asir's balance sheet on 30 September 2012 in which the following balances would appear:

**(i)** Stationery **[1]**

**(ii)** Rapid Office Supplies **[1]**

**(f)** **(i)** Explain why Asir did not transfer all of the stationery purchased in the three month period to the income statement. **[2]**

**(ii)** Name the accounting concept applied by Asir. **[1]**

## QUESTION 13 NOVEMBER 2012 P22 Q1

Jane started business on 1 October 2012 with a motor van, $1500, shop fixtures, $250, and cash, $500. To start the business she had borrowed $600 from Peter.

**REQUIRED**

**(a)** Complete the following trial balance showing clearly the value of the capital.

**Trial Balance at 1 October 2012**

| | **Debit ($)** | **Credit ($)** |
|---|---|---|
| Motor van | | |
| Shop fixtures | | |
| Cash | | |
| Peter – loan | | |
| Capital | | |
| | | |

**[4]**

**(b)** Jane buys and sells goods on credit. She maintains a full set of accounts.
The table below contains a list of transactions carried out in the first week of trading. Complete the table below for **each** transaction, stating clearly the amount, if any, of increase or decrease in the value of capital. The first transaction has been completed as an example.

| **Transaction** | **Book of original entry** | **Account to be debited** | **Account to be credited** | **Effect on capital $** |
|---|---|---|---|---|
| Purchased goods, $600, on credit from Punto | *Purchases journal* | *Purchases* | *Punto* | *No effect* |
| Sold goods for $750 (cost price $300) on credit to Yuen | | | | |

| | | | | |
|---|---|---|---|---|
| Sold all the shop fixtures for cash, $200 | | | | |
| Paid wages by cash, $150 | | | | |
| Yuen returned goods, valued at $100 | | | | |

**[16]**

## QUESTION 14 MAY 2013 P21 Q1 (a to e)

Mary started business on 1 January 2012, renting premises at $12 000 per annum, paid by instalments on the first day of January, April, July, and October.
On 1 August 2012 Mary let part of the premises to another business for $5400 per annum, to be paid by instalments on the first day of August, November, February, and May.
Mary paid the rent on 1 January, 1 April, and 1 July 2012.
The tenant paid rent to Mary on 1 August and 1 November 2012.

**REQUIRED**

**(a)** Prepare the rent payable account for the year ended 31 December 2012.
Balance the account and bring the balance down on 1 January 2013. **[5]**
**(b)** Explain the meaning of the balance on 1 January 2013. **[2]**
**(c)** Prepare the rent received account for the year ended 31 December 2012.
Balance the account and bring the balance down on 1 January 2013. **[5]**
**(d)** Explain the meaning of the balance on 1 January 2013. **[2]**
Mary bought a motor vehicle, $15 000.
**(e)** State the section of Mary's balance sheet (statement of financial position) where this will be shown. **[1]**

## QUESTION 15 MAY 2013 P21 Q2 (a & b)

The following are some of the transactions carried out by Tay, a retailer, during April 2013.
**(i)** Paid insurance $470 by cheque.
**(ii)** Sold goods on credit to J Dins, cost price $6 400 plus 80% mark up.
**(iii)** Paid amount owing to P Lee by cheque, $1 800, less 4% cash discount.
**(iv)** Returned damaged goods costing $590 to R & R Ltd.

**REQUIRED**

**(a)** Complete the table below for transactions **(ii)** to **(iv)**. Transaction **(i)** has been completed as an example.

| Transaction | Source document | Accounts debited and amount | Accounts credited and amount | Effect on profit for year |
|---|---|---|---|---|
| **(i)** | *Cheque counterfoil* | *Insurance $470* | *Bank $470* | *–$470* |
| **(ii)** | | | | |
| **(iii)** | | | | |
| **(iv)** | | | | |

**[12]**

**(b)** Explain why Tay received cash discount from P Lee. **[2]**

## QUESTION 16 MAY 2013 P22 Q1 (a to d)

Jamie provided the following information on 1 May 2012.

| | $ |
|---|---|
| Non-current assets at net book value | 14 000 |
| Trade receivables | 3 012 |
| Trade payables | 1 298 |
| Prepayment of insurance | 260 |
| Accrual for rent | 350 |
| Bank overdraft | 324 |
| Capital | ? |

**REQUIRED**

**(a)** Prepare an opening journal entry at 1 May 2012 to show the capital at that date. A narrative is required. **[4]**

The following payments were made during the year.

**1** Insurance, $840, including $300 for the quarter ended 30 June 2013.

**2** Rent, $11 350, not including $1 000 for the month of April 2013.

**REQUIRED**

**(b)** Prepare the insurance account for the year ended 30 April 2013. Balance the account and bring down the balance at 1 May 2013. **[5]**

**(c)** Prepare the rent account for the year ended 30 April 2013. Balance the account and bring down the balance on 1 May 2013. **[5]**

**(d)** State the accounting principle applied in **(b)** and **(c)**. **[2]**

## QUESTION 17 NOVEMBER 2013 P21 Q1

Mary buys goods on credit from Kim. Mary receives 14% trade discount on all purchases and takes advantage of the 5% cash discount offered for payment within 14 days. The following information is available:

| **2013** | |
|---|---|
| June 1 | Mary owed Kim $680 for goods purchased on 29 May 2013. |
| June 4 | Kim sold goods to Mary, list price $800. |
| June 5 | Mary sent Kim a cheque for the balance owing on 1 June. |
| June 8 | Mary returned goods purchased on 4 June, list price $100, to Kim. |
| June 28 | Kim sold further goods to Mary, list price $300. |
| June 29 | Kim received a cheque from Mary for goods purchased on 4 June. |
| June 30 | Mary received details from Kim of her transactions during the month. |

**REQUIRED**

**(a)** Name the document and book of prime entry used by Kim on the dates below: **[4]**

| Date | Business document | Book of prime entry |
|---|---|---|
| 4 June | | |
| 8 June | | |

**(b)** State the name of the document Mary received on 30 June. **[2]**

**(c)** Write up the ledger account of Mary in Kim's books. Balance the account and bring down the balance on 1 July 2013. **[10]**

**(d)** Indicate with a tick (✓) the ledger in which the following accounts would appear. The first item has been completed as an example.

| Account | Sales ledger | Purchase ledger | General ledger |
|---|---|---|---|
| Sales | | | ✓ |
| Drawings | | | |
| Kline Ltd (Supplier) | | | |
| Millar and Son (Customer) | | | |
| Insurance | | | |

**[4]**

**(e)** State **three** advantages of a computerised system of accounting. **[6]**

## QUESTION 18 — NOVEMBER 2013 P22 Q1 (a & b)

Kulbir commenced trading on 1 January 2013 with cash $350, bank $3 000, motor vehicle $6 500 and a loan from Sanjay of $5 000.

**REQUIRED**

**(a)** Prepare Kulbir's opening entries in the general journal and show her capital at 1 January 2013. A narrative is required. **[3]**

On 28 January 2013 Kulbir sold her motor vehicle to Aktar Allam on credit for $6 500. On the same day she purchased on credit from Aston Motors Limited a new vehicle for $10 000.

**(b)** Show the entries in the general journal to record the sale of the old motor vehicle and the purchase of the new motor vehicle. **[6]**

## QUESTION 19 — MAY 2014 P21 Q1 (d to f)

On 1 April, Trinity Stores owed Akma $800. During the month of April, Akma recorded the following transactions with Trinity Stores.

**8 April** Akma supplied goods to Trinity Stores with a list price of $900, less 20% trade discount.
**10 April** Trinity Stores returned goods supplied by Akma on 8 April with a list price of $100.
**18 April** Trinity Stores paid the balance due on 1 April less 2½% cash discount.

**REQUIRED**

**(d)** Prepare the account of Trinity Stores in the books of Akma. Balance the account and bring down the balance. **[6]**
**(e)** Name the document that Akma would issue to Trinity Stores on 10 April. **[1]**
**(f)** State **two** reasons why Akma might give Trinity Stores trade discount. **[2]**

## QUESTION 20 — MAY 2014 P21 Q2 (a)

Ghani is preparing his financial statements. He provided the following information.

| | | | |
|---|---|---|---|
| 1 April 2013 | Balances b/d | Insurance | $500 Dr |
| | | Commission receivable | $250 Cr |

Cash book entries 1 April 2013 to 31 March 2014:

| | |
|---|---|
| Insurance paid by cheque | $4 000 |
| Commission received by cheque | $1 200 |

On 31 March 2014:
1 Insurance of $150 was prepaid
2 Commission receivable of $200 was due to Ghani.

**REQUIRED**

Prepare the following ledger accounts, for the year ended 31 March 2014, showing the transfer to the income statement. Balance the accounts and bring down the balances. **[8]**

## QUESTION 21 MAY 2014 P22 Q1 (b to d)

Fashran sells goods to Hajar. On 1 April Hajar owed Fashran $2 100. The following transactions occurred in April 2014.

| | |
|---|---|
| 5 April | Fashran sold goods on credit to Hajar, list price $2 000, less 20% trade discount. |
| 7 April | Hajar returned goods purchased on the 5 April, list price $240. |
| 18 April | Hajar paid the balance of her account at 1 April and was allowed 2% cash discount. |

**REQUIRED**

**(b)** Prepare the account of Hajar in the ledger of Fashran for April 2014. Balance the account and bring down the balance. **[5]**

**(c)** Name the document that Fashran will issue on the following dates:

| **Date** | | **Document** |
|---|---|---|
| 5 April | Fashran sold goods on credit to Hajar | |
| 7 April | Hajar returned goods to Fashran purchased on the 5 April | |
| 30 April | Fashran issues a summary of Hajar's account for the month of April | |

**[3]**

**(d)** State the sub division of the ledger in which the account of Hajar would appear. **[1]**

## QUESTION 22 NOVEMBER 2014 P21 Q1 (a & b)

Adil's transactions in August 2014 included the following.

August 2 Purchased goods on credit from Tiara, $1 500, less 20% trade discount.
August 5 Returned goods to Tiara, list price $300.
August 7 Paid a cheque to Tiara, $500, after deducting $6 cash discount.
August 9 Sold non-current assets on credit to D Costa, at book value, $4 000.

**REQUIRED**

**(a)** Complete the following table for the above transactions. The first item has been completed as an example.

| Date | Source document | Book of prime entry | Effect on owner's capital |
|---|---|---|---|
| August 2 | *Purchase invoice* | *Purchases journal* | *No effect* |
| August 5 | | | |
| August 7 | | | |
| August 9 | | | |

**[9]**

**(b)** State the sub division of the ledger containing each of the following accounts:

| Account | Sub division of the ledger |
|---|---|
| Purchases | |
| Tiara | |
| Non-current assets | |
| D Costa | |

**[4]**

## QUESTION 23 NOVEMBER 2014 P22 Q1

Maria had the following assets and liabilities on 1 May 2014.

| | $ | |
|---|---|---|
| Inventory | 1 950 | |
| Amount payable – Midland Telecoms | 400 | |
| Bank | 550 | Dr |
| 5% Bank loan (repayable 30 April 2018) | 2 500 | |
| Fixtures and fittings | 1 500 | |

**REQUIRED**

**(a)** Calculate the following.

- **(i)** Owner's capital **[1]**
- **(ii)** Capital employed **[1]**

The following related to the purchase of telephone services for the three months to 31 July 2014.

| | |
|---|---|
| 31 May | Paid Midland Telecoms' balance on 1 May 2014 by cheque. |
| 26 June | Received a telephone bill from Midland Telecoms $1 200. |
| 15 July | Paid telephone bill received on 26 June by cheque less 2% cash discount. |
| 31 July | Prepared an income statement for the three months to 31 July 2014. It was estimated that $130 was owing. |

**REQUIRED**

**(b)** Prepare the following ledger accounts for the three months to 31 July 2014.

- **(i)** Midland Telecoms account **[5]**
- **(ii)** Telephone expenses account **[4]**

**(c)** Name and explain the accounting concept applied in estimating the telephone expenses owing on 31 July 2014. **[3]**

The following were some of the transactions which took place in July.

| | |
|---|---|
| 5 July | Purchased inventory on credit. |
| 10 July | Goods returned by a credit customer. |
| 20 July | Paid wages in cash. |
| 25 July | Disposed of fixtures and fittings on credit. |

**REQUIRED**

**(d)** Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

| | Source document | Book of prime entry |
|---|---|---|
| 5 July | *Purchase invoice* | *Purchases journal* |
| 10 July | | |
| 20 July | | |
| 25 July | | |

**[6]**

## QUESTION 24 MAY 2015 P21 Q1 (c)

The following were some of the transactions completed in April 2015.

**April 9** Sold goods on credit to Yash.
**April 11** Yash returned goods sold on 9 April as they were damaged.
**April 14** Paid wages by cheque.
**April 19** Purchased office fixtures on credit from Equip Limited.

**REQUIRED**
Complete the following table. The first item has been completed as an example.

| Date | Transaction | Source Document | Book of prime entry | Account Debited | Account Credited |
|---|---|---|---|---|---|
| April 9 | Sold goods on credit to Yash. | *Sales invoice* | *Sales journal* | *Yash* | *Sales* |
| April 11 | Yash returned goods sold on 9 April as damaged. | | | | |
| April 14 | Paid wages by cheque. | | | | |
| April 19 | Purchased office fixtures on credit from Equip Limited. | | | | |

**[12]**

## QUESTION 25 MAY 2015 P22 Q1

The following balances were available from the books of Priya on 1 April 2015.

| | $ |
|---|---|
| Putil | 3 000 credit |
| Wages | 1 750 debit |

The following transactions took place in April 2015.
**April 5** Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount
**April 8** Bought goods on credit from Putil, $800, less 20% trade discount
**April 19** Paid wages in cash $450
**April 23** Returned goods, list price $200, purchased on 5 April
**April 26** Sold a non-current asset at book value, $2 000, on credit

**REQUIRED**
**(a)** Complete the following table. The first item has been completed as an example. Where the owner's capital is not affected, write 'No effect'.

| Date | Transaction | Source document | Book of prime entry | Effect on owner's capital ($) |
|---|---|---|---|---|
| **April 5** | Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount | ***Cheque Counterfoil*** | ***Cash book*** | ***+30*** |
| **April 8** | Bought goods on credit from Putil, $800, less 20% trade discount | | | |
| **April 19** | Paid wages in cash $450 | | | |
| **April 23** | Returned goods, list price $200, purchased on 8 April | | | |
| **April 26** | Sold a non-current asset at book value, $2000, on credit | | | |

**[12]**

**(b)** Prepare the account of Putil for the month of April 2015. Balance the account and bring down the balance on 1 May 2015. **[5]**

Priya prepared her income statement on 30 April 2015. She calculated that wages, $150, were prepaid at that date.

**REQUIRED**

**(c)** Prepare the wages account for the month of April 2015 including the transfer to the income statement. Balance the account and bring down the balance on 1 May 2015. **[3]**

## QUESTION 26 NOVEMBER 2015 P21 Q1 (a to c)

The following balances were taken from the books of Krul Limited on 1 July 2015.

| | $ |
|---|---|
| Carston Garages account | 200 credit |
| Motor van expenses account | 3 200 debit |

The following transactions took place in July 2015.

**July 12** Paid Carston Garages their outstanding balance by cheque, deducting 3% cash discount
**July 15** Purchased fuel for the motor van, on credit, from Carston Garages, $120
**July 23** Paid motor van repairs by cheque, $200
**July 26** Purchased new motor van tyres from Carston Garages on credit, $400, less 15% trade discount

**Additional information**

**1** Krul Limited prepared financial statements on 31 July 2015.
**2** Motor van expenses, $125, were accrued on 31 July 2015.

**REQUIRED**

**(a)** Prepare the Carston Garages account for the year ended 31 July 2015. Balance the account and bring down the balance on 1 August 2015. **[5]**

**(b)** Prepare the motor van expenses account for the year ended 31 July 2015. Make the transfer to the income statement. Balance the account and bring down the balance on 1 August 2015. **[5]**

**(c)** Name the subdivision of the ledger containing **each** of the following accounts.

| Account | Subdivision of the ledger |
|---|---|
| Sales | |
| T Wong (credit customer) | |

**[2]**

## QUESTION 27 NOVEMBER 2015 P22 Q1 (c to f)

Abbie supplied the following information related to a credit customer, Izzat.

**October 1** Balance owed by Izzat to Abbie $750
**5** Sold goods on credit to Izzat, $1 800, less 20% trade discount
**6** Izzat returned goods, list price $350
**21** Received a cheque from Izzat, $800
**22** The remaining balance on Izzat's account was written off as irrecoverable.

**REQUIRED**

**(c)** **(i)** Name the subdivision of the ledger containing Izzat's account. **[1]**

**(ii)** Name the document issued by Abbie to Izzat on 5 October 2015. **[1]**

**(d)** Prepare the account of Izzat in the books of Abbie. **[5]**

**(e)** Prepare the general journal entry for the transaction on 22 October. A narrative **is** required. **[3]**

**(f)** State **three** benefits to Abbie of using Information Communication Technology (ICT) to record her transactions. **[3]**

## QUESTION 28 MAY 2016 P21 & 22 Q1

Faara had the following assets and liabilities on 1 May 2015.

| | $ |
|---|---|
| Inventory | 2 850 |
| Trade receivable – Jaafar | 600 |
| Other payables – Electricity | 200 |
| Bank | 450 Credit |
| 5% Bank loan (30 September 2020) | 5 000 |
| Motor vehicle | 4 500 |

**REQUIRED**

**(a)** Calculate Faara's capital. **[1]**

The following transactions related to the account of Jaafar for the month ended 31 May 2015.

May 04 Sold goods to Jaafar, list price $1 500, allowed 15% trade discount.

05 Jaafar returned goods purchased on 4 May, list price $120.

16 Jaafar paid the amount owing on 1 May by cheque and was allowed 2% cash discount.

**REQUIRED**

**(b)** Prepare the ledger account of Jaafar for the month of May 2015. Balance the account and bring down the balance on 1 June 2015. **[6]**

**(c)** State two possible reasons why Faara allowed trade discount to Jaafar. **[2]**

The following information related to the electricity account for the month ended 31 May 2015.

May 17 Paid for electricity by cheque $440

31 Prepared the income statement. It was estimated that $55 was owed for electricity at that date.

**REQUIRED**

**(d)** Prepare the electricity account for the month of May 2015. Balance the account and bring down the balance on 1 June 2015. **[4]**

**(e)** Name the accounting concept applied to the calculation of electricity expense when preparing the income statement at 31 May 2015. **[1]**

**(f)** Complete the following table for the transactions shown. Name the source document prepared by Faara and the book of prime entry used, and state the effect of the transaction on her capital. The first item has been completed as an example. **[6]**

| | | Source document | Book of prime entry | Effect on owner's capital ($) |
|---|---|---|---|---|
| May 9 | Sold goods on credit for $900, (cost $600) | *Sales invoice* | *Sales journal* | *+300* |
| 14 | Customer returned goods, bought by him on 9 May for $300. | | | |
| 21 | Paid wages in cash $150. | | | |

## QUESTION 29 NOVEMBER 2016 P21 Q1 (a, b & e)"

Gabi is in business buying and selling goods on credit. The following details relate to the account of her customer, Kacela, for the month of September 2016.

| | | | $ |
|---|---|---|---|
| September | 1 | Opening balance owed by Kacela to Gabi | 900 |
| | 9 | Invoice sent to Kacela | 730 |
| | 14 | Credit note sent to Kacela | 25 |
| | 30 | Cheque received and banked by Gabi | 860 |
| | 30 | Discount allowed by Gabi | 40 |

**REQUIRED**

**(a)** Prepare the account of Kacela in the books of Gabi. Balance the account and bring down the balance on 1 October. **[6]**

**(b)** Name the sub-division of Gabi's ledger which will contain the account of Kacela. **[1]**

**(e)** Complete the table for the transactions shown. Name the source document and the book of prime entry used by Gabi. The first item has been completed as an example.

| | Source document | Book of prime entry |
|---|---|---|
| Sold goods on credit | Sales invoice | Sales journal |
| Paid wages in cash | | |
| Purchased office fixtures on credit | | |
| Goods returned by a credit customer | | |

**[6]**

## QUESTION 30 NOVEMBER 2016 P22 Q1 (c)

Complete the following table for each of Fabio's transactions in July 2016. If the capital is not affected write 'No effect'. The first transaction has been completed as an example.

| Transaction | Book of prime entry | Account to be debited | Account to be credited | Effect on capital $ |
|---|---|---|---|---|
| Sold goods costing $900 on credit to Noah for the list price of $1 500. | *Sales Journal* | *Noah* | *Revenue (Sales)* | *+$600* |
| Noah returned goods with a list price of $100 | | | | |
| Paid Sophie a cheque for $610. | | | | |
| A debt, $230, owed by Zain was written off. | | | | |

**[12]**

## QUESTION 31 NOVEMBER 2016 P22 Q2 (a)

Lyana is preparing her financial statements. She provides the following information.

| | | |
|---|---|---|
| 1 October 2015 | Rent receivable account | $2 500 Credit |

The bank account contained the following entries.

| | |
|---|---|
| **Receipts** | |
| 31 December 2015 | Rent received by cheque $6 700 |
| 30 April 2016 | Rent received by cheque $3 100 |
| **Payments** | |
| 31 January 2016 | Refund for overpayment of rent receivable $700 |

**Additional information**

The rent receivable amounts to $12 000 a year.

**REQUIRED**

Prepare the rent receivable account for the year ended 30 September 2016. Make the transfer to the income statement and bring down the balance on 1 October 2016. **[5]**

# CHAPTER 2 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q1

**(a)**

| | Book of original entry | Debit | Credit | Effect on profit |
|---|---|---|---|---|
| **(i)** | Cash Book | Wages $150 | Bank $150 | – $150 |
| **(ii)** | Sales Journal | D Sallis $1 650 | Sales $1 650 | +$700 |
| **(iii)** | Returns Outwards Journal | Evans & Co $325 | Returns outwards $325 | Nil |
| **(iv)** | Cash Book | Bank $1 455<br>Discount Allowed $45 | G Black $1 500 | –$45 |
| **(v)** | General Journal | Vehicle Disposal $600 | Income statement $600 | +$600 |

**(b)** **(i)** An invoice may be of two types. The original sales invoice is given to the customer but its copy is retained by the business to record credit sales in the sales journal. The purchases journal is however prepared from original invoices received from suppliers. The form of invoices may vary from business to business but they all show the same basic information and include name of the supplier on the top with name of the customer (business), the rates, quantities and total amounts of goods purchased.

**(ii)** When goods are returned by a customer or a price adjustment is needed then supplier (seller) may issue to customer a **credit note** to reduce the amount owed by the customer. A copy of this credit note is retained by the supplier (seller) and is used to prepare returns inwards journal. As the purchase of a credit note is to reduce the amount owed by the customer so it should not be recorded in purchases or sales journals. Where goods returned were originally sold after allowing some trade discount, then like sales invoices amount entered in credit notes must be net of trade discount.

## QUESTION 2 NOVEMBER 2009 P2 Q1

**(a)** Trade or Quantity discount

**(b)** **(i)** Credit note

**(ii)** Sales invoice

**(c)**

**Sales account**

| **2009** | | **$** | **2009** | | **$** |
|---|---|---|---|---|---|
| Sep 30 | Income statement | 16 100 | Sep 16 | Balance b/f | 14 950 |
| | | | Sep 16 | Khan Ltd | 400 |
| | | | Sep 25 | Eastern Retailer | 250 |
| | | | Sep 26 | Cash | 500 |
| | | 16 100 | | | 16 100 |

**Inventory account**

| **2009** | | **$** | **2009** | | **$** |
|---|---|---|---|---|---|
| Sep 16 | Balance b/f | 1 800 | Sep 30 | Income statement | 1 800 |
| Sep 30 | Income statement | 1 470 | Sep 30 | Balance c/d | 1 470 |
| | | 3 270 | | | 3 270 |
| Oct 01 | Balance b/d | 1 470 | | | |

**Eastern Retailers account**

| | | | | | |
|---|---|---|---|---|---|
| **2009** | | **$** | **2009** | | **$** |
| Sep 16 | Balance b/d | 1 200 | Sep 18 | Bank | 1 140 |
| Sep 25 | Sales | 250 | Sep 18 | Discount (allowed) | 60 |
| | | | Sep 30 | Balance c/d | 250 |
| | | 1 450 | | | 1 450 |
| Oct 1 | Balance b/d | 250 | | | |

**Khan account**

| | | | | | |
|---|---|---|---|---|---|
| **2009** | | **$** | **2009** | | **$** |
| Sep 16 | Balance b/d | 2 150 | Sep 24 | Returns inwards | 40 |
| Sep 16 | Sales | 400 | Sep 27 | Bad debts | 2 510 |
| | | 2 550 | | | 2 550 |

## QUESTION 3 — SPECIMEN 2010 P2 Q1 (a to d)

**(a)** Cheque, Invoice
**(b)** Cash discount OR Settlement discount OR Discount received
**(c)** Cash book, Purchases journal
**(d)** Current liabilities

## QUESTION 4 — MAY 2010 P21 Q1 (a & b)

**(a)**

**Rahman Account**

| | | | | | |
|---|---|---|---|---|---|
| **2010** | | **$** | **2010** | | **$** |
| Apr 01 | Balance b/f | 300 | Apr 12 | Sales Returns [$150–($150×20%)] | 120 |
| 06 | Sales [$500 – ($500 × 20%)] | 400 | 30 | Bank [$300 – ($300 × 3%)] | 291 |
| 18 | Sales [$200 – ($200 × 15%)] | 170 | 30 | Discount Allowed ($300 × 3%) | 9 |
| | | | 30 | Balance c/d | 450 |
| | | 870 | | | 870 |
| May 01 | Balance b/d | 450 | | | |

**(b)** **(i)** To encourage Rahman to buy goods in larger quantity
To increase sales volume of Goldy's business
To recognise Rahman as a regular and worthy customer
**(ii)** Return inwards Journal or Return inwards Day Book
**(iii)** Credit Note

## QUESTION 5 — NOVEMBER 2010 P22 Q1

**(a)** **(i)** Running balance format or three column ledger
**(ii)** After each transaction the accounts balances are available
In computerised accounting accounts are usually prepared using this format

**(b)**

**Insurance account**

| | | | | | |
|---|---|---|---|---|---|
| **2010** | | **$** | **2010** | | **$** |
| Sep 01 | Balance (prepaid) b/f | 280 | Sep 30 | Income statement ($360 × $^1/_{12}$) | 30 |
| Sep 01 | Bank | 360 | Sep 30 | Balance c/d | 610 |
| | | 640 | | | 640 |
| Oct 01 | Balance b/d | 610 | | | |

**Gul & Co account**

| 2010 | | $ | 2010 | | $ |
|---|---|---|---|---|---|
| Sep 01 | Balance b/f | 450 | Sep 20 | Bank [$450 – ($450 × 2%)] | 441 |
| Sep 15 | Sales [$1 600 – ($1 600 × 15%)] | 1 360 | Sep 20 | Discount allowed ($450 × 2%) | 9 |
| | | | Sep 30 | Balance c/d | 1 360 |
| | | 1 810 | | | 1 810 |
| Oct 01 | Balance b/d | 1 360 | | | |

**(c)**

| Account | Ledger |
|---|---|
| Insurance | General or Nominal Ledger |
| Gul & Co | Sales Ledger |

**(d)** **(i)** Sales invoice
**(ii)** Sales journal or sales day book

**(e)** **(i)** The insurance is for a 12 month period to 31 August 2011. Only one month of this payment relates to the current year ended 30 September 2010.
**(ii)** Matching/Accrual concept

## QUESTION 6 — MAY 2011 P21 Q1

**(a)** **(i)** Capital = ($120 0000 + $35 000) – ($25 000 + $50 000)
= $80 000

**(ii)** Capital Employed = $80 000 [a(i)] + $50 000
= $130 000

**(b)**

| Transaction | Book of original entry | Debit entry | Credit entry | Effect on capital ($) |
|---|---|---|---|---|
| (i) | Purchases Journal | Purchases | Henry | Nil |
| (ii) | Sales journal | Mary | Sales | +200 ($500 – $300) |
| (iii) | Cash Book | Henry | Bank & Discount received | +10 |
| (iv) | Sales returns journal | Sales returns | Mary | -20 ($50 – $30) |

**(c)** **(i)** The invoice is a bill prepared by seller of goods or services and submitted to the buyer and contains a precise list of fees or charges
**(ii)** Cheque counterfoil **is that** part of a cheque book which is retained by Joe as a record of the payment to Henry.
**(iii)** A document sent by a seller to its customer, stating that a certain amount has been credited to his account mainly due to return of goods.

## QUESTION 7 — MAY 2011 P22 Q1 (d)

| | Ledger account | Book of prime entry | a ledger account and a book of prime entry |
|---|---|---|---|
| Inventory | ✓ | | |
| Purchase journal | | ✓ | |
| Cash book | | | ✓ |
| Provision for depreciation | ✓ | | |

## QUESTION 8 NOVEMBER 2011 P21 Q1 (a & b)

**(a)** **Books of Christos**

**Michelle Account**

| | | $ | | | $ |
|---|---|---|---|---|---|
| Jul 1 | Balance b/f | 200 | Jul 16 | Return inwards | 8 |
| Jul 7 | Sales | 150 | Jul 31 | Bank | 195 |
| | | | Jul 31 | Discount Allowed | 5 |
| | | | Jul 31 | Balance c/d | 142 |
| | | 350 | | | 350 |
| Aug 1 | Balance b/d | 142 | | | |

**(b)** Return inwards journal

## QUESTION 9 MAY 2012 P21 Q1 (a to c)

**(a)** **Books of Yang**

**Win account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| Mar 01 | Balance b/f | 3 000 | Mar 20 | Return in [$200 – ($200 × 20%)] | 160 |
| Mar 17 | Sales [$1 000 – ($1 000 × 20%)] | 800 | Mar 30 | Bank | 650 |
| | | | Mar 30 | Bad debts (balancing figure) | 2 990 |
| | | 3 800 | | | 3 800 |

**(b)** Credit note

**(c)** General Journal

## QUESTION 10 MAY 2012 P22 Q1 (b & c)

| **(b)** | | **Source document** | **Book of prime entry** | **Effect on owner's capital** |
|---|---|---|---|---|
| May 1 | *Paid Early Ltd $570, after deducting $30 cash discount* | *Cheque counterfoil* | *Cash book* | *+$30* |
| May 2 | Bought office furniture on credit for $3 000 | invoice | General Journal | No effect |
| May 3 | Paid wages in cash, $250 | Payment voucher or wages sheet | Cash Book | –$250 |
| May 4 | Customer returned goods selling price $745 (cost price $630) | Copy of credit note sent | Returns Inwards Journal | –$115 |

**(c)** **Early Ltd account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| May 01 | Bank | 570 | May 01 | Balance b/f | 1 200 |
| May 01 | Discount received | 30 | | | |
| May 31 | Balance c/d | 600 | | | |
| | | 1 200 | | | 1 200 |
| | | | Jun 01 | Balance b/d | 600 |

## QUESTION 11 — NOVEMBER 2011 P22 Q1 (a to d)

**(a)** **Savvas Account**

| **2011** | | **$** | **2011** | | **$** |
|---|---|---|---|---|---|
| Sep 08 | Returns out [$240–(240×15%)] | 204 | Sep 01 | Balance b/f | 1 500 |
| Sep 25 | Bank [($1 500–($1 500×4%)] | 1 440 | Sep 08 | Purchases {$800 – ($800 × 15%)] | 680 |
| Sep 25 | Discount received ($1 500×4%) | 60 | | | |
| Sep 30 | Balance c/d | 476 | | | |
| | | 2 180 | | | 2 180 |
| | | | Oct 01 | Balance b/d | 476 |

**(b)** Savvas offers Akmal a trade discount as goods are sold to a fellow trader or giving trade discount to customers is a custom of trade

**(c)** Credit note

**(d)** **Analysis of Account Balances**

| | Account | Sales Ledger | Purchase Ledger | Nominal/general Ledger |
|---|---|---|---|---|
| **(i)** | Sales | | | √ |
| **(ii)** | Savvas (Supplier) | | √ | |
| **(iii)** | Heat & light | | | √ |
| **(iv)** | Capital | | | √ |
| **(v)** | G.R.G. Ltd (Customer) | √ | | |

## QUESTION 12 — NOVEMBER 2012 P21 Q1

**(a)** A debit balance represents an asset so it either represents unused stock of stationery worth $60 or prepayment for stationery amounting to $60.

**(b)** **Stationery account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| July 01 | Balance b/f | 60 | Sep 03 | Rapid Supplies [$50 – ($50×10%)] | 45 |
| Aug 18 | Rapid Office Supplies (500×90%) | 450 | Sep 30 | Income statement (balancing fig.) | 390 |
| Aug 20 | Cash | 150 | Sep 30 | Balance c/d | 225 |
| | | 660 | | | 660 |
| Oct 1 | Balance b/d | 225 | | | |

**Rapid Office Supplies account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| Jul 30 | Discount received ($400 × 4%) | 16 | Jul 01 | Balance b/f | 400 |
| Jul 30 | Bank ($400 – $16) | 384 | Aug 18 | Stationery [$500 – ($500 × 10%)] | 450 |
| Sep 03 | Stationery [$50 – ($50 × 10%)] | 45 | | | |
| Sep 30 | Balance c/d (balancing figure) | 405 | | | |
| | | 850 | | | 850 |
| | | | Oct 01 | Balance b/d | 405 |

**(c)** **(i)** Invoice
**(ii)** Credit note

| | **$** |
|---|---|
| Trial balance (amount paid) | 615 |
| Income statement (current year expense) | 390 |
| Balance sheet (closing inventory) | 225 |

**(e)** **(i)** Current assets
**(ii)** Current liabilities

**(f)** **(i)** Under Matching concept only those items are matched against current revenue which have been used up. As a result, only the used part of stationery was matched against current year's revenue.
**(ii)** Matching (Accruals) concept

## QUESTION 13 NOVEMBER 2012 P22 Q1

**(a)** **Trial Balance at 1 October 2012**

| | Debit ($) | Credit ($) |
|---|---|---|
| Motor van | 1500 | |
| Shop fixtures | 250 | |
| Cash | 500 | |
| Peter – loan | | 600 |
| Capital | | 1 650 |
| | 2 250 | 2 250 |

**(b)**

| Transaction | Book of original entry | Account to be debited | Account to be credited | Effect on capital $ |
|---|---|---|---|---|
| Purchased goods, $600, on credit from Punto | *Purchases journal* | *Purchases* | *Punto* | *No effect* |
| Sold goods for $750 (cost price $300) on credit to Yuen | Sales journal | Yuen | Sales | +$450 |
| Sold all the shop fixtures for cash, $200 | Cash book | Cash | Fixtures (Disposals) | –$50 |
| Paid wages by cash, $150 | Cash book | Wages | Cash | –$150 |
| Yuen returned goods, valued at $100 | Sales returns journal | Sales returns | Yuen | –$60 |

## QUESTION 14 MAY 2013 P21 Q1 (a to e)

**(a)** **Rent Payable account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| Jan 01 | Bank | 3000 | Dec 31 | Income statement | 12 000 |
| Apr 01 | Bank | 3 000 | | | |
| Jul 01 | Bank | 3 000 | | | |
| Dec 31 | Balance c/d (balancing figure) | 3 000 | | | |
| | | 12 000 | | | 12 000 |

**(b)** Accrual for rent expense of $3 000 (other payables)

**(c)** **Rent Received account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| Dec 31 | Income statement($5 400×$^{5}/_{12}$) | 2 250 | Aug 01 | Bank ($5 400 × $^{1}/_{4}$) | 1 350 |
| Dec 31 | Balance c/d (balancing figure) | 450 | Nov 01 | Bank $5 400 × $^{1}/_{4}$) | 1 350 |
| | | 2 700 | | | 2 700 |

**(d)** Rent Received in advance (other payables) of $450

**(e)** Non-current asset

## QUESTION 15 MAY 2013 P21 Q2 (a & b)

**(a)**

| Transaction | Source document | Accounts debited and amount | Accounts credited and amount | Effect on profit for year |
|---|---|---|---|---|
| **(i)** | Cheque counterfoil | Insurance \$470 | Bank \$470 | –\$470 |
| **(ii)** | Sales invoice | J Dins \$11 520 (W 1) | Sales \$11 520 (6400+5120) | +\$5 120 (6400×80%) |
| **(iii)** | Cheque counterfoil | P Lee \$1 800 | Bank \$1 728<br>Discount received \$72 | +\$72 |
| **(iv)** | Credit note | R & R Ltd \$590 | Purchase returns \$590 | Nil |

**(b)** Tay received discount as a reward for making early payment to P Lee.

## QUESTION 16 MAY 2013 P22 Q1 (a to d)

**(a)** **Journal**

| | Dr (\$) | Cr (\$) |
|---|---|---|
| Non-current assets at NBV | 14 000 | |
| Trade receivables | 3 012 | |
| Prepaid Insurance | 260 | |
| Trade payables | | 1 298 |
| Accrued rent | | 350 |
| Bank overdraft | | 324 |
| Capital (balancing figure) | | 15 300 |
| (Entry made to record purchase of business) | | |

**(b)** **Insurance account**

| | | | | | |
|---|---|---|---|---|---|
| **2012** | | **\$** | **2013** | | **\$** |
| May 01 | Balance (prepayment) b/d | 260 | Apr 30 | Income statement (Bal. figure) | 900 |
| **2013** | | | Apr 30 | Balance (prepaid) c/d (300× $^2/_3$) | 200 |
| Apr 30 | Bank | 840 | | | |
| | | 1 100 | | | 1 100 |
| May 01 | Balance b/d | 200 | | | |

**(c)** **Rent Payable account**

| | | | | | |
|---|---|---|---|---|---|
| **2013** | | **\$** | **2012** | | **\$** |
| Apr 30 | Bank | 11 350 | May 1 | Balance (accrued) b/d | 350 |
| Apr 30 | Balance (accrued) c/d | 1 000 | 2013 | | |
| | | | Apr 30 | Income statement (bal. figure) | 12 000 |
| | | 12 350 | | | 12 350 |
| | | | May 1 | Balance b/d | 1 000 |

**(d)** Matching or accrual principle

## QUESTION 17 NOVEMBER 2013 P21 Q1

**(a)**

| Date | Business document | Book of prime entry |
|---|---|---|
| 4 June | Invoice | Sales journal |
| 8 June | Credit note | Sales returns journal |

**(b)** Statement of account.

**(c)** **Mary's Account**

| **2013** | | **$** | **2013** | | **$** |
|---|---|---|---|---|---|
| Jun 01 | Balance b/f | 680 | Jun 05 | Bank ($680 – $34) | 646 |
| Jun 04 | Sales [$800 – ($800 × 14%)] | 688 | Jun 05 | Discount allowed ($680 × 5%) | 34 |
| Jun 28 | Sales [$300 – ($300 × 14%)] | 258 | Jun 08 | Sales returns [$100 – ($100 × 14%)] | 86 |
| | | | Jun 29 | Bank ($688 – $86) | 602 |
| | | | Jun 30 | Balance c/d | 258 |
| | | 1 626 | | | 1 626 |
| Jul 01 | Balance b/d | 258 | | | |

**(d)**

| **Account** | **Sales ledger** | **Purchase ledger** | **General ledger** |
|---|---|---|---|
| Sales | | | **GIVEN** |
| Drawings | | | ✓ |
| Kline Ltd (Supplier) | | ✓ | |
| Millar and Son (Customer) | ✓ | | |
| Insurance | | | ✓ |

**(e)**
- Accuracy of information
- Data needs to be entered once
- High speed of processing information
- ability to process high volumes of information
- ability to performs reconciliation statements
- large storage capacity
- availability of account balances at all times

## QUESTION 18 NOVEMBER 2013 P22 Q1 (a & b)

**(a)** **General Journal**

| **2013** | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| Jan 1 | Cash | 350 | |
| | Bank | 3 000 | |
| | Motor vehicle | 6 500 | |
| | Loan | | 5 000 |
| | Capital | | 4 850 |
| | (Entry passed to start business by Kulbir) | | |

**(b)** **General Journal**

| **2013** | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| Jan 28 | Vehicle disposal | 6 500 | |
| | Motor vehicle | | 6 500 |
| | Aktar Allam | 6 500 | |
| | Vehicle disposal | | 6 500 |
| Jan 28 | Motor vehicle | 10 000 | |
| | Aston Motors Limited | | 10 000 |

## QUESTION 19 — MAY 2014 P21 Q1 (d to f)

**(d)** **Trinity Stores account**

| 2014 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f | 800 | Apr 10 | Sales returns [$100 – ($100 × 20%)] | 80 |
| Apr 08 | Sales [$900 – ($900 × 20%)] | 720 | Apr 18 | Discount allowed ($800 × 2.5%)] | 20 |
| | | | Apr 18 | Bank ($800 – $80) | 780 |
| | | | Apr 30 | Balance c/d | 640 |
| | | 1 520 | | | 1 520 |
| May 01 | Balance b/d | 640 | | | |

**(e)** Credit note

**(f)**
- As an incentive for bulk purchases
- To enable Trinity Stores to sell and make a profit
- To make it regular customer

## QUESTION 20 — MAY 2014 P21 Q2 (a)

**(a)** **Insurance account**

| 2013 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f | 500 | Mar 31 | Income statement(balancing figure) | 4350 |
| **2014** | | | Mar 31 | Balance c/d (prepayment) | 150 |
| Mar 31 | Bank | 4 000 | | | |
| | | 4 500 | | | 4500 |

**Commission receivable account**

| 2014 | | $ | 2013 | | $ |
|---|---|---|---|---|---|
| Mar 31 | Income Statement (bal. figure) | 1 650 | Apr 01 | Balance b/f | 250 |
| | | | **2014** | | |
| | | | Mar 31 | Bank | 1 200 |
| | | | Mar 31 | Balance c/d (arrears) | 200 |
| | | 1 650 | | | 1650 |

## QUESTION 21 — MAY 2014 P22 Q1 (b to d)

**(b)** **Hajar account**

| 2014 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f | 2 100 | Apr 07 | Returns in [$240 – ($240 × 20%)] | 192 |
| Apr 05 | Sales [$2 000 – ($2 000 × 20%)] | 1 600 | Apr 18 | Discount received ($2 100 × 2%) | 42 |
| | | | Apr 18 | Bank ($2 100 – $42) | 2 058 |
| | | | Apr 30 | Balance c/d | 1 408 |
| | | 3 700 | | | 3 700 |
| May 01 | Balance b/d | 1 408 | | | |

**(c)**

| Date | | Document |
|---|---|---|
| Apr 05 | Fashran sold goods on credit to Hajar | Sales invoice |
| Apr 07 | Hajar returned goods to Fashran purchased on the 5 April | Credit note |
| Apr 30 | Fashran issues a summary of Hajar's account for the month of April | Statement of account |

**(d)** Sales ledger

## QUESTION 22 — NOVEMBER 2014 P21 Q1 (a & b)

**(a)**

| Date | Source document | Book of prime entry | Effect on owner's capital |
|---|---|---|---|
| August 2 | *Purchase invoice* | *Purchases journal* | *No effect* |
| August 5 | Debit note | Purchase returns journal | No effect |
| August 7 | Cheque counterfoil (stub) | Cash book | Increase |
| August 9 | Sales invoice | General journal | No effect |

**(b)**

| Account | Sub division of the ledger |
|---|---|
| Purchases | General ledger |
| Tiara | Purchases ledger |
| Non-current assets | General ledger |
| D Costa | Sales ledger |

## QUESTION 23 — NOVEMBER 2014 P22 Q1

**(a) (i)** **Calculation of owner's capital**

| | $ | $ |
|---|---|---|
| **Assets:** | | |
| Inventory | 1 950 | |
| Bank | 550 | |
| Fixtures and fittings | 1 500 | 4 000 |
| **Liabilities:** | | |
| Trade payable | 400 | |
| 5% Bank loan | 2 500 | (2 900) |
| Owner's capital | | 1 100 |

**(ii)** **Calculation of capital employed**

| | $ |
|---|---|
| Owner's capital | 1 100 |
| 5% Bank loan (repayable 30 April 2018) | 2 500 |
| Capital Employed | 3 600 |

**(b)** **Midland Telecoms account**

| 2014 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| May 31 | Bank | 400 | May 01 | Balance b/f | 400 |
| Jul 15 | Bank ($1 200 – $24) | 1 176 | Jun 26 | Telephone expenses a/c | 1 200 |
| Jul 15 | Discount received ($1 200 × 2%) | 24 | | | |
| | | 1 600 | | | 1 600 |

**Telephone expenses account**

| 2014 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| Jun 26 | Midland Telecoms | 1 200 | July 31 | Income statement (bal. figure) | 1 330 |
| Jul 31 | Balance c/d | 130 | | | |
| | | 1 330 | | | 1 330 |

**(c)** Matching (accruals) concept under which the telephone expense incurred in the current quarter is matched against the revenue earned in the same quarter.

**(d)**

| | Source document | Book of prime entry |
|---|---|---|
| 5 July | *Purchase invoice* | *Purchases journal* |
| 10 July | Credit note | Return inwards journal |
| 20 July | Pay slip/wages sheet | Cash Book |
| 25 July | Sales invoice | General journal |

## QUESTION 24 MAY 2015 P21 Q1 (c)

| Date | Transaction | Source Document | Book of prime entry | Account Debited | Account Credited |
|---|---|---|---|---|---|
| April 9 | Sold goods on credit to Yash. | Sales invoice | Sales journal | Yash | Sales |
| April 11 | Yash returned goods sold on 9 April as damaged. | Credit note | Sales returns journal | Sales returns | Yash |
| April 14 | Paid wages by cheque. | Wage sheet | Cash Book | Wages | Bank |
| April 19 | Purchased office fixtures on credit from Equip Ltd. | Purchase invoice | General Journal | Office fixtures | Equip Ltd |

## QUESTION 25 MAY 2015 P22 Q1

**(a)**

| Date | Transaction | Source Document | Book of prime Entry | Effect on owner's capital |
|---|---|---|---|---|
| April 5 | Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount | *Cheque Counterfoil* | *Cash book* | +30 |
| April 8 | Bought goods on credit from Putil, $800, less 20% trade Discount | Purchase invoice | Purchases journal | No effect |
| April 19 | Paid wages in cash $450 | Wage sheet | Cash book | –450 |
| April 23 | Returned goods, list price $200, purchased on 5 April | Credit note | Purchases returns journal | No effect |
| April 26 | Sold a non-current asset at book value, $2 000, on credit | Invoice | General journal | No effect |

**(b)** **Putil account**

| 2015 | | $ | 2015 | | $ |
|---|---|---|---|---|---|
| Apr 05 | Discount received (3000×50%×2%) | 30 | Apr 01 | Balance b/f | 3 000 |
| Apr 05 | Bank [($3 000 × 50%) – $30] | 1 470 | Apr 08 | Purchases [$800– ($800 ×20%)] | 640 |
| Apr 23 | Returns out [$200 – ($200 × 20%)] | 160 | | | |
| Apr 30 | Balance c/d | 1 980 | | | |
| | | 3 640 | | | 3 640 |
| | | | May 01 | Balance b/d | 1 980 |

**(c)** **Wages account**

| 2015 | | $ | 2015 | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f (prepayment) | 1 750 | Apr 30 | Income statement (bal. figure) | 2 050 |
| Apr 19 | Cash | 450 | Apr 30 | Balance c/d (prepayment) | 150 |
| | | 2 200 | | | 2 200 |
| May 1 | Balance b/d | 150 | | | |

## QUESTION 26 NOVEMBER 2015 P21 Q1 (a to c)

**(a)** **Carston Garages account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Jul 12 | Discount received ($200 × 3%) | 6 | Jul 01 | Balance b/f | 200 |
| Jul 12 | Bank ($200 – $6) | 194 | Jul 15 | Motor van expenses | 120 |
| Jul 31 | Balance c/d | 460 | Jul 26 | Motor expenses [$400–(400×15%)] | 340 |
| | | 660 | | | 660 |
| | | | Aug 1 | Balance b/d | 460 |

**(b)** **Motor van expenses account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Jul 01 | Balance b/d | 3 200 | Jul 31 | Income statement (balancing figure) | 3 985 |
| Jul 15 | Carston Garages (fuel) | 120 | | | |
| Jul 23 | Bank (repairs) | 200 | | | |
| Jul 26 | Carston Garages ($400 × 85%)] | 340 | | | |
| Jul 31 | Balance b/d | 125 | | | |
| | | 3 985 | | | 3 985 |
| | | | Aug 1 | Balance b/d | 125 |

**(c)**

| **Account** | **Subdivision of the ledger** |
|---|---|
| Sales | General Ledger |
| T Wong (credit customer) | Sales Ledger |

## QUESTION 27 NOVEMBER 2015 P22 Q1 (c to f)

**(c)** **(i)** Sales ledger
**(ii)** Sales invoice

**(d)** **Izzat account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Oct 01 | Balance b/f | 750 | Oct 06 | Sales returns [$350–($350× 20%)] | 280 |
| 05 | Sales [$1 800 – ($1 800 × 20%)] | 1 440 | 21 | Bank | 800 |
| | | | 22 | Bad debts (balancing figure) | 1 110 |
| | | 2 190 | | | 2 190 |

**(e)** **General journal**

| **2015** | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| Oct 22 | Bad debts | 1 110 | |
| | Izzat | | 1 110 |
| | (Balance owing from Izzat written off as irrecoverable) | | |

**(f)** Increased accuracy
Large storage capacity
High Processing speed
Enhanced security of data
Quick production of financial statements and other reports

## QUESTION 28 MAY 2016 P21 & 22 Q1

**(a) Statement to calculate Faara's capital at 1 May 2015**

| | $ |
|---|---|
| Assets at 1 May 2015 ($2 850 + $600 + $4 500) | 7 950 |
| Liabilities at 1 May 2015 ($200 + $450 + $5 000) | 5 650 |
| Capital at 1 May 2015 | 2 300 |

**(b) Jaafar account**

| 2015 | | $ | 2015 | | $ |
|---|---|---|---|---|---|
| May 01 | Balance b/f | 600 | May 05 | Sales returns [$120–($120 × 15%)] | 102 |
| May 04 | Sales [$1 500 – ($1 500 × 15%)] | 1 275 | May 16 | Bank [$600 – ($600 × 2%)] | 588 |
| | | | | Discount allowed ($600 × 2%) | 12 |
| | | | May 31 | Balance c/d | 1 173 |
| | | 1 875 | | | 1 875 |
| Jun 01 | Balance b/d | 1 173 | | | |

**(c)** To improve purchasing power of Jaafar resulting in bulk purchases by him.
To develop long lasting relationships with her loyal customers like Jafaar
To sell excessive or slow moving inventory

**(d) Electricity account**

| 2015 | | $ | 2015 | | $ |
|---|---|---|---|---|---|
| May 17 | Bank | 440 | May 01 | Balance b/f | 200 |
| May 31 | Balance c/d (owing) | 55 | May 31 | Income Statement (balancing fig.) | 295 |
| | | 495 | | | 495 |
| | | | Jun 01 | Balance b/d | 55 |

**(e)** Matching / Accrual concept

| (f) | | Source document | Book of prime entry | Effect on owner's capital ($) |
|---|---|---|---|---|
| 9 May | Sold goods on credit for $900, (cost $600). | *Sales invoice* | *Sales journal* | *+300* |
| 14 May | Customer returned goods, bought by him on 9 May, for $300. | Credit note | Sales returns journal | –100 |
| 21 May | Paid wages in cash $150. | Payslip/Wages book | Cash Book | –150 |

## QUESTION 29 NOVEMBER 2016 P21 Q1 (a, b & e)"

**(a) Kacela account**

| 2016 | | $ | 2016 | | $ |
|---|---|---|---|---|---|
| Sept 1 | Balance b/d | 900 | Sept 14 | Returns inwards | 25 |
| Sept 9 | Sales | 730 | Sept 30 | Bank | 860 |
| | | | Sept 30 | Discount allowed | 40 |
| | | | Sept 30 | Balance c/d | 705 |
| | | 1630 | | | 1 630 |
| Oct 1 | Balance b/d | 705 | | | |

**(b)** Sales ledger

**(e)**

| | Source document | Book of prime entry |
|---|---|---|
| Sold goods on credit. | *Sales invoice* | *Sales journal* |
| Paid wages in cash. | Wages record/Payroll register | Cash Book |
| Purchased office fixtures on credit. | Purchases invoice | General Journal |
| Goods returned from a credit customer. | Credit note | Sales returns journal |

## QUESTION 30 NOVEMBER 2016 P22 Q1 (c)

| Transaction | Book of prime entry | Account to be debited | Account to be credited | Effect on capital $ |
|---|---|---|---|---|
| Sold goods costing $900 on credit to Noah for the list price of $1 500. | *Sales Journal* | *Noah* | *Revenue (Sales)* | *+$600* |
| Noah returned goods with a list price of $100 | Return in journal | Return In | Noah | –$40 $\left(\$100 \times \frac{\$600}{\$1\,500}\right)$ |
| Paid Sophie a cheque for $610. | Cash book | Sophie | Bank | No effect |
| A debt, $230, owed by Zain was written off. | General journal | Bad debts | Zain | –$230 |

## QUESTION 31 NOVEMBER 2016 P22 Q2 (a)

**Rent Receivable Account**

| **2016** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Jan 31 | Bank | 700 | Oct 01 | Balance b/f | 2 500 |
| Sept 30 | Income statement | 12 000 | Dec 31 | Bank | 6 700 |
| | | | **2016** | | |
| | | | April 30 | Bank | 3 100 |
| | | | Sept 30 | Balance c/d (balancing figure) | 400 |
| | | 12 700 | | | 12 700 |
| Oct 1 | Balance b/d | 400 | | | |

# CHAPTER 3 BANK RECONCILIATION STATEMENTS

## QUESTION 1 SPECIMEN 2010 P2 Q2

Sally Major's cash book (bank column) had a debit balance of $619 on 31 July 2009. The bank statement balance on 31 July 2009 was $1 594 credit.

After checking the cash book against the bank statement the following differences were found:

**1** A cheque for $710 issued to Jon Fletcher had not been presented to the bank for payment.

**2** An amount of $1150 paid into a local bank branch by Sally did not appear on the bank statement.

**3** Bank charges of $170 shown on the bank statement, but had not been recorded in the cash book.

**4** Dividends received, $80, were shown on the bank statement but had not been recorded in the cash book.

**5** A payment of $5 cash for travel expenses had incorrectly been credited in the bank column of the cash book.

**6** The bank statement showed a bank loan for $1 500 had been transferred into the bank current account. Sally Major was not expecting this transfer to take place until 1 August and had not yet recorded the transaction in her books.

**REQUIRED**

**(a)** Starting with the balance on 31 July 2009, update the cash book and bring down the amended balance. **[5]**

**(b)** Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2009. **[4]**

## QUESTION 2 MAY 2010 P21 Q1 (c & d)

On 20 April, Goldy received the following bank statement.

| April | | Dr $ | Cr $ | Balance $ |
|---|---|---|---|---|
| 01 | Balance b/d | | | 650 Cr |
| 08 | Pacific Traders | | 1 500 | 2 150 Cr |
| 12 | Kwan | 730 | | 1 420 Cr |
| 15 | Interest | 12 | | 1 408 Cr |
| 16 | Credit transfer (dividends) | | 130 | 1 538 Cr |

**REQUIRED**

**(c)** Update the cash book for Goldy on 20 April. Balance the cash book on that date. **[4]**

**Cash book (bank columns only)**

| | | $ | | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/d | 650 | Apr12 | Kwan | 730 |
| 08 | Pacific Traders | 1 500 | 17 | Headland Garage | 75 |
| 18 | Stanton & Co | 96 | | | |

**(d)** Prepare the bank reconciliation statement at 20 April. **[4]**

## QUESTION 3 MAY 2011 P22 Q1 (a to c)

Mohan is a trader. On 24 April 2011 he had a bank overdraft of $150.

The following transactions took place during the week ended 30 April 2011.

April 25 Withdrew $200, by cheque, for personal use.

April 26 Paid by cheque the balances on the accounts owed to:
Kerai, $400, less 3% cash discount
Susan, $750, less 4% cash discount.
April 27 Cash sales, $630, paid into the bank.
April 28 Received a cheque from Loula for the balance of her account, $2000, less 4% cash discount.
April 30 Cashed cheque to pay wages, $430.

**REQUIRED**

**(a)** Prepare the bank columns of Mohan's cash book for the week ended 30 April 2011. Show the balance brought down on 1 May 2011. **[8]**

On 1 May 2011 Mohan received the following bank statement:

**Bank Statement**

| | | Dr ($) | Cr ($) | Balance ($) |
|---|---|---|---|---|
| April 24 | Balance | | | 150 Dr |
| April 25 | Cheque | 200 | | 350 Dr |
| April 28 | Cheque | 388 | | 738 Dr |
| April 29 | Cheque | 720 | | 1 458 Dr |
| April 29 | Credit Transfer (Dividend) | | 24 | 1 434 Dr |
| April 29 | Credit | | 630 | 804 Dr |

**REQUIRED**

**(b)** Starting with the closing balance from **(a)** updated cash book. Bring down the amended balance.**[2]**

**(c)** Prepare the bank reconciliation statement at 1 May 2011. **[7]**

## QUESTION 4 MAY 2014 P21 Q1 (a to c)

Akma received the following bank statement on 30 April 2014:

| Date | Details | Debit ($) | Credit ($) | Balance ($) |
|---|---|---|---|---|
| 1 April | Balance | | | 614 Dr |
| 2 April | Cheque – Stanning | 88 | | 702 Dr |
| 10 April | Cash receipt | | 1204 | 502 Cr |
| 12 April | Cheque – Chong | 640 | | 138 Dr |
| 18 April | Paying in – Trinity Stores | | 780 | 642 Cr |
| 20 April | Cheque – Pang | 94 | | 548 Cr |
| 22 April | Charges | 16 | | 532 Cr |
| 25 April | MDA Electricity – S.O. | 104 | | 428 Cr |
| 28 April | Dividend receipt | | 41 | 469 Cr |

Akma compared the bank statement with her cash book.

**REQUIRED**

**(a)** Bring the cash book of Akma up to date. Balance the cash book and bring down the balance.

**Cash Book (bank columns)**

| | | $ | | | $ |
|---|---|---|---|---|---|
| 8 April | Sales | 1204 | 1 April | Balance b/d | 614 |
| 18 April | Trinity Stores | 780 | 2 April | Stanning | 88 |
| 23 April | Xain | 73 | 8 April | Chong | 640 |
| 24 April | Li Ye | 37 | 23 April | Zaine | 59 |
| | | | 27 April | Pang | 94 |

**[5]**

**(b)** Prepare the bank reconciliation statement at 30 April 2014. **[4]**
**(c)** State the meaning of the accounting abbreviation S.O. **[1]**

## QUESTION 5 NOVEMBER 2015 P22 Q1 (a & b)

The following extract was taken from Abbie's cash book on 30 September 2015.

**Cash Book (Bank Columns)**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Sept 01 | Balance b/d | 290 | Sept 08 | Husna | 102 |
| 09 | L Lee | 475 | 17 | Yang Stores | 849 |
| 15 | Ng | 150 | 23 | Lam | 364 |
| 21 | JG Supplies | 980 | 26 | Xevera | 500 |
| 29 | Sampson | 625 | 30 | Balance c/d | 705 |
| | | 2 520 | | | 2 520 |
| Oct 01 | Balance b/d | 705 | | | |

Abbie received the following bank statement on 1 October 2015.

| **Date** | **Details** | **Debit** | **Credit** | **Balance** |
|---|---|---|---|---|
| **2015** | | **$** | **$** | **$** |
| Sept 01 | Balance | | | 290 Cr |
| 09 | L Lee | | 475 | 765 Cr |
| 10 | Husna | 102 | | 663 Cr |
| 15 | Ng | | 150 | 813 Cr |
| 22 | JG Supplies | | 980 | 1793 Cr |
| 23 | Bank charges | 35 | | 1758 Cr |
| 24 | Ng – Dishonoured | 150 | | 1608 Cr |
| 25 | YJ Electric | 250 | | 1358 Cr |

Abbie compared the bank statement with her cash book.

**REQUIRED**

**(a)** Bring Abbie's cash book up to date. Balance the cash book and bring down the balance on 1 October 2015. **[4]**
**(b)** Prepare the bank reconciliation statement at 1 October 2015. **[5]**

## QUESTION 6 NOVEMBER 2016 P21 Q1 (c & d)"

On 30 September 2016 the balance on the bank account in the books of Gabi was $450 debit.
Gabi received a bank statement for September 2016. The differences between the bank account and the bank statement were as follows:

**1** A cheque for $50 paid to J Simpson had not been presented for payment.
**2** Bank charges, $230, had been charged to Gabi's account but were not recorded in Gabi's books.
**3** The bank had received a dividend payment, $120, which was not recorded in Gabi's books.
**4** The cheque received from Kacela, $860, was not recorded on the bank statement.

**REQUIRED**

**(c)** Update the bank account of Gabi. Balance the account and bring down the updated balance on 1 October . **[3]**
**(d)** Prepare the bank reconciliation statement on 1 October 2016. Start with the updated bank account balance. **[4]**

# CHAPTER 3 SOLUTIONS

## QUESTION 1 SPECIMEN 2010 P2 Q2

(a) **Sally Major**

**Dr** **Cash Book (bank columns)** **Cr**

| 2009 | | $ | 2009 | | $ |
|---|---|---|---|---|---|
| 31 July | Balance b/d | 619 | 31 July | Bank charges | 170 |
| 31 July | Dividends | 80 | 31 July | Balance c/d | 2 034 |
| 31 July | Cash (contra) | 5 | | | |
| 31 July | Bank loan | 1 500 | | | |
| | | 2 204 | | | 2 204 |
| 1 Aug | Balance b/d | 2 034 | | | |

(b) **Sally Major**

**Bank Reconciliation Statement at 31 July 2006**

| | | $ |
|---|---|---|
| Balance as per cash book | | 2 034 |
| Add | Un-presented cheque | 710 |
| Less | Un-credited deposit | 1 150 |
| Balance as per bank statement | | 1 594 |

## QUESTION 2 MAY 2010 P21 Q1 (c & d)

(c) **Cash book (bank columns only)**

| 2010 | | $ | 2010 | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/d | 650 | Apr12 | Kwan | 730 |
| 08 | Pacific Traders | 1 500 | 15 | Interest | 12 |
| 16 | Dividends | 130 | 17 | Headland Garage | 75 |
| 18 | Stanton & Co | 96 | 20 | Balance c/d | 1 559 |
| | | 2 376 | | | 2 376 |
| May 1 | Balance b/d | 1 559 | | | |

(d) **Bank reconciliation statement at 20 April**

| | | $ |
|---|---|---|
| Balance as per adjusted cash book | | 1 559 |
| Add | Un-presented cheques (Headland Garage) | 75 |
| Less | Un-credited deposits (Stanton & Co) | (96) |
| Balance as per Bank Statement | | 1 538 |

## QUESTION 3 MAY 2011 P22 Q1 (a to c)

(a) **Three Column Cash Book (Bank columns only)**

| 2011 | | $ | 2011 | | $ |
|---|---|---|---|---|---|
| Apr 27 | Cash Sales | 630 | Apr 24 | Balance b/f | 150 |
| Apr 28 | Loula [$2 000 – ($2 000 × 4%)] | 1920 | Apr 25 | Drawings | 200 |
| | | | Apr 26 | Kerai [$400 – ($400 × 3%)] | 388 |
| | | | Apr 26 | Susan [$750 – ($750 × 4%)] | 720 |
| | | | Apr 29 | Wages | 430 |
| | | | Apr 30 | Balance c/d | 662 |
| | | 2 550 | | | 2 550 |

**(b)** **Adjusted Cash Book (Bank columns only)**

| 2011 | | $ | 2011 | | $ |
|---|---|---|---|---|---|
| May 01 | Balance b/f | 662 | May 01 | Balance c/d | 686 |
| May 01 | Dividend | 24 | | | |
| | | 686 | | | 686 |

**(c)** **Bank Reconciliation Statement at 1 May 2011**

| | | $ |
|---|---|---|
| Balance as per adjusted cash book (Dr) | | 686 |
| Add | Unpresented cheque - wages | 430 |
| Less | Uncredited cheques - Loula | (1 920) |
| Balance as per Bank Statement (Dr) | | 804 |

## QUESTION 4 MAY 2014 P21 Q1 (a to c)

**(a)** **Cash Book (bank columns)**

| 2014 | | $ | 2014 | | $ |
|---|---|---|---|---|---|
| Apr 08 | Sales | 1 204 | Apr 01 | Balance b/d | 614 |
| Apr 18 | Trinity Stores | 780 | Apr 02 | Stanning | 88 |
| Apr 23 | Xain | 73 | Apr 08 | Chong | 640 |
| Apr 24 | Li Ye | 37 | Apr 23 | Zaine | 59 |
| Apr 30 | Dividend receipt | 41 | Apr 27 | Pang | 94 |
| | | | Apr 30 | Charges | 16 |
| | | | Apr 30 | MDA Electricity – S.O. | 104 |
| | | | Apr 30 | Balance c/d | 520 |
| | | 2 135 | | | 2 135 |
| May 01 | Balance b/d | 520 | | | |

**(b)** **Bank Reconciliation Statement at 30 April 2014**

| | | $ | $ |
|---|---|---|---|
| Balance as per bank statement (Cr) | | | 469 |
| Add | Un-credited Cheques: Xain | 73 | |
| | Li Ye | 37 | 110 |
| | | | 579 |
| Less | Un-presented – Zaine | | 59 |
| Balance as per cash book (Dr) | | | 520 |

**(c)** Standing order

## QUESTION 5 NOVEMBER 2015 P22 Q1 (a & b)

**(a)** **Cash Book (Bank Columns)**

| 2015 | Details | $ | 2015 | Details | $ |
|---|---|---|---|---|---|
| Oct 01 | Balance b/d | 705 | Oct 01 | Bank charges | 35 |
| | | | | Ng | 150 |
| | | | | YJ Electric | 250 |
| | | | | Balance c/d | 270 |
| | | 705 | | | 705 |

**(b)** **Bank Reconciliation Statement at 1 October 2015**

| | | $ |
|---|---|---|
| Balance as per adjusted cash book (Dr) | | 270 |
| Add | Un-presented Cheques ($849 + $364 + $500) | 1 713 |
| Less | Un-credited Cheques (Sampson) | (625) |
| Balance as per bank statement | | 1 358 |

## QUESTION 6 NOVEMBER 2016 P21 Q1 (c & d)"

**(c)** **Updated Bank account**

| **2016** | | **$** | **2016** | | **$** |
|---|---|---|---|---|---|
| Sept 30 | Balance b/f | 450 | Sept 30 | Bank charges | 230 |
| Sept 30 | Dividend | 120 | Sept 30 | Balance c/d | 340 |
| | | 570 | | | 570 |
| Oct 1 | Balance b/d | 340 | | | |

**(d)** **Bank Reconciliation Statement at 30 September 2016**

| | $ |
|---|---|
| Balance as per updated bank account (Debit) | 340 |
| Add Un-presented Cheques | 50 |
| | 390 |
| Less Un-credited cheques | (860) |
| Balance as per Bank Statement - debit (Overdraft) | 470 |

# CHAPTER 4 PAYROLL ACCOUNTING

## QUESTION 1 MAY 2009 P2 Q3 (a & b)

The Ranford Sports Club keeps a full set of double entry accounts and prepares monthly accounts.
The wages for the café manager have not been paid for the month of April. The café manager worked a total of 138 hours in the month of which

120 hours were paid at $5 per hour
12 hours were paid at time and a half
6 hours were paid at double time.

A total of 40 % of gross pay was deducted for tax and social security contributions. The Ranford Sports Club must also pay an additional $65 to the tax authority.
On 5 May 2009 the Ranford Sports Club paid the total tax and social security contributions to the tax authority.

**REQUIRED**

**(a)** Calculate the net wages to be paid to the café manager for the month of April 2009. **[5]**

**(b)** Prepare the journal entry to record the entries made on 30 April 2009 for wages and statutory deductions. A narrative is not required. **[3]**

## QUESTION 2 NOVEMBER 2009 P2 Q2 (f & g)

Universal Industries has one employee who worked a total of 170 hours in March 2009 of which

160 hours were paid at $6 per hour
10 hours were paid at time and a half

Tax and social security of $150 was deducted from the employee's gross pay. The net payment has been made to the employee in cash.

**REQUIRED**

**(f)** Calculate the employee's net pay for March 2009. **[4]**

Universal Industries must also pay an additional 10% of the employee's gross pay for their share of tax and social security contributions.
The total tax and social security is due to be paid to the tax authorities on 31 March 2009.

**REQUIRED**

**(g)** Calculate the total tax and social security payment to be made to the tax authorities on 31 March 2009. **[3]**

## QUESTION 3 SPECIMEN 2010 P2 Q3 (d)

Jenny has one employee who had been paid for 120 hours at $5 per hour and six hours overtime at time and a half. Tax and social security deducted from pay was $136. Jenny also has to pay $45 for her employer's share of social security contributions. The total tax and social security is due to be paid to the tax authorities on 19 August.

**REQUIRED**

Prepare a journal entry to record the entries made in July 2009 for wages and statutory deductions. A narration is not required. Clearly show your calculations in the space below. **[6]**

## QUESTION 4 MAY 2010 P21 Q3 (d)

Indira is a computer consultant. Included within the wages are payments to the office supervisor.

The office supervisor is paid $1 000 per month plus 10 hours overtime per month at $8 per hour.
Statutory deductions will be made at the rate of 15%.
Indira will also have to make a 10% employer's contribution to the government.

**REQUIRED**
Calculate:
**(i)** The net payment made by Indira to the office supervisor for one month. **[3]**
**(ii)** The total cost to Indira of employing the office supervisor for one month. **[2]**

## QUESTION 5 MAY 2010 P22 Q2 (b to d)

Tsang is in business buying and selling goods on credit. The following information is available for the month of March 2010.

| | $ |
|---|---|
| Revenue (sales) | 65 000 |
| Inventory 1 March | 3 400 |
| Discount received | 300 |
| Inventory 31 March | 2 900 |
| Ordinary goods purchased | 47 900 |
| Wages & salaries expenses | 2 500 |

Included in the expenses are the wages paid to Susan, who works for Tsang. In the month of March, Susan worked 160 hours for which she was paid $5 per hour, and 20 hours overtime, for which she was paid time and a half.

Tax and social security deducted from her pay was $165. Tsang also had to pay $90 for employer's social security contributions. The total tax and social security is to be paid to the tax authorities on 30 April 2010.

**REQUIRED**
**(b)** **(i)** Calculate Susan's **net** pay for the month of March. **[2]**
**(ii)** Calculate for Tsang, the **total cost** of employing Susan for the month of March. **[2]**

**(c)** Prepare for Tsang, the journal entry on 31 March 2010 to record the wages and statutory deductions. A narrative is **not** required. **[3]**

**(d)** Prepare income statement for the month of March 2010. **[6]**

## QUESTION 6 MAY 2011 P21 Q2 (d)

Kya is a wholesaler. Kya employs Rose as a receptionist. Rose works 35 hours per week at $7 per hour and 10 hours per week at time and a half.
In addition, Kya has to pay an employers' tax at the rate of 10% of Rose's gross pay.

**REQUIRED**
Calculate the **total** cost to Kya of employing Rose for **one** week. **[4]**

## QUESTION 7 MAY 2012 P21 Q2 (c & d)

Lau buys and sells goods on credit. Lau employed Hui as a sales assistant in March. Hui was paid for 140 hours at $6 per hour and 6 hours at time and a half. Tax and social security deducted from pay were $160. Lau also had to pay $95 for employer's social security contributions. The total tax and social security is due to the tax authorities on 30 June 2012.

**REQUIRED**

**(c)** **(i)** Calculate the net payment to Hui. **[3]**

**(ii)** Calculate the total cost to Lau of employing Hui in the month of March 2012. **[2]**

**(d)** Prepare the journal entry for wages and statutory deductions on 31 March 2012. A narrative is **not** required. **[4]**

## QUESTION 8 NOVEMBER 2012 P22 Q3 (d)

During the month of August, Leong employed Fan as a sales assistant. Fan was paid for 130 hours at $6 per hour and ten hours at time and a half. Tax and social security deducted from gross pay was $145. Leong also has to pay 10% of Fan's gross pay for employer's social security contributions.

**REQUIRED**

**(i)** Calculate the net payment to Fan. **[2]**

**(ii)** Calculate the total cost to Leong of employing Fan for the month of August. **[2]**

## QUESTION 9 MAY 2013 P22 Q3

The following is an extract from David's wages book for January 2013.

**Wages book**

| Employee Number | Gross pay $ | Tax $ | Employee's Social Security Contributions $ | Employer's Social Security Contributions $ | Charitable Donations $ | Net pay $ |
|---|---|---|---|---|---|---|
| 001 | 2200 | 440 | 132 | 198 | – | ? |
| 002 | 2600 | 520 | 156 | 234 | 25 | ? |
| Total | 4800 | 960 | 288 | 432 | 25 | ? |

**REQUIRED**

**(a)** Calculate the net pay for Employee 001 and Employee 002. **[5]**

**(b)** Calculate the total wages cost. **[3]**

**(c)** State **two** methods used for recording hours worked. **[2]**

**(d)** Explain a non-statutory deduction. **[1]**

## QUESTION 10 NOVEMBER 2013 P21 Q2 (d & e)

The information below relates to an employee of Raja for the month of May 2013.

| Hours worked | Rates of pay |
|---|---|
| 140 | $8 per hour |
| 10 | Time and half |

| Tax and social security deductions | |
|---|---|
| Employee rate | 20% of gross pay |
| Employer rate | 10% of gross pay |

**REQUIRED**

**(d)** Calculate the employee's net pay for May 2013. **[5]**

**(e)** Calculate the total amount Raja owes the tax and social security authorities for May 2013. **[3]**

## QUESTION 11 MAY 2014 P22 Q3 (c & d)

Cadmore Limited is a manufacturing business. One of the factory workers of Cadmore Limited worked a total of 220 hours in April 2014.

160 hours were paid at $8 per hour
40 hours were paid at time and a half
20 hours were paid at double time

Tax and social security of $240 was deducted from the factory worker's gross pay.

**REQUIRED**

**(c)** Calculate the factory worker's net pay for April 2014. **[3]**

Cadmore Limited must pay an additional 10% of the factory worker's gross pay for employer's tax and social security contributions.

**REQUIRED**

**(d)** Calculate the total employee's and employer's tax and social security payment to the tax authorities for the factory worker in April 2014. **[3]**

## QUESTION 12 NOVEMBER 2015 P22 Q3 (b & c)

Hong works in the office of Fairview Manufacturing. For the month of March she was paid for 140 hours at $6 per hour and 28 hours at time and a quarter. Deductions from gross pay were $250 tax and social security and $60 for pension contributions.

**REQUIRED**

**(b)** Calculate the net pay of Hong for the month of October 2015. **[4]**
**(c)** Name the document that Hong will receive which details the calculation of her net pay. **[1]**

## QUESTION 13 NOVEMBER 2016 P21 Q3 (a to c)"

The following is an extract from the wages book of JT Manufacturing for August 2016 showing the wages paid to factory indirect labour.

**Wages book**

| Employee | Hours worked | Rate per hour | Tax | Employee's social security contribution | Employer's social security contribution | Voluntary Contributions | Net pay |
|---|---|---|---|---|---|---|---|
| | | | | $ | $ | $ | $ |
| Nazim | 160 | $5 | 210 | 80 | 120 | 0 | ? |
| Pabla | 180 | $6 | 250 | 110 | 150 | 50 | ? |
| Total | 340 | | 460 | 190 | 270 | 50 | |

**REQUIRED**

**(a)** Give **one** example of a voluntary contribution. **[1]**
**(b)** Calculate the net pay for:
Nazim **[3]**
Pabla **[3]**
**(c)** Calculate the total wages cost for factory indirect labour. **[3]**

# CHAPTER 4 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q3 (a & b)

**(a)** **Statement to calculate the net wages to be paid to the café manager**
**For the month of April 2009**

| | $ |
|---|---|
| Wages at regular (single) rate (120hours × $5) | 600 |
| Wages at time and a half (12 hours × $7.5) | 90 |
| Wages at double time (6 hours × $10) | 60 |
| | 750 |
| Less Tax and social security deduction ($750 × 40%) | 300 |
| Net wages payable to the café manager | 450 |

**(b)** **General Journal**

| | Dr ($) | Cr($) |
|---|---|---|
| Wages ($750 + $65) | 815 | |
| Wages payable ("a" Part) | | 450 |
| Tax and social security payable ($300 + $65) | | 365 |

## QUESTION 2 NOVEMBER 2009 P2 Q2 (f & g)

**(f)** **Calculation of the employee's net Pay for March 2009**

| | $ |
|---|---|
| Wages: Single time (160 hours × $6) | 960 |
| Time and a half (10 hours × $6 × $1^1/_2$) | 90 |
| Total gross Wages (pay) | 1 050 |
| Less Tax and social security | (150) |
| Wages paid in cash | 900 |

**(g)** **Calculation of the total tax and social security payment**

| | $ |
|---|---|
| Employer's tax and social security ($1 050 × 10%) | 105 |
| Employee tax and social security | 150 |
| Total tax and social security payable | 255 |

## QUESTION 3 SPECIMEN 2010 P2 Q3 (d)

**Jenny Palmer's Journal**

| | Dr ($) | Cr. ($) |
|---|---|---|
| Wages and salaries | 690 | |
| Bank | | 509 |
| Tax authorities (payable) | | 181 |

**WORKINGS**

| | $ |
|---|---|
| Gross wages (120 hours × $5) + (6 hours × $7.50) | 645 |
| Less Tax/Social Security | (136) |
| Net wages | 509 |

## QUESTION 4 — MAY 2010 P21 Q3 (d)

**(i) Calculation of office supervisor wages for one month**

| | $ |
|---|---|
| Basic pay | 1 000 |
| Overtime pay (10 hours × $8) | 80 |
| Total Gross pay | 1 080 |
| Less Statutory deductions ($1 080 × 15%) | 162 |
| Net pay | 918 |

**(ii) Calculation of total cost to Indira of employing the office supervisor for one month**

| | $ |
|---|---|
| Gross pay | 1 080 |
| Add Indra's contribution ($1 080 × 10%) | 108 |
| Cost of employment | 1 188 |

## QUESTION 5 — MAY 2010 P22 Q2 (b to d)

**(b) (i)**

| | |
|---|---|
| Gross pay [(160 hours @ $5) + (20 hours @ $7.50)] | $950 |
| Tax and social security deduction | $165 |
| Susan's net pay | $785 |

**(ii)**

| | |
|---|---|
| Gross wages and salaries [(160 hours @ $5) + (20 hours @ $7.50)] | $950 |
| Tsang's share of Social security | $ 90 |
| Total Wages and salaries expense | $1 040 |

**(c) Tsang' Journal**

| **2010** | | **Dr $** | **Cr $** |
|---|---|---|---|
| Mar 31 | Wages and salaries **[b (ii)]** | 1 040 | |
| | Bank **[b (i)]** | | 785 |
| | Tax authorities/Inland Revenue (liability)($165 + $90) | | 255 |

**(d) Tsang**
**Income Statement for the month ended 31 March 2010**

| | $ | $ |
|---|---|---|
| Revenue (sales) | | 65 000 |
| Cost of Sales | | |
| Inventory 1 March | 3 400 | |
| Ordinary goods purchased | 47 900 | |
| | 51 300 | |
| Inventory 31 March | (2 900) | (48 400) |
| Gross profit | | 16 600 |
| Other Incomes | | |
| Discount received | | 300 |
| | | 16 900 |
| Expenses | | |
| Wages and salaries | | (2 500) |
| Profit for the year | | 14 400 |

## QUESTION 6 — MAY 2011 P21 Q2 (d)

**Calculation of total cost to Kya of employing Rose for one week.**

| | $ |
|---|---|
| Gross pay (35 hours × $7) + [10 hours × ($7 × 150%)] | 350 |
| Employers' tax ($350 × 10%) | 35 |
| Total cost of employing Rose for one week | 385 |

## QUESTION 7 — MAY 2012 P21 Q2 (c & d)

**(c) (i) Calculation of the net payment to Hui**

| | $ |
|---|---|
| Gross Pay [(140 hours × $6) + (6 hours × $9)] | 894 |
| Less Tax and social security deduction | (160) |
| Net pay | 734 |

**(ii) Calculation of total cost to Lau of employing Hui for March 2012**

| | $ |
|---|---|
| Net Pay given to Hui [c (i)] | 894 |
| Add Lau's social security contributions | 95 |
| Cost of employing Hui | $989 |

**(d) Journal**

| | Dr ($) | Cr ($) |
|---|---|---|
| Wages and salaries [C (ii)] | 989 | |
| Bank (net pay) | | 734 |
| Tax authorities ($160 + $95) | | 255 |

## QUESTION 8 — NOVEMBER 2012 P22 Q3 (d)

**(i) Calculation of net pay to Fan**

| | $ |
|---|---|
| Gross Pay [(130 hours × $6) + (10 hours × $9)] | 870 |
| Less Tax deduction | 145 |
| Net pay | 725 |

**(ii) Calculate the total cost to Leong of employing Fan for the month of August**

| | $ |
|---|---|
| Gross Pay [(130 hours × $6) + (10 hours × $9)] | 870 |
| Employers social security | 87 |
| Total cost of employing Fan | 957 |

## QUESTION 9 — MAY 2013 P22 Q3

**(a) Employee 001**

| | $ |
|---|---|
| Gross pay | 2 200 |
| Tax | (440) |
| Employee's social security contributions | (132) |
| Net pay | 1 628 |

| **Employee 002** | **$** |
|---|---|
| Gross pay | 2 600 |
| Tax | (520) |
| Employee's social security contributions | (156) |
| Charitable donations | (25) |
| Net pay | 1 899 |

**(b)**

| | **$** |
|---|---|
| Total gross pay | 4 800 |
| Employer's Social security contributions | 432 |
| Total cost | 5 232 |

**(c)** Timesheets, Clock cards (swipe cards)

**(d)** An employee may choose to have voluntary deductions from gross pay; however it is not mandatory or required by law.

## QUESTION 10 — NOVEMBER 2013 P21 Q2 (d & e)

**(d)** **Calculation of Net Pay**

| | **$** |
|---|---|
| Gross pay (140 hours × $8 per hour) + (10 hours × $12 per hour) | 240 |
| Less Tax and social security deduction ($1 240 × 20%) | (248) |
| Net pay | 992 |

**(e)** **Calculation of total amount owing to tax and social security authorities for May 2013**

| | **$** |
|---|---|
| Employer's tax and social security payments ($1 240 × 10%) | 24 |
| Employee's tax and social security deductions ('d' part) | 248 |
| Total owed to the tax and social security authorities for May 2013 | 372 |

## QUESTION 11 — MAY 2014 P22 Q3 (c & d)

**(c)** **Calculation of factory worker's net pay for April 2014**

| | **$** |
|---|---|
| Gross Pay [{(160 hours × $8)}+ {40 hours × ($8 × 1.5)}+ {(20 hours × ($8 × 2)}] | $2 080 |
| Less Tax and social security deduction | (240) |
| Net pay for April | 1 840 |

**(d)** **Calculation of total tax and social security payment to the tax authorities**

| | |
|---|---|
| Employee tax and social security contribution | $240 |
| Employer tax and social security contribution ($2 080 × 10%) | $208 |
| Total contribution to social security | $448 |

## QUESTION 12 — NOVEMBER 2015 P22 Q3 (b & c)

**(b)**

| | **$** | **$** |
|---|---|---|
| Gross pay [(140 hours @ $6) ; (28 hours @ $7.50)] | | 1 050 |
| Less Tax and social security deductions | 250 | |
| Pension contribution | 60 | (310) |
| Net pay | | 740 |

**(c)** Pay slip

## QUESTION 13 NOVEMBER 2016 P21 Q3 (a to c)"

**(a)** Payment for Subscription
Charitable donation
Pension contribution
Trade union contributions

**(b)** **Calculation of Net Pay**

| | | Nazim | Pabla |
|---|---|---|---|
| | | **$** | **$** |
| | Gross pay (160 hours x $5) ; (180 hours x $6) | 800 | 1 080 |
| | Less Tax | (210) | (250) |
| | Employee's social security contribution | (80) | (110) |
| | Voluntary contributions | - | (50) |
| | Net pay | 510 | 670 |

| **(c)** | | **$** |
|---|---|---|
| | Total gross pay ($800 + $1 080) | 1 880 |
| | Employer's social security contribution | 270 |
| | Total wage cost for factory indirect labour | 2 150 |

# CHAPTER 5 ACCOUNTING FOR DEPRECIATION

## QUESTION 1 NOVEMBER 2009 P2 Q2 (a to e)

Universal Industries provided the following information:

**1** Purchased a machine for $8 000 on 1 October 2007.
**2** Sold the machine for cash, $7 000, on 31 March 2009.
**3** The policy of Universal Industries is to charge depreciation at the rate of 10% per annum on cost using the straight line method. Depreciation on machinery is charged from the date of purchase and up to the date of sale.
**4** All sales of non-current assets are recorded in a disposal account.
**5** Universal Industries prepares financial statements on 31 March each year.

**REQUIRED**

**(a)** Explain the term depreciation. **[2]**
**(b)** State two reasons why non-current assets depreciate. **[2]**
**(c)** Prepare the journal entries to record the sale of the machine. Show the transfer of any profit or loss on the sale to the financial statements on 31 March 2009. Narratives are not required. **[8]**
**(d)** Explain why depreciation is an application of the accruals concept. **[2]**
**(e)** Complete the table below for items (i) to (iii). State in each case the most appropriate method of depreciation and give one reason for your answer.

| | **Asset** | |
|---|---|---|
| **(i)** | Buildings | Method of depreciation<br>Reason |
| **(ii)** | Computers | Method of depreciation<br>Reason |
| **(iii)** | Loose tools | Method of depreciation<br>Reason |

**[6]**

## QUESTION 2 MAY 2010 P21 Q2 (a to e)

Sparky Ltd set up business on 1 May 2008 with the following assets:

| | **$** |
|---|---|
| Property (Land and buildings) | 150 000 |
| Computer equipment | 40 000 |
| Inventory (stock in trade) | 70 000 |

Sparky Ltd decided on the following policy for depreciation:

**1** Land costing $80 000 was not to be depreciated.
**2** Buildings are to be depreciated at 2% per annum on cost using the straight line method.
**3** Computer equipment is to be depreciated at 25% per annum using the diminishing (reducing) balance method.

**REQUIRED**

**(a)** State **two** causes of depreciation. [2]
**(b)** Explain why Sparky Ltd does **not** depreciate each of the following:

**Land**
**Inventory** [4]

**(c)** Explain why depreciation is an application of the matching/accruals principle. **[2]**
**(d)** Calculate the depreciation on property (land and buildings) for the year ended 30 April 2009. **[1]**
On 30 April 2010 Sparky Ltd sold some of the computer equipment for $7 000. The computer equipment had cost $12 000 on 1 May 2008. Sparky Ltd charges a full year's depreciation in the year of disposal.

**REQUIRED**
**(e)** Prepare disposal account on 30 April 2010 recording the disposal of the computer equipment. **[5]**

## QUESTION 3 MAY 2011 P22 Q2 (a to e)

Amayi owns a manufacturing business. Her financial year ends on 30 April. She has the following depreciation policy:

Machinery is depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.
Office furniture is depreciated at the rate of 10% per annum using the straight-line method.
Loose tools are depreciated using the revaluation method.

A full year's depreciation is charged on assets in the year of purchase but no depreciation is charged in the year of sale.

**REQUIRED**
**(a)** Give **two** reasons why depreciation should be charged. **[4]**
**(b)** Suggest **one** reason why the diminishing (reducing) balance method might be the most appropriate method for Amayi to depreciate her machinery. **[2]**

The following information is available for the year ended 30 April 2011.

**1** Balances 1 May 2010

| **Non-current assets at cost** | **$** |
|---|---|
| Machinery | 80 000 |
| Office furniture | 15 000 |
| Provisions for depreciation | |
| Machinery | 60 000 |
| Office furniture | 5 000 |

**2** On 31 July 2010, additional machinery, $18 000, was purchased.
**3** On 20 February 2011, office furniture, which had cost $1 000 on 1 May 2008, was sold for $550 cash.
**4** On 1 May 2010, loose tools, cost price $1600, were valued at $1050. Additional loose tools were purchased during the year for $630.
On 30 April 2011 loose tools were valued at $1400.

**REQUIRED**
**(c)** Calculate the depreciation to be charged on **each** of the following for the year ended 30 April 2011.
**(i)** Machinery
**(ii)** Office furniture
**(iii)** Loose tools **[6]**
**(d)** Calculate the profit or loss on the office furniture sold on 20 February 2011. **[3]**
**(e)** Calculate the net book value on 30 April 2011 of
**(i)** Machinery
**(ii)** Office furniture **[2]**

## QUESTION 4 NOVEMBER 2012 P21 Q2

On 31 August 2011 the following extract was taken from the balance sheet of Stavros

| **Non-current assets** | **Cost**<br>**$** | **Accumulated depreciation**<br>**$** | **NBV**<br>**$** |
|---|---|---|---|
| Equipment | 60 000 | 24 000 | 36 000 |
| Office Computers | 8 000 | 5 600 | 2 400 |
| | 68 000 | 29 600 | 38 400 |

The following transactions took place during the year ended 31 August 2012:

**1** On 31 January 2012, equipment purchased on 1 April 2009, at a cost of $28 000, was sold for $10 000. Payment was received by cheque.

**2** On 1 February 2012, new equipment was purchased at a cost of $35 000.

**3** On 20 March 2012, office computers were purchased for $600.

Stavros has the following depreciation policy:
Equipment is depreciated at the rate of 20% per annum using the straight-line method. Office computers are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.
A full year's depreciation is charged on equipment and office computers in the year of purchase.
No depreciation is charged on equipment in the year of sale.

**REQUIRED**

**(a)** **(i)** Explain the term depreciation. **[2]**

**(ii)** State **two** causes of depreciation. **[2]**

**(b)** State **one** advantage of using the straight-line method of depreciation **[2]**

**(c)** Prepare the following ledger accounts for the year ended 31 August 2012:

**(i)** Provision for depreciation of equipment account

**(ii)** Equipment disposal account **[8]**

**(d)** Complete the following balance sheet (extract) for the non-current assets on 31 August 2012.

| **Non-current assets** | **Cost** | **Accumulated depreciation** | **NBV** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Equipment | | | |
| Office Computers | | | |

**[6]**

## QUESTION 5 MAY 2013 P21 Q4

On 1 April 2011 Lynne purchased two motor vehicles for business use on credit from Villa Motors Limited. The vehicles cost $12 000 each.

Depreciation is charged on the motor vehicles at 20% per annum by the diminishing (reducing) balance method. A full year's depreciation is charged in the year of purchase but no depreciation is charged in the year of sale.

On 23 January 2013 one of the motor vehicles was sold for $6 500.

**REQUIRED**

**(a)** Show the journal entry to record the purchase of the motor vehicles on 1 April 2011. Dates and narratives are **not** required. **[2]**

**(b)** Prepare the provision for depreciation account for the years ended on 31 March 2012 & 2013. **[5]**

**(c)** Prepare the disposal account. **[5]**

**(d)** State **two** other methods of depreciation. **[2]**

## QUESTION 6 — NOVEMBER 2013 P22 Q1 (c & d)

**(c)** Give two other uses of the general journal. **[2]**

**(d)** Kulbir operates on a mark-up of 25%. The table below contains transactions carried out by Kulbir in her first week of trading. Complete the table for each transaction. The first transaction has been completed as an example.

| 2013 | Transaction | Source document | Book of prime entry | Effect on Profit |
|---|---|---|---|---|
| Jan 4 | Goods sold, cost price $400, on credit to Keen | *Invoice* | *Sales journal* | *Increase $100* |
| Jan 5 | Keen returned goods, selling price $80 | | | |
| Jan 6 | Payment made to J Singh, $323 in cash, after deducting $17 cash discount | | | |
| Jan 7 | Kulbir withdrew $200 from the bank for personal use | | | |

**[9]**

## QUESTION 7 — NOVEMBER 2014 P21 Q2 (a to e)

The following information relates to the delivery vehicles of Swift Limited.

| | |
|---|---|
| 1 July 2012 | Purchased delivery vehicle 1 for $15 000. |
| 1 July 2013 | Purchased delivery vehicle 2 for $20 000. |
| 30 June 2014 | Disposed of delivery vehicle 1 and received a cheque for $8 000. |

Depreciation is charged at the rate of 20% using the diminishing (reducing) balance method.

**REQUIRED**

**(a)** State **two** causes of depreciation of a delivery vehicle. **[2]**

**(b)** Complete the following table to show the depreciation charged for the years ended 30 June 2013 and 30 June 2014.

| Year ended | Delivery vehicle 1 | Delivery vehicle 2 | Total for year |
|---|---|---|---|
| | **$** | **$** | **$** |
| 30 June 2013 | | | |
| 30 June 2014 | | | |
| Total | | | |

**[3]**

**(c)** Prepare the provision for depreciation of delivery vehicles account for the year ended 30 June 2014. Balance the account and bring down the balance. **[4]**

**(d)** Prepare the journal entries to record the disposal of delivery vehicle 1. Narratives are **not** required. **[6]**

**(e)** Prepare an extract from the statement of financial position at 30 June 2014, showing the delivery vehicles. **[2]**

## QUESTION 8 NOVEMBER 2014 P22 Q2 (a to d)

Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. He purchased a motor van on that date, the details are as follows.

| | |
|---|---|
| Purchase price | $9 600 |
| Life of motor van | 3 years |
| Residual value | $1 200 |

Ajib is undecided whether to use the straight-line method or diminishing (reducing) balance method to depreciate the motor van.
If Ajib uses the diminishing (reducing) balance method the annual rate of depreciation charged would be 50%.

**REQUIRED**

**(a)** Explain the term depreciation. **[2]**

**(b)** Complete the following table to show the depreciation to be charged for the years ended 30 September 2015, 2016 and 2017 using the straight-line method and the diminishing (reducing) balance method. **[6]**

**(c)** State **one** advantage of Ajib using the straight-line method when depreciating the motor van. **[1]**

**(d)** State **one** advantage of Ajib using the diminishing (reducing) balance method when depreciating the motor van. **[1]**

## QUESTION 9 MAY 2015 P22 Q2

Atto Electrical had the following non-current assets on 31 March 2013.

| | **Net book value ($)** |
|---|---|
| Premises (cost $50 000) | 48 000 |
| Motor vehicles (cost $16 000) | 12 000 |
| Computers | 6 000 |

Atto Electrical has the following depreciation policy.

Premises are depreciated at the rate of 2% per annum by straight-line method.
Motor vehicles are depreciated at the rate of 25% per annum by diminishing (reducing) balance method.
Computers are depreciated by revaluation method.

A full year's depreciation is charged on all non-current assets owned at the end of the financial year.

**Additional information**

**1** There were no purchases or sales of non-current assets during the year ended 31 March 2014.

**2** The following purchases of non-current assets were made during the year ended 31 March 2015. Payments were made by cheque.

| | **$** |
|---|---|
| Premises | 30 000 |
| Motor vehicles | 9 000 |
| Computers | 3 200 |

**3** Computers were valued as follows:

| | **$** |
|---|---|
| 31 March 2014 | 4 200 |
| 31 March 2015 | 6 000 |

**REQUIRED**

**(a)** Explain the term depreciation. **[2]**

**(b)** State **one** cause of depreciation of a computer. **[1]**

**(c)** Complete the table to show the depreciation to be charged to the income statement for each of the years ended 31 March 2014 and 31 March 2015.

| | **Year ended 31 March 2014 ($)** | **Year ended 31 March 2015 ($)** |
|---|---|---|
| Premises | | |
| Motor vehicles | | |
| Computers | | |

**[6]**

**(d)** Prepare the following ledger accounts for **each** of the years ended 31 March 2014 and 31 March 2015. Balance the accounts and bring down the balances on 1 April.

Motor vehicles account **[4]**

Motor vehicles provision for depreciation account **[5]**

**(e)** Identify which **two** of the following accounting principles/concepts support the charging of depreciation in an accounting year.

Accruals/Matching
Dual aspect
Going concern
Materiality
Money measurement **[2]**

## QUESTION 10 MAY 2016 P21 & 22 Q2 (a to d)

The following balances were recorded in the books of Sofea on 1 March 2015.

| | **$** |
|---|---|
| Motor vehicles account (at cost) | 50 000 |
| Motor vehicles - Provision for depreciation account | 18 400 |

**1** On 31 May 2015 a motor vehicle costing $16 000 and with an accumulated depreciation of $7000 was sold for $8 400.

2 On 30 June 2015 a motor vehicle costing $20 000 was purchased on credit.

**3** The depreciation policy of Sofea is as follows:
Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.
A full year's depreciation is charged in the year of purchase.
No depreciation is charged in the year of sale.

**REQUIRED**

**(a)** State the meaning of the accounting term depreciation. **[2]**

**(b)** Identify by ticking the appropriate box (✓) whether each statement about depreciation is true or false. The first one has been completed as an example.

| **Statement** | **Statement** | **False** |
|---|---|---|
| *There is only one method of charging depreciation.* | | ✓ |
| Depreciation is the cash set aside for non-current asset replacement. | | |
| Depreciation is an application of the going concern concept. | | |

**[2]**

**(c)** Calculate the:

**(i)** profit or loss on the sale of the motor vehicle on 31 May 2015. **[1]**

**(ii)** motor vehicles depreciation charge for the year ended 29 February 2016. **[2]**

**(d)** Prepare the motor vehicles provision for depreciation account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016. **[5]**

# CHAPTER 5 SOLUTIONS

## QUESTION 1 NOVEMBER 2009 P2 Q2 (a to e)

**(a)** Depreciation is the reduction in the value and useful life of a non-current asset.
Depreciation is charged to allocate the cost of a non-current asset over its useful life.

**(b)** Physical deterioration, wear and tear, Obsolescence, time factor, depletion, inadequacy etc.

**(c)** **Journal**

| **2009** | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| Mar 31 | Machine disposal account | 8 000 | |
| | Machinery account | | 8 000 |
| Mar 31 | Provision for depreciation account ($8 000 × 10% × $1^1/_2$) | 1 200 | |
| | Machine disposal account | | 1 200 |
| 0Mar 31 | Bank account | 7 000 | |
| | Machine disposal account | | 7 000 |
| Mar 31 | Machine disposal account | 200 | |
| | Income statement (profit) | | 200 |

**(d)** As Matching and accrual concepts emphasise that all the expenses related to generation of current year revenue should be off set against the revenue so that true profitability of the business may be determined.
As non-current assets benefit the business for a period more than one year so their costs should be charged to income statement over their useful lives against the income earned in a given financial year

| **(e)** | | **Non-current asset** | **Method and reason** |
|---|---|---|---|
| | **(i)** | Buildings | Straight line or original cost<br>Asset benefits the business evenly over its life |
| | **(ii)** | Computers | Reducing balance or written down value<br>Large reduction in value of asset in early years<br>Rapid technical improvements make computers quickly out of date |
| | **(iii)** | Loose tools | Revaluation<br>Small items have low per unit value which varies each year and is difficult to measure individually. |

## QUESTION 2 MAY 2010 P21 Q2 (a to e)

**(a)** Physical deterioration, obsolescence; time factor; depletion etc.

**(b)** **(i)** Land does not wear out and has an infinite life so there is no need to depreciate it in value. Moreover its value may go up in value.

**(ii)** Inventory in trade is a current asset. It is expected to be sold (or used) within a year so there is no asset to depreciate over several years.

**(c)** Matching concept asserts that the cost of a non-current asset should be charged to the income statement over its estimated useful life earned in a given financial year.

**(d)** Depreciation on Property (land and buildings) = ($150 000 – $80 000) × 2%
= $1 400

**(e)** **Disposal Account**

| | $ | | $ |
|---|---|---|---|
| Computer equipment | 12 000 | Prov. for depn(12000×25%)+(9000×25%) | 5 250 |
| Income Statement (profit) | 250 | Cash/Trade receivables | 7 000 |
| | 12 250 | | 12 250 |

## QUESTION 3 — MAY 2011 P22 Q2 (a to e)

**(a)**
- to spread the cost of a non-current asset over its useful economic life
- to include a charge a for use of non-current asset to the income statement
- to reduce the book value of non-current assets in the balance sheet

**(b)** Reducing Balance Method is the most appropriate method for calculating depreciation on machines, which operate faster, produce more and perform more accurately when they are new.

**(c)** **Calculation of depreciation**

| | Machinery ($) | Furniture ($) | Loose tools ($) |
|---|---|---|---|
| Cost (value) at 1 May 2010 | 80 000 | 15 000 | 1 050 |
| Add Purchase of new assets | 18 000 | - | 630 |
| Less Disposals of assets | - | (1 000) | - |
| | 98 000 | 14 000 | 1 680 |
| Less Provision for depn [$5 000– ($1 000×20%)] | (60 000) | (4 800) | - |
| Value at year end before current year depreciation | 38 000 | 9 200 | 1 680 |
| Depreciation (38000×25%);[14000×10%)];(1680–1400) | (9 500) | (1 400) | (280) |

**(d)** **Calculation of profit or loss on furniture sold**

| | $ |
|---|---|
| Cost of furniture sold | 1 000 |
| Depreciation ($1 000 × 20%) | (200) |
| Book value on sale of furniture | 800 |
| Sale price of furniture sold | (550) |
| Loss on sale of furniture | 250 |

**(e)**

| | Machinery ($) | Furniture ($) | Loose tools ($) |
|---|---|---|---|
| Value at year end before current year depreciation ("c") | 38 000 | 9 200 | 1 680 |
| Depreciation (38000×25%);[14000×10%)];(1680–1400) | (9 500) | (1 400) | (280) |
| Net book value on 30 April 2011 | 28 500 | 7 800 | 1 400 |

## QUESTION 4 — NOVEMBER 2012 P21 Q2

**(a)** **(i)** Depreciation is the continuing diminution in the value or estimated useful life of a non-current asset

**(ii)** Physical deterioration, obsolescence, inadequacy, time factor etc

**(b)** It is easy to calculate and understand as apportions an equal amount of depreciation to each year of ownership
More appropriate to non-current assets which show consistent performance in each year of their useful lives.

**(c) (i) Equipment provision for depreciation account**

| 2012 | | $ | 2012 | | $ |
|---|---|---|---|---|---|
| Jan 31 | Disposal ($28 000 × 20% × 3) | 16 800 | Sep 01 | Balance b/f | 24 000 |
| Aug 31 | Balance c/d | 20 600 | Aug 31 | Income statement (W 1) | 13 400 |
| | | 37 400 | | | 37 400 |
| | | | Sept 1 | Balance b/d | 20 600 |

**(ii) Equipment disposal account**

| 2012 | | $ | 2012 | | $ |
|---|---|---|---|---|---|
| Jan 31 | Equipment | 28 000 | Jan 31 | Provision for depreciation | 16 800 |
| | | | Jan 31 | Bank | 10 000 |
| | | | Aug 31 | Income statement (bal. Figure) | 1 200 |
| | | 28 000 | | | 28 000 |

**(d) Balance sheet (extract) at 31 August 2012**

| Non-current assets | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| | $ | $ | $ |
| Equipment ($60 000 + $35 000 – $28 000) | 67 000 | 20 600 | 46 400 |
| Office computer ($8 000 + $600); [5 600 + 750(W 2)] | 8 600 | 6 350 | 2 250 |
| | 75 600 | 26 950 | 48 650 |

**WORKINGS**

**(W 1)** Current year depreciation (equipment) = ($60 000 + $35 000 – $28 000) × 20% = $13 400

**(W 2)** Current year depreciation (computers) = [($8 000 + $600) – $5 600] × 25% = $750

## QUESTION 5 MAY 2013 P21 Q4

**(a) Journal**

| | | Dr ($) | Cr ($) |
|---|---|---|---|
| | Motor vehicles | 24 000 | |
| | Villa Motors Limited | | 24 000 |

**(b) Provision for Depreciation account**

| 2013 | | $ | 2012 | | $ |
|---|---|---|---|---|---|
| Mar 31 | Balance c/d | 4 800 | Mar 31 | Income statement($24 000×20%) | 4 800 |
| Jan 23 | Disposal a/c ($12 000 × 20%) | 2 400 | Apr 01 | Balance b/d | 4 800 |
| **2013** | | | **2013** | | |
| Mar 31 | Balance c/d | 4 320 | Mar 31 | Income statement ($9 600×20%) | 1 920 |
| | | 6 720 | | | 6 720 |

**(c) Disposal account**

| 2013 | | $ | 2013 | | $ |
|---|---|---|---|---|---|
| Jan 23 | Motor vehicle | 12 000 | Jan 23 | Bank | 6 500 |
| | | | Jan 23 | Provision for Depreciation | 2 400 |
| | | | Mar 31 | Income statement (bal. Figure) | 3 100 |
| | | 12 000 | | | 12 000 |

**(d)** Straight-line method, Revaluation method

## QUESTION 6 NOVEMBER 2013 P22 Q1 (c & d)

**(c)** General journal is used to record items which cannot be recorded in other journals. Examples include purchase or sale of non-current assets on credit, entries to close incomes and expenses to Income Statement, entries to correct the mistakes, adjusting entries etc

**(d)**

| 2013 | Transaction | Source document | Book of prime entry | Effect on profit |
|---|---|---|---|---|
| Jan 4 | Goods sold, cost price $400, on credit to Keen | Invoice | Sales journal | Increase $100 |
| Jan 5 | Keen returned goods, list price $80 | Credit note | Sale returns journal | Decrease $16 ($80 × $^{25}/_{125}$) |
| Jan 6 | Payment made to J Singh, $323, in cash, after deducting $17 cash discount | Receipt | Cash book | Increase $17 |
| Jan 7 | Kulbir withdrew $200 from the bank for personal use | Bank Statement/ Cheque counterfoil | Cash book | No effect |

## QUESTION 7 NOVEMBER 2014 P21 Q2 (a to e)

**(a)** Physical deterioration/Wear and tear
Economic factors
Obsolescence
Passage of time (time factor)

**(b)**

| Year ended | Delivery vehicle 1 | Delivery vehicle 2 | Total for year |
|---|---|---|---|
| | $ | $ | $ |
| 30 June 2013 | **3 000** ($15 000 × 20%) | - | **3 000** |
| 30 June 2014 | **2 400** [($15 000 – $3 000) × 20%] | **4 000** ($20 000 × 20%) | **6 400** |
| Total | 5 400 | 4 000 | |

**(c)** **Provision for depreciation of delivery vehicles account**

| **2014** | | **$** | **2013** | | **$** |
|---|---|---|---|---|---|
| Jun 30 | Vehicle Disposal('b' part) | 5 400 | 1 July | Balance b/f | 3 000 |
| Jun 30 | Balance c/d | 4 000 | **2014** | | |
| | | | Jun30 | Income Statement ('b' part) | 6 400 |
| | | 9 400 | | | 9 400 |

**(d)** **Journal**

| | | Dr ($) | Cr ($) |
|---|---|---|---|
| | Vehicle Disposal | 15 000 | |
| | Delivery vehicle | | 15 000 |
| | Provision for depreciation | 5 400 | |
| | Vehicle Disposal | | 5 400 |
| | Bank | 8 000 | |
| | Vehicle Disposal | | 8 000 |
| | Income statement (loss) | 1 600 | |
| | Vehicle Disposal | | 1 600 |

**(e) Statement of Financial Position at 30 June 2014**

| Non-current assets | Cost | Aggregate depreciation | Net book value |
|---|---|---|---|
| | $ | $ | $ |

## QUESTION 8 NOVEMBER 2014 P22 Q2 (a to d)

**(a)** Depreciation represents the continuing loss in the value of a non-current asset over its estimated working life

**(b)** **Calculation of Depreciation**

| For the year ended | Straight line method $ | Reducing balance method $ |
|---|---|---|
| 30 September 2015 | 2 800 $\left(\frac{\$9\ 600-\$1\ 200}{3\ \text{years}}\right)$ | 4 800 ($9 600 × 50%) |
| 30 September 2016 | 2 800 $\left(\frac{\$9\ 600-\$1\ 200}{3\ \text{years}}\right)$ | 2 400 [($9 600 – $4 800) × 50%] |
| 30 September 2017 | 2 800 $\left(\frac{\$9\ 600-\$1\ 200}{3\ \text{years}}\right)$ | 1 200 [($9 600 – $7 200) × 50%] |

**(c)** Depreciation charged under straight line method is easy to calculate and equal charge for depreciation in each year represents equal benefit received from use of asset.

**(d)** Under reducing balance method more depreciation is charged in earlier part of vehicle's life so is more realistic in relation to motor vehicles.

## QUESTION 9 MAY 2015 P22 Q2

**(a)** Depreciation is the estimated reduction in the value of a non-current asset over its expected useful life.
Charging of depreciation is a process to allocate cost of a non-current asset over its useful life.

**(b)** Physical deterioration, obsolescence, inadequacy etc.

| (c) | Year ended 31 March 2014 $ | Year ended 31 March 2015 $ |
|---|---|---|
| Premises ($50 000 × 2%) ; [($50 000 + $30 000) × 2%] | 1 000 | 1 600 |
| Motor vehicles[($16 000 – $4 000) × 25%] ;[($25 000 – $7 000) × 25%] | 3 000 | 4 500 |
| Computers ($6 000 – $4 200) ; [($4 200 + $3 200) – $6 000] | 1 800 | 1 400 |

**[6]**

**(d) Motor vehicles account**

| **2013** | | $ | **2014** | | $ |
|---|---|---|---|---|---|
| Apr 1 | Balance b/f | 16 000 | Mar 31 | Balance c/d | 16 000 |
| **2014** | | | **2015** | | |
| Apr 1 | Balance b/d | 16 000 | Mar 31 | Balance c/d | 25 000 |
| | Bank | 9 000 | | | |
| | | 25 000 | | | 25 000 |
| **2015** | | | | | |
| Apr 1 | Balance b/d | 25 000 | | | |

**Motor vehicle provision for depreciation account**

| | | | | | |
|---|---|---|---|---|---|
| **2014** | | | 2013 | | $ |
| Mar 31 | Balance c/d | 7 000 | Apr 01 | Balance b/f ($16 000 – $12 000) | 4 000 |
| | | | **2014** | | |
| | | | Mar 31 | Income Statement ('c' part) | 3 000 |
| | | 7 000 | | | 7 000 |
| **2015** | | | Apr 01 | Balance b/d | 7 000 |
| Mar 31 | Balance c/d | 11 500 | **2015** | | |
| | | | Mar 31 | Income Statement ('c' part) | 4 500 |
| | | 11 500 | | | 11 500 |

**(e)** Matching (Accruals) and Going concern

## QUESTION 10 — MAY 2016 P21 & 22 Q2 (a to d)

**(a)** Depreciation is the estimated reduction in the value of a non-current asset over its expected useful life.

**(b)**

| Statement | True | False |
|---|---|---|
| There is only one method of charging depreciation. | | √ |
| Depreciation is the putting by of cash for asset replacement. | | √ |
| Depreciation is an application of the going concern concept. | √ | |

**(c)**

| **(i)** | Sale value of vehicle | – | Book value of vehicle sold | = | Profit (loss) on disposal |
|---|---|---|---|---|---|
| | $8 400 | – | ($16 000 – $7 000) | = | $600 loss |

| **(ii)** | Depreciation ($) | = | Book value of vehicle at year end | × | Depreciation (%) |
|---|---|---|---|---|---|
| | | = | [(50 000 – 16 000 + 20 000)–(18 400 – 7 000)] | × | 25% |
| | | = | $10 650 | | |

**(d)** **Motor vehicles – Provision for depreciation account**

| | | | | | |
|---|---|---|---|---|---|
| **2015** | | $ | **2015** | | $ |
| May 31 | Disposal | 7 000 | Mar 01 | Balance b/f | 18 400 |
| **2016** | | | **2016** | | |
| Feb 29 | Balance c/d | 22 050 | Feb 29 | Income statement [c (ii)] | 10 650 |
| | | 29 050 | | | 29 050 |
| | | | Mar 01 | Balance b/d | 22 050 |

# CHAPTER 6 BAD AND DOUDTFUL DEBTS

## QUESTION 1 NOVEMBER 2011 P22 Q2 (c to f)

On 30 September 2011, after preparing the sales ledger control account Andrea was advised that Keira is unable to pay the whole of her debt, $2 500.
Andrea accepted $500 in full settlement and the balance of the debt was written off.

**REQUIRED**

**(c)** Prepare the journal entry to record the transactions on 30 September 2011. A narrative is not required. **[3]**

Andrea carried out a review of her remaining trade receivables before preparing her financial statements. The following information relating to her trade receivables was available:

**Analysis of balances**

| | $ | Age of debt |
|---|---|---|
| George | 11 500 | One month |
| Ranjula | 9 500 | Two months |
| Harry | 5 000 | Four months |
| Trupti | 1 500 | Eight months |
| | 27 500 | |

Andrea has the following policy for calculating the provision for doubtful debts:

| Age of debts | % |
|---|---|
| Up to 3 months | 2 |
| 3-6 months | 10 |
| Over 6 months | 20 |

**REQUIRED**

**(d)** Calculate the value of the provision for doubtful debts at 30 September 2011. **[4]**

**(e)** On 1 October 2010 the balance of the provision for doubtful debts account was $1 500. Prepare the provision for doubtful debts account for the year ended 30 September 2011. Bring down the balance on 1 October 2011. **[3]**

**(f)** Name **two** accounting principles which Andrea is applying by maintaining a provision for doubtful debts. **[2]**

## QUESTION 2 NOVEMBER 2013 P21 Q2 ( a to c)

Raja supplied the following information relating to her trade receivables before the preparation of the income statement for the year ended 31 May 2013.

**1**

| | 31 May 2012<br>$ | 31 May 2013<br>$ |
|---|---|---|
| Trade receivables | 18 800 | 19 200 |
| Provision for doubtful debts | 940 | ? |

**2** The following accounts are to be written off as bad debts.

| | $ |
|---|---|
| R B Brown | 502 |
| L Wong | 90 |
| P Singh | 288 |

**3** The provision for doubtful debts is maintained at 5% of trade receivables.

**REQUIRED**

**(a)** Prepare the provision for doubtful debts account for the year ended 31 May 2013. Balance the account and bring the balance down on 1 June 2013. **[6]**

**(b)** Indicate with a tick (✓) the effect a reduction in the provision for doubtful debts would have on the following:

| | **Increase** | **Decrease** | **No effect** |
|---|---|---|---|
| Gross profit | | | |
| Profit for the year | | | |
| Trade receivables | | | |

**[3]**

Raja is concerned that her profits have been falling and wishes to stop charging the provision for doubtful debts in her income statement.

**REQUIRED**

**(c)** Advise Raja on whether she should continue to maintain a provision for doubtful debts. Give reasons for your answer. **[9]**

## QUESTION 3 NOVEMBER 2013 P22 Q2 (d & e)

Ann was informed that John Lee was unable to pay his outstanding balance of $2 300. It was agreed that he would pay 40 cents for each dollar owed and he sent a cheque on 26 June 2013 in settlement. The balance was written off as a bad debt.

**REQUIRED**

**(d)** Prepare the general journal entry to write off the bad debt. A narrative is required.

**(e)** Advise Ann why she should create a provision for doubtful debts. **[6]**

## QUESTION 4 MAY 2016 P21 & 22 Q2 (e to h)

Sofea provided the following information about her trade receivables.

**1** On 28 February 2016 Wade Designs, which owed Sofea $5 100, was declared bankrupt. A cheque for $1 800 was received. The balance of the debt was irrecoverable.

**2** On 29 February 2016 the remaining trade receivables were:

| **Age of debt (Months)** | **Amount ($)** | **Provision for doubtful debts percentage (%)** |
|---|---|---|
| Up to 1 month | 18 000 | 2 |
| 1 to 3 months | 12 200 | 5 |
| 3 to 6 months | 3 300 | 10 |
| Over 6 months | 2 200 | 20 |
| | 35 700 | |

On 1 March 2015 the provision for doubtful debts account was $2 050.

**REQUIRED**

**(e)** Prepare the general journal to record the entries for Wade Designs on 28 February 2016. A narrative is not required. **[3]**

**(f)** Calculate the provision for doubtful debts on 29 February 2016. **[1]**

**(g)** Prepare the provision for doubtful debts account for the year ended 29 February 2016. **[3]**

**(h)** Name one accounting concept applied by Sofea in providing for doubtful debts. **[1]**

# CHAPTER 6 SOLUTIONS

## QUESTION 1 NOVEMBER 2011 P22 Q2 (c to f)

**(c)** **Journal**

| 2011 | | $ | $ |
|---|---|---|---|
| Sep 30 | Bank | 500 | |
| | Bad debts ($2 500 – $500) | 2 000 | |
| | Keira | | 2 500 |

**(d)** **Calculation of provision for doubtful debts at 30 September 2011**

| | Age of debt | Trade receivables ($) | Provision for doubtful debts (%) | Provision for doubtful debts ($) |
|---|---|---|---|---|
| George | One month | 11 500 | 2% | 230 |
| Ranjula | Two months | 9 500 | 2% | 190 |
| Harry | Four months | 5 000 | 10% | 500 |
| Trupti | Eight months | 1 500 | 20% | 300 |
| | | 27 500 | | 1 220 |

**(e)** **Provision for Doubtful Debts account**

| 2011 | | $ | 2010 | | $ |
|---|---|---|---|---|---|
| Sep 30 | Income Statement (bal. figure) | 280 | Oct 01 | Balance b/f | 1 500 |
| Sep 30 | Balance c/d | 1 220 | **2011** | | |
| | | | Sep 30 | | |
| | | 1 500 | | | 1 500 |
| | | | Oct 01 | Balance b/d | 1 220 |

**(f)** Prudence or conservatism concept
Matching concept

## QUESTION 2 NOVEMBER 2013 P21 Q2 ( a to c)

**(a)** **Provision for Doubtful Debts account**

| 2013 | | $ | 2012 | | $ |
|---|---|---|---|---|---|
| May 31 | Income statement (balancing figure) | 24 | Jun 01 | Balance b/f | 940 |
| May 31 | Balance c/d [($19 200 – $880) × 5%] | 916 | | | |
| | | 940 | | | 940 |
| | | | 2013 | | |
| | | | Jun 01 | Balance b/d | 916 |

| (b) | | Increase | Decrease | No effect |
|---|---|---|---|---|
| | Gross profit | | | ✓ |
| | Profit for the year | ✓ | | |
| | Trade receivables | ✓ | | |

**(c)** This is in compliance of fundamental accounting concepts of 'Prudence and Matching'. Under prudence concept all expected losses like doubtful debts should be anticipated and accounted for in advance. This will make profit figure more realistic and reliable. In addition, trade receivables in the balance sheet will be reported at their net realizable values.

On the other hand, the matching/accruals concept requires expenses of a period to be set against the revenues for that period. In the case of bad debts the amount written off in a period may relate to sales from another period. There is a time lag between sales and finding out that a debt is bad. If this overlaps two accounting periods then this breaks the matching concept.

## QUESTION 3 — NOVEMBER 2013 P22 Q2 (d & e)

**(d)** **General Journal**

| 2013 | | Dr ($) | Cr ($) |
|---|---|---|---|
| June 26 | Bad debts [$2 300 – ($2 300 × 0.40)] | 1 380 | |
| | John Lee | | 1 380 |
| | (Amount receivable from John Lee written off) | | |

**(e)** Provision for doubtful debts is created to anticipate all losses so that profits are not overstated and to show trade receivables at their net realizable value. This is created to comply with Prudence and matching concept.

## QUESTION 4 — MAY 2016 P21 & 22 Q2 (e to h)

**(e)** **Journal**

| | Dr ($) | Cr ($) |
|---|---|---|
| Bank | 1 800 | |
| Bad debts ($5 100 – $1 800) | 3 300 | |
| Wade Designs | | 5 100 |

**(f)** **Calculation of provision for doubtful debts on 29 February 2016**

| | $ | x | Provision (%) | = | $ |
|---|---|---|---|---|---|
| Up to 1 month | 18 000 | x | 2% | = | 360 |
| 1 to 3 months | 12 200 | x | 5% | = | 610 |
| 3 to 6 months | 3 300 | x | 10% | = | 330 |
| Over 6 months | 2 200 | x | 20% | = | 440 |
| | 35 700 | | | | 1 740 |

**(g)** **Provision for doubtful debts account**

| 2016 | | $ | 2015 | | $ |
|---|---|---|---|---|---|
| Feb 29 | Income Statement | 310 | Mar 01 | Balance b/f | 2 050 |
| Feb 29 | Balance c/d (‘f’ part) | 1 740 | | | |
| | | 2 050 | | | 2 050 |

**(h)** Prudence and matching concepts

# CHAPTER 7 FINANCIAL STATEMENTS OF SOLE TRADERS

## QUESTION 1 MAY 2009 P2 Q5

Sue Searle is in the import business. The following balances were extracted from her books on 31 March 2009.

| | $ |
|---|---|
| Sales | 95 800 |
| Purchases | 48 340 |
| Returns outwards | 960 |
| Inventory at 1 April 2008 | 10 780 |
| Wages of motor vehicle driver | 11 500 |
| Motor vehicle running expenses | 6 500 |
| Motor vehicles at cost | 20 000 |
| Provision for depreciation of motor vehicle at 1 April 2008 | 15 000 |
| Premises | 60 000 |
| Provision for depreciation of premises at 1 April 2008 | 12 000 |
| Rent and insurance | 7 700 |
| Light and heat | 4 950 |
| General and marketing expenses | 6 200 |
| Discount received | 5 300 |
| Provision for doubtful debts | 560 |
| 8 % Bank loan repayable 30 June 2011 | 30 000 |
| Cash | 270 |
| Bank overdraft | 1 680 |
| Trade receivables | 18 500 |
| Trade payables | 9 750 |
| Drawings | 11 310 |
| Capital at 1 April 2008 | 35 000 |

**Additional information**

**1** Inventory at 31 March 2009 was valued at $12 600.

**2** The motor vehicle is used to bring purchases to the business premises of Sue Searle and to deliver goods to customers. The motor vehicle is used 20% of the time to collect purchases and 80 % to deliver goods to customers.

**3** Depreciation is to be charged on the premises at the rate of 2 % per annum on cost using the straight line method and on the motor vehicle at 20 % per annum using the diminishing (reducing) balance method.

**4** The loan interest is outstanding at 31 March 2009.

**5** Insurance, $450, was prepaid at 31 March 2009.

**6** Electricity for lighting, $130, was due at 31 March 2009.

**7** The provision for doubtful debts is to be maintained at 2 % of trade receivables.

**REQUIRED**

**(a)** Prepare the income statement for Sue Searle for the year ended 31 March 2009. **[18]**

**(b)** Prepare the balance sheet of Sue Searle at 31 March 2009. **[14]**

## QUESTION 2 NOVEMBER 2010 P22 Q5

The following balances were extracted from the books of Doji, a trader, on 30 September 2010:

| | $ |
|---|---|
| Ordinary goods purchased (purchases) | 70 000 |
| Carriage inwards | 3 000 |
| Revenue (sales) | 155 000 |
| Sales returns | 9 500 |
| Motor vehicles | 42 000 |
| Office equipment | 26 000 |
| Provisions for depreciation on motor vehicles | 8 000 |
| Provisions for depreciation on office equipment | 4 000 |
| Provision for doubtful debts | 1 000 |
| Salaries | 23 750 |
| Rent and rates | 6 800 |
| Discount received | 5 600 |
| Sundry expenses | 14 150 |
| Advertising | 6 200 |
| Trade payables | 18 300 |
| Trade receivables | 23 000 |
| Inventory at 1 October 2009 | 11 500 |
| Bank overdraft | 16 000 |
| Capital | 40 000 |
| Drawings | 12 000 |

**Additional information at 30 September 2010**

**1** Inventory was valued at $14 600.

**2** During the year Doji took goods costing $1 250 for his own use. No entries have been made in the books.

**3** Advertising, $300, was prepaid. Salaries, $2600, were accrued.

**4** Depreciation is to be charged as follows:
office equipment at the rate of 10% per annum using the straight line method.
motor vehicles at the rate of 25% per annum using the diminishing (reducing)balance method;

**5** Trade receivables (debtors) include a debt of $4250 which is considered irrecoverable and is to be written off. The provision for doubtful debts is to be maintained at 4% of all remaining debts.

**6** On 1 April 2010 Doji made a short-term loan, $10 000, to the business. This was included in error in the capital account. Interest payable at 5% per annum has not been entered in the books.

**REQUIRED**

**(a)** Prepare the income statement of Doji for the year ended 30 September 2010. **[22]**

**(b)** Prepare the balance sheet of Doji at 30 September 2010. **[18]**

## QUESTION 3 NOVEMBER 2011 P21 Q1 (c to e)

The balances on Christos' books at 31 July 2011 were as follows:

| | $ |
|---|---|
| Capital | ? |
| Drawings | 8 000 |
| Office furniture | 5 000 |

| | |
|---|---|
| Provision for depreciation on office furniture | 3 200 |
| Inventory | 4 150 |
| Bank overdraft | 250 |
| Trade payables | 2 950 |
| Sundry expenses | 10 600 |
| Purchases | 32 400 |
| Provision for doubtful debts | 350 |
| Revenue (sales) | 53 750 |
| Trade receivables | 6 250 |

**REQUIRED**

**(c)** Prepare the trial balance for Christos at 31 July 2011, including the capital account balance. **[6]**

**(d)** State the item in the trial balance which would include the balance on Michelle's account. **[1]**

**(e)** State **two** differences between a trial balance and a balance sheet. **[4]**

## QUESTION 4 NOVEMBER 2011 P22 Q5)

Jasmine is a retailer of fashion goods. The following balances were extracted from her books on 30 September 2011.

| | $ |
|---|---|
| Revenue (sales) | 210 000 |
| Purchases | 113 500 |
| Goods returned by customers | 8 120 |
| Goods returned to suppliers | 3 400 |
| Inventory at 1 October 2010 | 9 430 |
| Carriage | 1 700 |
| Insurance | 5 600 |
| Light and heat | 6 300 |
| Staff wages | 27 000 |
| Advertising | 10 600 |
| General expenses | 15 850 |
| Discount received | 1 750 |
| Building costs | 20 100 |
| Land and buildings at cost | 100 000 |
| Fixtures and fittings at cost | 18 000 |
| Computer equipment at cost | 12 000 |
| Provisions for depreciation on fixtures and fittings | 7 200 |
| Provisions for depreciation on computer equipment | 3 600 |
| Disposal account | 200 Cr |
| 7% Bank loan repayable 30 March 2014 | 20 000 |
| Bank overdraft | 18 500 |
| Trade receivables | 8 200 |
| Trade payables | 26 750 |
| Provision for doubtful debts | 500 |
| Drawings | 15 500 |
| Capital at 1 October 2010 | 80 000 |

**Additional information:**

**1** Inventory at 30 September 2011 was valued at $11 780.
**2** The cost of carriage from suppliers was $500, the remainder of the cost related to the delivery of goods to customers.
**3** At 30 September 2011 heating expenses, $375, were accrued and insurance, $1 120, is prepaid.
**4** 7% bank loan was received on 1 April 2011. Interest is payable on each anniversary of the loan.
**5** Buildings costs consists of $16 000 to build an extension to the building and $4 100 to repair the heating system.
**6** Depreciation is charged on Computer equipment at the rate of 30% per annum using the diminishing (reducing) balance method and on fixtures and fittings at the rate of 20% per annum on cost using the straight line method.
**7** A provision for doubtful debts is to be maintained at 5% of trade receivables.

**REQUIRED**
**(a)** Prepare the income statement for Jasmine for the year ended 30 September 2011. **[24]**
**(b)** Prepare the balance sheet of Jasmine at 30 September 2011. **[16]**

## QUESTION 5 MAY 2012 P21 Q1 (d)

Yang is a supplier of goods to Win. Yang extracted a trial balance on 31 March 2012.
**(i)** State **one** purpose in preparing a trial balance. **[2]**
**(ii)** State whether the following accounts would be listed as a debit or a credit in the trial balance. The first account has been completed as an example. **[4]**

| **Account** | **Debit or Credit** |
|---|---|
| Capital | *Credit* |
| Provision for depreciation | |
| Inventory | |
| Bank (overdraft) | |
| Wages | |

## QUESTION 6 MAY 2012 P21 Q5

Thien has a retail business. The following balances were extracted from his books at the end of his financial year on 31 March 2012.

| | **$** |
|---|---|
| Leasehold property – 25 years (cost) | 50 000 |
| Equipment (cost) | 54 000 |
| Provisions for depreciation: Leasehold property | 10 000 |
| Equipment | 17 000 |
| 6% Bank loan repayable 31 December 2015 | 25 000 |
| Bank | 5 150 |
| Trade receivables | 6 750 |
| Trade payables | 4 010 |
| Provision for doubtful debts | 700 |
| Revenue | 78 580 |
| Purchases | 18 240 |
| Purchase returns | 1 600 |
| Inventory at 1 April 2011 | 4 690 |

| | |
|---|---:|
| Equipment repairs | 850 |
| Equipment running expenses | 2 650 |
| General expenses | 8 400 |
| Wages | 15 300 |
| Insurance | 3 640 |
| Power and water | 2 300 |
| Advertising | 5 100 |
| Discount allowed | 1 650 |
| Discount received | 330 |
| Capital at 1 April 2011 | 50 000 |
| Drawings | 8 500 |

**Additional information at 31 March 2012**

**1** Inventory was valued at $3 870.
**2** Thien took stock valued at $450 for his own use.
**3** Equipment running expenses, $750, were accrued and insurance, $1 350, was prepaid.
**4** The 6% bank loan was received on 1 December 2011.
**5** An appropriate amount is to be written off the lease.
**6** The purchase of additional equipment, $10 000, had been omitted from the books. Payment was $5 000 by cheque with the remainder on credit.
**7** Equipment is to be depreciated at the rate of 20% per annum using the diminishing (reducing) balance method.
**8** Provision for doubtful debts is to be maintained at 8% of trade receivables.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 31 March 2012. **[20]**
**(b)** Prepare the balance sheet at 31 March 2012. **[20]**

## QUESTION 7 — MAY 2012 P22 Q1 (a & d)

Giorgos commenced business on 1 May 2012 with the following assets and liabilities.

| | $ |
|---|---:|
| Bank loan | 6 000 |
| Bank | 1 000 Dr |
| Cash | 600 |
| Premises | 15 000 |
| Inventory | 1 800 |
| Trade payable – Early Ltd | 1 200 |

**REQUIRED**

**(a)** Complete the opening trial balance showing clearly the value of the capital.

**(d)** On 31 May 2012 Giorgos prepared another trial balance.
State **one** use of a trial balance. **[2]**

## QUESTION 8 — NOVEMBER 2012 P21 Q4

Maria is in business as a retailer. The following balances were extracted from her books on 30 September 2012.

| | $ | |
|---|---|---|
| Capital at 1 October 2011 | 180 000 | |
| Drawings | 21 000 | |
| Land and buildings at cost | 150 000 | |
| Fixtures and fittings at cost | 28 000 | |
| Computer equipment at cost | 40 000 | |
| Provisions for depreciation: | | |
| Land and buildings | 10 000 | |
| Fixtures and fittings | 19 000 | |
| Computer equipment | 12 000 | |
| 8% Bank loan repayable 31 December 2020 | 50 000 | |
| Loan interest paid | 2 000 | |
| Bank | 14 070 | Dr |
| Trade receivables | 60 000 | |
| Trade payables | 31 000 | |
| Provision for doubtful debts | 6 400 | |
| Revenue | 365 000 | |
| Purchases | 135 000 | |
| Goods returned by customers | 8 900 | |
| Purchase returns | 4 250 | |
| Inventory at 1 October 2011 | 33 500 | |
| Delivery expenses | 18 630 | |
| Computer repairs expenses | 19 150 | |
| General running expenses | 31 600 | |
| Salaries and wages | 86 700 | |
| Marketing costs | 14 000 | |
| Discount allowed | 22 400 | |
| Discount received | 7 300 | |

**Additional information**

**1** Inventory at 30 September 2012 was valued at $36 450.

**2** An invoice for a credit purchase of goods, $7 500, had been misplaced in December and no entries had been recorded in the books.

**3** The purchase of fixtures and fittings, $4 000, had been included in the general running expenses.

**4** At 30 September 2012 computer repair expenses, $1 700, were accrued and salaries and wages were prepaid, $5200.

**5** The 8% bank loan was received on 1 January 2012.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year, as follows:

- **(i)** Buildings at the rate of 2% per annum using the straight-line method. No depreciation is charged on land. The land was valued at cost, $50 000.
- **(ii)** Fixtures and fittings at the rate of 15% per annum using the straight-line method.
- **(iii)** Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

**7** A provision for doubtful debts is to be maintained on trade receivables. Debts up to 3 months old at the rate of 4% and debts over 3 months old at the rate of 8%. One-quarter of the trade receivables are over 3 months old.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2012. **[22]**

**(b)** Prepare the balance sheet at 30 September 2012. **[18]**

## QUESTION 9 MAY 2013 P22 Q5

The following balances were extracted from the books of Patricia Chin on 31 March 2013.

| | | $ |
|---|---|---|
| Premises | | 67 000 |
| Fixtures and fittings (cost) | | 20 000 |
| Motor vehicle (cost) | | 18 000 |
| Provisions for depreciation: | Premises | 2 680 |
| | Fixtures and fittings | 9 600 |
| | Motor vehicle | 11 520 |
| Revenue | | 119 140 |
| Purchases | | 60 200 |
| Purchases returns | | 2 900 |
| Inventory at 1 April 2012 | | 5 430 |
| Wages | | 20 960 |
| General expenses | | 9 100 |
| Insurance | | 12 600 |
| Motor vehicle expenses | | 5 670 |
| Discount allowed | | 1 428 |
| Discount received | | 884 |
| Trade receivables | | 7 546 |
| Trade payables | | 4 920 |
| Provision for doubtful debts | | 800 |
| Bank overdraft | | 2 330 |
| 7% Bank loan (repayable 30 June 2018) | | 30 000 |
| Capital | | 56 000 |
| Drawings | | 12 840 |

**Additional information**

**1** Inventory at 31 March 2013 was valued at $4 200.

**2** Insurance relates to a period of fourteen months to 31 May 2013.

**3** A motor vehicle repair bill $225 was owing at 31 March 2013.

**4** Bad debts of $246 are to be written off.

**5** During the year Patricia took $800 from the bank for personal use.
No record of this was made in the books.

**6** A purchase of fixtures and fittings during the year, $2 000, had been recorded in the general expenses account.

**7** Premises are depreciated at 2% per annum on cost.
Fixtures and fittings are depreciated at 8% per annum on cost.
Motor vehicles are depreciated at 20% per annum using the reducing balance method.

**8** The provision for doubtful debts is to be maintained at 6% of trade receivables.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 31 March 2013. **[20]**

**(b)** Prepare the balance sheet (statement of financial position) at 31 March 2013. **[20]**

## QUESTION 10 — MAY 2014 P22 5

Franco is in business as a sole trader. The following balances were extracted from his books on 31 January 2014.

| | $ | |
|---|---|---|
| Land and buildings (cost) | 150 000 | |
| Fixtures and fittings (cost) | 30 000 | |
| Computer equipment (cost) | 70 000 | |
| Provisions for depreciation: | | |
| Land and buildings | 20 000 | |
| Fixtures and fittings | 13 500 | |
| Computer equipment | 34 000 | |
| Disposal account | 500 | Cr |
| 8% Bank loan (repayable 30 April 2020) | 100 000 | |
| Bank | 17 430 | Dr |
| Trade receivables | 45 000 | |
| Trade payables | 37 650 | |
| Provision for doubtful debts | 1 400 | |
| Revenue | 362 500 | |
| Purchases | 172 400 | |
| Returns inwards | 7 200 | |
| Returns outwards | 8 800 | |
| Inventory at 1 February 2013 | 17 970 | |
| Distribution expenses | 16 300 | |
| Insurance | 5 900 | |
| Light and heat | 7 850 | |
| Wages and salaries | 69 500 | |
| Marketing expenses | 31 000 | |
| General expenses | 9 200 | |
| Commission received | 11 400 | |
| Drawings | 20 000 | |
| Capital | 80 000 | |

**Additional information at 31 January 2014**

**1** Inventory was valued at $15 600.

**2** Wages and salaries includes $15 000 drawings by Franco.

3 Marketing expenses, $6 750, were prepaid.

**4** No interest had been paid on the bank loan.

**5** Computer equipment costing $8 000 was purchased by cheque on 25 January 2014. No entries had been made in the books.

**6** Depreciation policy is as follows:

**(i)** The buildings are depreciated at the rate of 2% per annum using the straight line method. Land and buildings consists of land, cost $50 000, and buildings, cost $100 000. No depreciation is charged on the land.

**(ii)** Fixtures and fittings at the rate of 15% per annum using the straight line method.

**(iii)** Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

**7** Trade receivables, $3 000, were considered irrecoverable. A provision for doubtful debts of 5% is to be maintained.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 31 January 2014. **[24]**

**(b)** Prepare the statement of financial position at 31 January 2014. **[16]**

## QUESTION 11 NOVEMBER 2015 P21 Q5

Cheng is a sole trader. The following balances were extracted from his books on 30 September 2015.

| | **$** |
|---|---|
| Revenue | 315 000 |
| Purchases | 165 000 |
| Returns outwards | 2 600 |
| Wages and salaries | 34 800 |
| Motor vehicle expenses | 17 200 |
| Commission receivable | 12 500 |
| Rent | 15 000 |
| Provision for doubtful debts | 1 000 |
| 6% Bank loan (repayable 30 June 2019) | 30 000 |
| Bank interest paid | 1 200 |
| Inventory at 1 October 2014 | 36 800 |
| Heat and light | 6 500 |
| Other operating expenses | 7 100 |
| Cash and bank | 19 500 debit |
| Trade payables | 25 000 |
| Trade receivables | 34 000 |
| Capital | 15 000 |
| Drawings | 18 000 |
| Motor vehicles (cost) | 50 000 |
| Fixtures and fittings (cost) | 24 000 |
| Provision for depreciation: | |
| Motor vehicles | 10 000 |
| Fixtures and fittings | 18 000 |

Additional information at 30 September 2015

**1** On 26 September 2015 goods had been purchased for $3 000 cash. The transaction had not been recorded in the books.

**2** Inventory was valued at $29 980.

**3** The rent included a payment of $6 000 for the six months ending 31 December 2015.

**4** Other operating expenses accrued $1 100.

**5** Commission receivable of $2 500 was outstanding.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

**(i)** Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

**(ii)** Fixtures and fittings at the rate of 15% per annum, using the straight-line method.

**7** Trade receivables of $2 000 are irrecoverable. The provision for doubtful debts is to be maintained at 5% on the remaining trade receivables.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2015. **[22]**

**(b)** Prepare the statement of financial position at 30 September 2015. **[18]**

## QUESTION 12 NOVEMBER 2015 P22 Q5

Ning is a sole trader. The following balances were extracted from his books on 30 September 2015.

| | $ |
|---|---|
| Revenue | 248 200 |
| Purchases | 104 750 |
| Returns inwards | 7 850 |
| Carriage inwards | 3 400 |
| Advertising expenses | 10 800 |
| Distribution expenses | 17 200 |
| Electricity | 4 230 |
| Discount received | 8 250 |
| Wages and salaries | 35 000 |
| Insurance | 5 000 |
| Commission received | 5 900 |
| Loss on disposal | 2 270 |
| Leasehold premises (cost) | 80 000 |
| Computer equipment (at cost) | 75 000 |
| Fixtures and fittings (cost) | 30 000 |
| Provisions for depreciation: | |
| Leasehold premises | 20 000 |
| Computer equipment | 23 000 |
| Fixtures and fittings | 17 500 |
| Bank | 5 300 credit |
| 8% Bank loan | 50 000 |
| Bank loan interest paid | 3 000 |
| Trade receivables | 44 400 |
| Trade payables | 38 700 |
| Provision for doubtful debts | 1 500 |
| Inventory at 1 October 2014 | 20 450 |
| Capital at 1 October 2014 | 50 000 |
| Drawings | 25 000 |

Additional information at 30 September 2015

**1** Inventory was valued at $17 300.

**2** Distribution expenses accrued were $2 600.

**3** Advertising expenses includes an advertising campaign costing $1 500 which runs from 1 August to 31 December 2015.

**4** The 8% Bank loan is repayable in 5 equal payments on 1 October each year.

**5** The depreciation policy is as follows.

**(i)** The lease on the premises is for 20 years. An appropriate amount should be charged each year.

**(ii)** Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

**(iii)** Fixtures and fittings at the rate of 10% per annum using the straight-line method.
No depreciation is charged in the year of disposal.

**6** Trade receivables, $6 400, are irrecoverable. A provision for doubtful debts of 5% is to be maintained.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2015. **[23]**

**(b)** Prepare the statement of financial position at 30 September 2015. **[17]**

## QUESTION 13 MAY 2016 P21 & 22 Q5

Suria is in business as a sole trader. The following balances were extracted from her books on 31 March 2016.

| | $ | |
|---|---|---|
| Revenue | 287 000 | |
| Purchases | 143 800 | |
| Returns inwards | 3 150 | |
| Inventory at 1 April 2015 | 15 340 | |
| Capital | 70 000 | |
| Drawings | 28 000 | |
| Leasehold premises at cost (25 year lease) | 100 000 | |
| Computers at cost | 44 000 | |
| Office furniture at cost | 15 500 | |
| Provisions for depreciation: | | |
| Leasehold premises | 7 000 | |
| Computers | 16 600 | |
| Office furniture | 12 000 | |
| Wages and salaries | 26 500 | |
| Computer maintenance | 12 200 | |
| Commission receivable | 4 900 | |
| Rent and rates | 10 000 | |
| Provision for doubtful debts | 910 | |
| 6% Bank loan (repayable 30 June 2016) | 40 000 | |
| Bank interest paid | 1 500 | |
| Heat and light | 7 300 | |
| Advertising | 12 600 | |
| General expenses | 8 700 | |
| Cash and bank | 520 | Debit |
| Trade payables | 18 600 | |
| Trade receivables | 27 900 | |

**Additional information at 31 March 2016**

**1** Inventory was valued at $17 990.

**2** Commission receivable of $1 400 was outstanding.

**3** Advertising included a payment of $5 700 for a series of advertisements being published in the six months ending 31 July 2016.

**4** General expenses accrued were $2 400.

**5** A computer costing $8 000 had been recorded in the computer maintenance account.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** an appropriate amount on the leasehold premises.
- **(ii)** computers at the rate of 25% per annum using the diminishing (reducing) balance method
- **(iii)** office furniture at the rate of 10% per annum using the straight-line method.

**7** Trade receivables of $1 900 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

**REQUIRED**

**(a)** Prepare the income statement of Suria for the year ended 31 March 2016. **[24]**

**(b)** Prepare the statement of financial position at 31 March 2016. **[16]**

# CHAPTER 7 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q5

**(a)**

**Sue Searle**
**Income statement for the year ended 31 March 2009**

| | **f$** | **$** | **$** |
|---|---|---|---|
| Sales | | | 95 800 |
| Cost of sales | | | |
| Inventory at 1 April 2008 | | 10 780 | |
| Purchases | 48 340 | | |
| Carriage[{(20 000–15 000)×20%}+(11 500+6 500)]×20% | 3 800 | | |
| Returns outwards | (960) | 51 180 | |
| | | 61 960 | |
| Inventory at 31 March 2009 | | 12 600 | 49 360 |
| Gross profit | | | 46 440 |
| **Expenses** | | | |
| Wages of motor vehicle driver ($11 500 × 80%) | | 9 200 | |
| Motor vehicle running expenses ($6 500 × 80%) | | 5 200 | |
| Depreciation: Vehicle[($20 000–15 000)×20%×80%] | | 800 | |
| Premises ($60 000 × 2%) | | 1 200 | |
| Rent and insurance ($7 700 – $450) | | 7 250 | |
| Light and heat ($4 950 + $130) | | 5 080 | |
| General and marketing expenses | | 6 200 | |
| Loan interest ($30 000 × 8%) | | 2 400 | (37 330) |
| | | | 9 110 |
| **Other Incomes** Discount received | | 5 300 | |
| Decrease in prov. for doubtful debts [(18 500×2%)–100] | | 190 | 5 490 |
| Profit for the year | | | 14 600 |

**(b)**

**Sue Searle**
**Balance Sheet**
**As at 31 March 2009**

| **Non-current assets** | **$** | **$** | **$** |
|---|---|---|---|
| Premises | | 60 000 | |
| Provision for depreciation($12 000 + $1 200) | | (13 200) | 46 800 |
| Motor van | | 20 000 | |
| Provision for depreciation ($15 000 + $1 000) | | (16 000) | 4 000 |
| | | | 50 800 |
| **Current Assets** | | | |
| Inventory at 31 March 2009 | | 12 600 | |
| Trade receivables | 18 500 | | |
| Less Provision for doubtful debts ($18 500 × 2%) | (370) | 18 130 | |
| Cash | | 270 | |
| Prepaid insurance | | 450 | |
| | | 31 450 | |

| | $ | $ | $ |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade payables | 9 750 | | |
| Bank Overdraft | 1 680 | | |
| Accrued interest | 2 400 | | |
| Lighting due | 130 | (13 960) | |
| Net Current Assets | | | 17 490 |
| | | | 68 290 |
| **Non-current liabilities** | | | |
| 8 % Bank loan repayable 30 June 2011 | | | (30 000) |
| | | | 38 290 |
| **Financed by** | | | |
| Capital at 1 April 2008 | | 35 000 | |
| Profit for the year | | 14 600 | |
| | | 49 600 | |
| Drawings | | (11 310) | 38 290 |

## QUESTION 2 NOVEMBER 2010 P22 Q5

**(a)**

**Income Statement**
**For the year ended 30 September 2010**

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) | | 155 000 | |
| Less Sales returns | | (9 500) | 145 500 |
| **Cost of Sales** | | | |
| Opening Inventory | | 11 500 | |
| Add Ordinary goods purchased (purchases) ($70 000 – $1 250) | 68 750 | | |
| Carriage inwards | 3 000 | 71 750 | |
| | | 83 250 | |
| Less Closing inventory | | (14 600) | (68 650) |
| **Gross profit** | | | 76 850 |
| **Expenses** | | | |
| Salaries($23 750 + $2 600) | | 26 350 | |
| Rent and rates | | 6 800 | |
| Sundry expenses | | 14 150 | |
| Advertising ($6 200 – $300) | | 5 900 | |
| Depreciation on motor vehicles [($42 000 – $8 000) ) × 25%] | | 8 500 | |
| Depreciation on office equipment ($26 000 × 10%) | | 2 600 | |
| Bad debts | | 4 250 | |
| Loan interest ($10 000 × 5% × $^{6}/_{12}$) | | 250 | (68 800) |
| | | | 8 050 |
| **Other Incomes** | | | |
| Discount received | | 5 600 | |
| Decrease in Prov for doubtful debts [1 000–{(23 000–4 250)×4%] | | 250 | 5 850 |
| Profit for the year | | | 13 900 |

**(b)**

**Balance Sheet**
**As at 30 September 2010**

| | Cost ($) | Depn. to date ($) | Book value ($) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Motor vehicles ($8 000 + $8 500) | 42 000 | 16 500 | 25 500 |
| Office equipment ($4 000 + $1 600) | 26 000 | 6 600 | 19 400 |
| | 68 000 | 23 100 | 44 900 |
| **CURRENT ASSETS** | **$** | **$** | **$** |
| Closing inventory | | 14 600 | |
| Trade receivables ($23 000 – $4 250) | 18 750 | | |
| Provision for doubtful debts [($23 000 – $4 250) × 4%] | (750) | 18 000 | |
| Other receivables (prepaid advertising) | | 300 | |
| | | 32 900 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 18 300 | | |
| Accrued salaries | 2 600 | | |
| Accrued interest on loan | 250 | | |
| Short term loan | 10 000 | | |
| Bank overdraft | 16 000 | (47 150) | (14 250) |
| | | | 30 650 |
| **Equity** | | | |
| Capital at start ($40 000 – $10 000) | | 30 000 | |
| Add Profit for the year | | 13 900 | |
| Less Drawings ($12 000 + $1 250) | | (13 250) | 30 650 |

## QUESTION 3 NOVEMBER 2011 P21 Q1 (c to e)

**(c)** **Trial Balance at 31 July 2011**

| | $ | $ |
|---|---|---|
| Capital (balancing figure) | | 5 900 |
| Drawings | 8 000 | |
| Office furniture | 5 000 | |
| Provision for depreciation on office furniture | | 3 200 |
| Inventory | 4 150 | |
| Bank overdraft | | 250 |
| Trade payables | | 2 950 |
| Sundry expenses | 10 600 | |
| Purchases | 32 400 | |
| Provision for doubtful debts | | 350 |
| Revenue (sales) | | 53 750 |
| Trade receivables | 6 250 | |
| | 66 400 | 66 400 |

**(d)** Trade receivables

| (e) | Trial balance | Balance sheet |
|---|---|---|
| | verifies arithmetic accuracy of ledger account balances | Shows financial position of the business |
| | Includes all ledger account balances | Includes only items of capital nature (assets and liabilities) |
| | No specific layout | Prepared in specific classified order |

## QUESTION 4 NOVEMBER 2011 P22 Q5)

**(a)**

**Jasmine**
**Income Statement for the year ended 30 September 2011**

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) | | 210 000 | |
| Less Sales returns (goods returned by customers) | | (8 120) | 201 880 |
| **Cost of Sales** | | | |
| Opening Inventory | | 9 430 | |
| Add Purchases | 113 500 | | |
| Carriage inwards | 500 | | |
| Return outwards (goods returned to suppliers) | (3 400) | 110 600 | |
| | | 120 030 | |
| Less Closing inventory | | (11 780) | (108 250) |
| **Gross profit** | | | 93 630 |
| **Expenses** | | | |
| Carriage outwards ($1 700 – $500) | | 1 200 | |
| Insurance ($5 600 – $1 120) | | 4 580 | |
| Light and heat ($6 300 + $375) | | 6 675 | |
| Staff wages | | 27 000 | |
| Advertising | | 10 600 | |
| General expenses | | 15 850 | |
| Building repairs | | 4 100 | |
| Depreciation on fixtures ($18 000 × 20%) | | 3 600 | |
| Depreciation on computer [($12 000 – $3 600) ) × 30%] | | 2 520 | |
| Loan interest ($20 000 × 7% × $^{6}/_{12}$) | | 700 | (76 825) |
| | | | 16 805 |
| **Other Incomes** | | | |
| Discount received | | 1 750 | |
| Profit on disposal of non-current asset | | 200 | |
| Decrease in Provision for doubtful debts [$500 – ($8 200 × 5%)] | | 90 | 2 040 |
| **Profit for the year** | | | 18 845 |

**(b)**

**Balance Sheet**
**As at 30 September 2011**

| **NON-CURRENT ASSETS** | $ | $ | $ |
|---|---|---|---|
| Land and buildings at cost ($100 000 + $16 000) | | | 116 000 |
| Fixtures and fittings at cost | | 18 000 | |
| Provisions for depreciation ($7 200 + $3 600) | | (10 800) | 7 200 |
| Computer equipment at cost | | 12 000 | |
| Provisions for depreciation($3 600 + $2 520) | | (6 120) | 5 880 |
| | | | 129 080 |
| **CURRENT ASSETS** | | | |
| Closing inventory | | 11 780 | |
| Trade receivables | 8 200 | | |
| Provision for doubtful debts ($8 200 × 5%) | (410) | 7 790 | |
| Other receivables (prepaid insurance) | | 1 120 | |
| | | 20 690 | |

| | $ | $ | $ |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables | 26 750 | | |
| Bank overdraft | 18 500 | | |
| Accrued heating | 375 | | |
| Accrued interest on loan | 700 | (46 325) | (25 735) |
| | | | 103 345 |
| **Non-Current Liabilities** | | | |
| 7% Bank loan repayable 30 March 2014 | | | (20 000) |
| | | | 83 345 |
| **Equity** | | | |
| Capital at year start | | 80 000 | |
| Add Profit for the year | | 18 845 | |
| Less Drawings | | (15 500) | 83 345 |

## QUESTION 5 MAY 2012 P21 Q1 (d)

**(i)**
- A check on the arithmetical accuracy of double entry records
- Acts as a basis on which financial statements are prepared
- It is 'prima facie' evidence of the balancing of the accounts.

**(ii)**

| Account | Debit/Credit |
|---|---|
| Provision for depreciation | Credit |
| Inventory | Debit |
| Bank (overdraft) | Credit |
| Wages | Debit |

## QUESTION 6 MAY 2012 P21 Q5

**(a)** **Income Statement for the year ended 31 March 2012**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | | 78 580 |
| **Cost of sales** | | | |
| Opening inventory | | 4 690 | |
| Purchases ($18 240 – $450)) | 17 790 | | |
| Less Purchase returns | (1 600) | 16 190 | |
| Closing inventory | | (3 870) | (17 010) |
| Gross profit | | | 61 570 |
| **EXPENSES** | | | |
| Equipment repairs | | 850 | |
| Equipment running expenses ($2 650 + $750) | | 3 400 | |
| General running expenses | | 8 400 | |
| Wages | | 15 300 | |
| Insurance ($3 640 – $1 350) | | 2 290 | |
| Power and water | | 2 300 | |
| Advertising costs | | 5 100 | |
| Discount allowed | | 1 650 | |
| Loan interest ($25 000 × 6% × $^{4}/_{12}$) | | 500 | |
| Depreciation: Lease ($50 000 ÷ 25 years) | | 2 000 | |
| Equipment [($54 000 + $10 000) – $17 000] × 20% | | 9 400 | (51 190) |
| | | | 10 380 |

| | $ | $ | $ |
|---|---|---|---|
| **Other Incomes** | | | |
| Discount received | | 330 | |
| Decrease in Provision for doubtful debts [$700 – ($6 750 × 8%)] | | 160 | 490 |
| **Profit for the year** | | | 10 870 |

**(b)** **Balance sheet as at 31 March 2012**

| | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| **Non-current Assets** | $ | $ | $ |
| Leasehold ($10 000 + $2 000) | 50 000 | 12 000 | 38 000 |
| Equipment ($54000 + $10000); ($17000 + $9400) | 64 000 | 26 400 | 37 600 |
| | 114 000 | 46 000 | 75 600 |
| **Current Assets** | | | |
| Inventory | | 3 870 | |
| Trade receivables | 6 750 | | |
| Provision for doubtful debts ($6 750 × 8%) | (540) | 6 210 | |
| Other receivables (prepaid insurance) | | 1 350 | |
| Bank ($5 150 – $5 000) | | 150 | |
| | | 11 580 | |
| **Current liabilities** | $ | $ | $ |
| Trade payables | 4 010 | | |
| Payable for equipment | 5 000 | | |
| Other payables ($750 + $500) | 1 250 | 10 260 | 1 320 |
| | | | 76 920 |
| **Non-current liabilities** | | | |
| 6% Bank loan | | | (25 000) |
| | | | 51 920 |
| **EQUITY** | | | |
| Capital at 1 April 2011 | | 50 000 | |
| Profit for the year | | 10 870 | |
| | | 60 870 | |
| Drawings ($8 500 + $450) | | (8 950) | 51 920 |

## QUESTION 7 — MAY 2012 P22 Q1 (a & d)

**(a)** **Giorgios**

**Trial Balance at 1 May 2012**

| | Debit | Credit |
|---|---|---|
| | $ | $ |
| Bank loan | | 6000 |
| Bank | 1 000 | |
| Cash | 600 | |
| Premises | 15 000 | |
| Inventory | 1 800 | |
| Trade payable – Early Ltd | | 1 200 |
| Capital | | 11 200 |
| | 18 400 | 18 400 |

**(d)** A check on the arithmetical accuracy of double entry records
Acts as a basis on which financial statements are prepared
It is 'prima facie' evidence of the balancing of the accounts.

## QUESTION 8 — NOVEMBER 2012 P21 Q4

**(a)** **Maria's Income Statement for the year ended 30 September 2012**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | 365 000 | |
| Return inwards | | (8 900) | 356 100 |
| Cost of Sales | | | |
| Opening inventory | | 33 500 | |
| Purchases ($135 000 + $7 500) | 142 500 | | |
| Less Purchase returns | (4 250) | 138 250 | |
| Closing inventory | | (36 450) | (135 300) |
| Cost of sales | | | 220 800 |
| **Gross profit** | | | |
| **EXPENSES** | | | |
| Loan interest [($50 000 × 8% × $^{9}/_{12}$) | | 3 000 | |
| Delivery expenses | | 18 630 | |
| Computer repairs ($19 150 + $1 700) | | 20 850 | |
| General running expenses ($31 600 – $4 000) | | 27 600 | |
| Salaries and wages ($86 700 – $5 200) | | 81 500 | |
| Marketing costs | | 14 000 | |
| Discount allowed | | 22 400 | |
| Depreciation: Buildings [($150 000 – $50 000) × 2%] | | 2 000 | |
| Fixtures [($28 000 + $4 000) × 15%] | | 4 800 | |
| Computers [($40 000–$12 000) × 25%] | | 7 000 | (201 780) |
| | | | 19 020 |
| **OTHER INCOMES** | | | |
| Discount received | | 7 300 | |
| Decrease in Provision for doubtful debts | | | |
| [{($60 000×$^{1}/_{4}$)×8%}+{($60000×$^{3}/_{4}$)×4%}]–$6 400 | | 3 400 | 10 700 |
| **Profit for the year** | | | 29 720 |

**(b)** **Balance sheet at 30 September 2012**

| **NON CURRENT ASSETS** | **Cost ($)** | **Depn ($)** | **NBV ($)** |
|---|---|---|---|
| Land & buildings ($10 000 + $2 000) | 150 000 | 12 000 | 138 000 |
| Fixtures and fittings ($28 000 + $4 000) ; ($19 000+$4 800) | 32 000 | 23 800 | 8 200 |
| Computer equipment ($12 000 + $7 000) | 40 000 | 19 000 | 21 000 |
| | 222 000 | 54 800 | 167 200 |
| **CURRENT ASSETS** | | | |
| Inventory | | 36 450 | |
| Trade receivables | 60 000 | | |
| Less Provision for doubtful debts | 3 000 | 57 000 | |
| Other receivables (prepaid salaries & wages) | | 5 200 | |
| Bank | | 14 070 | |
| | | 112 720 | |

| | $ | $ | $ |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade payables ($31 000 + $7 500) | 38 500 | | |
| Other payables: Interest due($3 000 – $2 000) | 1 000 | | |
| Repairs owing | 1 700 | (41 200) | 71 520 |
| | | | 238 720 |
| **NON CURRENT LIABILITIES** | | | |
| 8% Bank loan | | | (50 000) |
| | | | 188 720 |
| **EQUITY** | | | |
| Capital at 1 October 2011 | | 180 000 | |
| Profit for the year | | 29 720 | |
| Drawings | | (21 000) | 188 720 |

## QUESTION 9 — MAY 2013 P22 Q5

**(a)** **Patricia Chin**

**Income Statement for the year ended 31 March 2013**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | | 119 140 |
| **Cost of Sales** | | | |
| Inventory 1 April 2012 | | 5 430 | |
| Purchases | 60 200 | | |
| Purchases returns | (2 900) | 57 300 | |
| Inventory 31 March 2013 | | (4 200) | (58 530) |
| Gross profit | | | 60 610 |
| **Other Incomes** | | | |
| Discount received | | 884 | |
| Decrease in prov. for doubtful debts [$800–($7300×6%)] | | 362 | 1 146 |
| | | | 61 856 |
| **EXPENSES** | | | |
| Wages | | 20 960 | |
| General expenses ($9 100 – $2 000) | | 7 100 | |
| Insurance [$12 600 – ($12 600 × $^{2}/_{14}$)] | | 10 800 | |
| Motor expenses ($5 670 + $225) | | 5 895 | |
| Discount allowed | | 1 428 | |
| Loan interest ($30 000 × 7%) | | 2 100 | |
| Bad debts | | 246 | |
| Depreciation: | | | |
| Premises ($67 000 x 2%) | | 1 340 | |
| Fixtures and fittings ($20 000 + $2000 x 8%) | | 1 760 | |
| Motor vehicle ($18000 - $11520 x 20%) | | 1 296 | (52 925) |
| Profit for year | | | 8 931 |

**(b)** **Balance Sheet (Statement of Financial Position) as at 31 March 2013**

| **Non-current assets** | **Cost ($)** | **Depn ($)** | **NBV ($)** |
|---|---|---|---|
| Premises ($2 680 + $1 340) | 67 000 | 4 020 | 62 980 |
| Fixtures and fittings ($20 000 + $2 000); ($9 600 + $1 760) | 22 000 | 11 360 | 10 640 |
| Motor vehicle($11 520 + $1 296) | 18 000 | 12 816 | 5 184 |
| | 107 000 | 28 196 | 78 804 |

| | $ | $ | $ |
|---|---|---|---|
| **Current assets** | | | |
| Inventory | | 4 200 | |
| Trade receivables ($7 546 – $246) | 7 300 | | |
| Provision for doubtful debts ($7 300 × 6%) | (438) | 6 862 | |
| Other receivables (Prepaid insurance) ($12 600 × $^2/_{14}$) | | 1 800 | |
| | | 12 862 | |
| **Current liabilities** | | | |
| Trade payables | 4 920 | | |
| Other payables ($225 + $2 100) | 2 325 | | |
| Bank overdraft ($2 330 + $800) | 3 130 | (10 375) | 2 487 |
| | | | 81 291 |
| **Non-current liabilities** 7% bank loan | | | (30 000) |
| | | | 51 291 |
| **Equity** | | | |
| Capital | | 56 000 | |
| Profit for the year | | 8 931 | |
| Drawings ($12 840 + $800) | | (13 640) | 51 291 |

## QUESTION 10 — MAY 2014 P22 5

**(a) Franco's Income Statement for the year ended 31 January 2014**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | 362 500 | |
| Return inwards | | (7 200) | 355 300 |
| **Cost of Sales** | | | |
| Inventory 1 February 2013 | | 17 970 | |
| Purchases | 172 400 | | |
| Return outwards | (8 800) | 463600 | |
| Closing inventory | | (15 600) | (165 970) |
| Gross profit | | | 189 330 |
| **OTHER INCOMES** | | | |
| Commission received | | 11 400 | |
| Profit on disposal of assets | | 500 | 11 900 |
| | | | 201 230 |
| **EXPENSES** | | | |
| Distribution expenses | | 16 300 | |
| Insurance | | 5 900 | |
| Light and heat | | 7 850 | |
| Wages and salaries ($69 500 – $15 000) | | 54 500 | |
| Marketing expenses ($31 000 – $6 750) | | 24 250 | |
| General expenses | | 9 200 | |
| Depreciation: Buildings ($100 000 × 2%) | | 2 000 | |
| Fixtures ($30 000 × 15%) | | 4 500 | |
| Computer($70 000 + $8 000 – $4 000) × 25% | | 11 000 | |
| Loan interest ($100 000 × 8%) | | 8 000 | |
| Bad debts | | 3 000 | |
| Increase in provision for doubtful debts [45000–3000]×5%]– $1400] | | 700 | (147 200) |
| Profit of the year | | | 54 030 |

**Statement of Financial Position at 31 January 2014**

| | Cost ($) | Accumulated Depreciation($) | NBV($) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Land and buildings ($20 000 + $2 000) | 150 000 | 22 000 | 128 000 |
| Fixtures and fittings ($13 500 + $4 500) | 30 000 | 18 000 | 12 000 |
| Computer equipment (70000+8 000); (34 000+11 000) | 78 000 | 45 000 | 33 000 |
| | 258 000 | 85 000 | 173 000 |
| **CURRENT ASSETS** | | | |
| Inventory | | 15 600 | |
| Trade receivables ($45 000 – $3 000) | 42 000 | | |
| Less Provision for doubtful debt ($42 000 × 5%) | (2 100) | 39 900 | |
| Other receivables (prepaid marketing expenses) | | 6 750 | |
| Bank ($17 430 – $8 000) | | 9 430 | |
| | | 71 680 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 37 650 | | |
| Other payables – accrued interest ($100 000 × 8%) | 8 000 | 45 650 | 26 030 |
| | | | 199 030 |
| **NON–CURRENT LIABILITIES** | | | |
| 8% Bank loan | | | (100 000) |
| | | | 99 030 |
| **EQUITY** | | | |
| Capital | | 80 000 | |
| Add Profit for the year | | 54 030 | |
| Less Drawings ($20 000 + $15 000) | | (35 000) | 99 030 |

## QUESTION 11 NOVEMBER 2015 P21 Q5

**(a)**

**Cheng**

**Income Statement for the year ended 30 September 2015**

| | $ | $ |
|---|---|---|
| Revenue | | 315 000 |
| Cost of Sales | | |
| Inventory 1 October 2014 | 36 800 | |
| Purchases ($165 000 + $3 000) | 168 000 | |
| Returns outwards | (2 600) | |
| | 202 200 | |
| Closing inventory 30 September 2015 | (29 980) | |
| Cost of sales | | (172 220) |
| Gross profit | | 142 780 |
| Other Incomes | | |
| Commission receivable ($12 500 + $2 500) | | 15 000 |
| | | 157 780 |
| Expenses | | |
| Wages and salaries | 34 800 | |
| Motor vehicle expenses | 17 200 | |
| Rent [$15 000 – ($6 000 × $^1/_2$)] | 12 000 | |

| | | |
|---|---|---|
| Bank loan interest ($30 000 × 6%) | 1 800 | |
| Heat and light | 6 500 | |
| Operating expenses ($7 100 + $1 100) | 8 200 | |
| Depreciation: Motor vehicles [($50 000 – $10 000) × 20%] | 8 000 | |
| Fixtures and fittings ($24 000 × 15%) | 3 600 | |
| Bad debts | 2 000 | |
| Increase in Provision for doubtful debts [($32 000 × 5%) – $1 000] | 600 | (94 700) |
| Profit for the year | | 63 080 |

**(b)**

**Cheng**
**Statement of Financial Position as at 30 September 2015**

| **Non-Current Assets** | **Cost** | **Accumulated depreciation** | **Book Value** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Motor vehicles ($10 000 + $8 000) | 50 000 | 18 000 | 32 000 |
| Fixtures and fittings | 24 000 | 21 600 | 2 400 |
| | 74 000 | 39 600 | 34 400 |
| **Current Assets** | | | |
| Closing inventory | | 29 980 | |
| Trade receivables ($34 000 – $2 000) | 32 000 | | |
| Less Provision for doubtful debts ($32 000 × 5%) | (1 600) | 30 400 | |
| Other receivables [($6 000 × $^1/_2$) + $2 500] | | 5 500 | |
| Cash and bank ($19 500 – $3 000) | | 16 500 | 82 380 |
| **Total Assets** | | | 116 780 |
| **Capital and Liabilities** | | | |
| Capital | | 15 000 | |
| Profit for the year | | 63 080 | |
| | | 78 080 | |
| Less Drawings | | (18 000) | 60 080 |
| **Non-Current Liabilities** | | | |
| 6% Bank loan | | | 30 000 |
| **Current Liabilities** | | | |
| Trade payables | | 25 000 | |
| Other payables [{($30 000 × 6%) – $1 200} + $1 100] | | 1 700 | 26 700 |
| | | | 116 780 |

## QUESTION 12 NOVEMBER 2015 P22 Q5

**(a)** **Income Statement for the year ended 30 September 2015**

| | $ | $ |
|---|---|---|
| Revenue | 248 200 | |
| Returns inwards | (7 850) | 240 350 |
| **Cost of Sales** | | |
| Inventory 1 October 2014 | 20 450 | |
| Purchases | 104 750 | |
| Carriage inwards | 3 400 | |
| Closing inventory - 30 September 2015 | (17 300) | (111 300) |
| Gross profit | | 129 050 |

| | | $ | $ |
|---|---|---|---|
| **Other Incomes** | | | |
| Discount received | | 8 250 | |
| Commission received | | 5 900 | 14 150 |
| | | | 143 200 |
| **Expenses:** | | | |
| Advertising [$10 800 – ($1 500 × $^{3}/_{5}$)] | | 9 900 | |
| Distribution expenses ($17 200 + $2 600) | | 19 800 | |
| Electricity | | 4 230 | |
| Wages and salaries | | 35 000 | |
| Insurance | | 5 000 | |
| Loss on disposal | | 2 270 | |
| Depreciation – | Leasehold premises ($80 000 ÷ 20 years) | 4 000 | |
| | Computer equipment [($75 000 – $23 000) × 25%] | 13 000 | |
| | Fixtures and fittings ($30 000 × 10%) | 3 000 | |
| Bank loan interest ($50 000 × 8%) | | 4 000 | |
| Bad debts | | 6 400 | |
| Increase in Provision for doubtful debts [($38 000 × 5%) – $1 500] | | 400 | (107 000) |
| Profit for the year | | | 36 200 |

**(b)**

**Ning**
**Statement of Financial Position**
**As at 30 September 2015**

| **Non-Current Assets** | **Cost** | **Depn.** | **NBV** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Leasehold premises ($20 000 + $4 000) | 80 000 | 24 000 | 56 000 |
| Computer equipment ($23 000 + $13 000) | 75 000 | 36 000 | 39 000 |
| Fixtures and fittings ($17 500 + $3 000) | 30 000 | 20 500 | 9 500 |
| | 185 000 | 80 500 | 104 500 |
| **Current Assets** | | | |
| Inventory | | 17 300 | |
| Trade receivables ($44 400 – $6 400) | 38 000 | | |
| Less Provision for doubtful debts ($38 000 × 5%) | (1 900) | 36 100 | |
| Other receivables – prepayments ($1 500 × $^{3}/_{5}$) | | 900 | 54 300 |
| **Total Assets** | | | 158 800 |
| **Capital and Liabilities** | | | |
| Capital | | 50 000 | |
| Add Profit for the year | | 36 200 | |
| Less Drawings | | (25 000) | 61 200 |
| **Non-Current Liabilities** | | | |
| 8% Bank loan ($50 000 – $10 000) | | | 40 000 |
| **Current Liabilities** | | | |
| Trade payables | | 38 700 | |
| Other payables – accruals [$2 600 + {($50 000 × 8%)– $3 000}] | | 3 600 | |
| 8% Bank loan payable in following year | | 10 000 | |
| Bank | | 5 300 | 57 600 |
| | | | 158 800 |

## QUESTION 13 MAY 2016 P21 & 22 Q5

**(a)**

**Suria**
**Income statement for the year ended 31 March 2016**

| | $ | $ |
|---|---|---|
| Revenue | 287 000 | |
| Less Return inwards | (3 150) | 283 850 |
| Cost of Sales | | |
| Opening Inventory | 15 340 | |
| Purchases | 143 800 | |
| Closing Inventory | (17 990) | ( 141 150) |
| Gross profit | | 142 700 |
| **Other Incomes** Commission receivable ($4 900 + $1 400) | | 6 300 |
| | | 149 000 |
| **Expenses:** | | |
| Wages and salaries | 26 500 | |
| Computer maintenance expenses ($12 200 – $8 000) | 4 200 | |
| Rent and rates | 10 000 | |
| Bank loan interest ($40 000 × 6%) | 2 400 | |
| Heat and light | 7 300 | |
| Advertising [$12 600 – ($5 700 × $^4/_6$)] | 8 800 | |
| General expenses ($8 700 + $2 400) | 11 100 | |
| Depreciation: Leasehold premises ($100 000 ÷ 25 years) | 4 000 | |
| Computers [{($44 000+ $8 000)– $16 600)} × 25%] | 8 850 | |
| Office furniture ($15 500 × 10%) | 1 550 | |
| Bad debts | 1 900 | |
| Increase in Provision for doubtful debts[{(27900–1900)×4%} – $910] | 130 | (86 730) |
| Profit for the year | | 62 270 |

**(b)**

**Suria**
**Statement of financial position at 31 March 2016**

| **Assets** | **Cost** | **Aggregate depn** | **book value** |
|---|---|---|---|
| **Non-Current Assets** | **$** | **$** | **$** |
| Leasehold premises ($7 000 + $4 000) | 100 000 | 11 000 | 89 000 |
| Computers ($44 000+ $8 000) ; ($16 600 + $8 850) | 52 000 | 25 450 | 26 550 |
| Office furniture ($12 000 + $1 550) | 15 500 | 13 550 | 1 950 |
| | 167 500 | 50 000 | 117 500 |
| **Current Assets** | | | |
| Inventory | | 17 990 | |
| Trade receivables ($27 900 – $1 900) | 26 000 | | |
| Provision for doubtful debts [($27 900 – $1 900) × 4%] | (1 040) | 24 960 | |
| Other receivables: Commission receivable | | 1 400 | |
| Prepaid advertising ($5 700 × $^4/_6$)] | | 3 800 | |
| Cash and cash equivalents | | 520 | 48 670 |
| | | | 166 170 |

| **Equity** | **$** | **$** |
|---|---|---|
| Capital | 70 000 | |
| Profit for the year | 62 270 | |
| | 132 270 | |
| Less Drawings | (28 000) | 104 270 |
| **Current liabilities** | | |
| Trade payables | 18 600 | |
| 6% Bank loan | 40 000 | |
| Other payables : Accrued general expenses | 2 400 | |
| Accrued interest {($40 000 × 6%)–$1 500}] | 900 | 61 900 |
| | | 166 170 |

# CHAPTER 8 PARTNERSHIP ACCOUNTS

## QUESTION 1 MAY 2009 P2 Q4 (a to c)

The information below relates to the partnership of Bell and Hayward.

| | | |
|---|---|---|
| Capital 1 May 2008 | | **$** |
| | Bell | 40 000 |
| | Hayward | 20 000 |
| Current accounts 1 May 2008 | | |
| | Bell | Nil |
| | Hayward | 1 500 Dr |
| Drawings for the year ended 30 April 2009 | | |
| | Bell | 6 000 |
| | Hayward | 20 000 |

The partnership agreement includes the following terms:

**1** Interest on capital is allowed at 6 % per annum.
**2** Hayward receives a salary of $12 000.
**3** Interest on drawings is charged at 4 % per annum on total drawings for the year.
**4** Profits and losses are shared equally.

Additional capital, $10 000, was introduced by Bell on 1 August 2008. Net profit for the year ended 30 April 2009 was $20 500.

**REQUIRED**

**(a)** State two differences between a partnership and a limited company. **[4]**
**(b)** Prepare the appropriation account for the year ended 30 April 2009. **[8]**
**(c)** Prepare the current account of Hayward for the year ended 30 April 2009. Bring down the balance on 1 May 2009. **[4]**

## QUESTION 2 NOVEMBER 2009 P2 Q5

Paul and Judi are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 3:2, after allowing interest on capital at the rate of 4% per annum. The following balances were extracted from the books on 30 September 2009.

| | | |
|---|---|---|
| | | **$** |
| Capital accounts: | Paul | 30 000 |
| | Judi | 20 000 |
| Current accounts: | Paul Cr | 2 300 |
| | Judi Dr | 650 |
| Drawings: | Paul | 11 000 |
| | Judi | 10 000 |
| Purchases | | 139 750 |
| Sales | | 210 000 |
| Returns inward | | 4 500 |
| Inventory at 1 October 2008 | | 12 650 |
| Staff wages | | 18 000 |
| General expenses | | 9 650 |

| | |
|---|---|
| Rent receivable | 6 000 |
| Advertising expenses | 10 000 |
| Rent | 17 500 |
| Fixtures and fittings (cost) | 24 000 |
| Provision for depreciation of fixtures and fittings | 12 600 |
| Trade payables | 8 900 |
| Trade receivables | 16 000 |
| Provision for doubtful debts | 550 |
| Bank (Dr) | 16 650 |

**Additional information**

**1** Inventory at 30 September 2009 was valued at $15 400.

**2** Paul withdrew goods costing $4 000 from the partnership business during the year. This had not been recorded in the books.

**3** At 30 September 2009:
Advertising expenses, $2 850, were prepaid. Rent receivable, $2 000, was due.

**4** Depreciation is charged on fixtures and fittings at 15% per annum on cost using the straight line method.

**5** Additional fixtures and fittings, $4 000, were purchased on 31 January 2009. These are included in the balance at 30 September 2009. No other changes in non-current assets occurred during the year. Depreciation is calculated from the date of purchase.

**6** The provision for doubtful debts is to be maintained at 5% of trade receivables.

**REQUIRED**

**(a)** Prepare the income statement of Paul and Judi for the year ended 30 September 2009. **[19]**

**(b)** Prepare the balance sheet of Paul and Judi at 30 September 2009. The current accounts details may be included within the balance sheet or in account format outside the balance sheet. **[12]**

## QUESTION 3 MAY 2011 P21 Q3

Choong and Tan are partners sharing profits and losses in the ratio 2:1. Interest is allowed on partners' capital at the rate of 5% per annum and Tan receives a salary of $9 000 per annum. No interest is charged on drawings.

Balances remaining in the books at 30 April 2011 included the following:

| | | $ |
|---|---|---|
| Profit for the year | | 32 000 |
| Capital accounts: | Choong | 80 000 |
| | Tan | 50 000 |
| Current accounts: | Choong | Cr 1 200 |
| | Tan | Dr 1 500 |
| Drawings | Choong | 14 700 |
| | Tan | 16 000 |
| Goodwill | | 90 000 |

**REQUIRED**

**(a)** State **two** items, other than the profit sharing ratio, that might be included in a partnership agreement. **[2]**

**(b)** Prepare the appropriation account of Choong and Tan for the year ended 30 April 2011. **[5]**

**(c)** Prepare the current accounts of Choong and Tan for the year ended 30 April 2011. Balance the accounts and bring down the balances on 1 May 2011. **[7]**

On 1 May 2011, Choong and Tan agreed that goodwill would **not** be retained on the books.

**REQUIRED**

**(d)** State **one** reason why Choong and Tan may have decided **not** to retain goodwill on the books. **[2]**

**(e)** Prepare the capital accounts of Choong and Tan. Balance the accounts and bring down the balance on 1 May 2011 after writing off the goodwill. **[4]**

## QUESTION 4 MAY 2011 P22 Q5

Fu, Li and Yang are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 2:2:1.

Interest on capital is allowed at the rate of 4% per annum and interest is charged on drawings at the rate of 5% per annum on the balances at 30 April 2011.

The following balances were extracted from the books on 30 April 2011.

| | |
|---|---|
| Capital accounts | **$** |
| Fu | 40 000 |
| Li | 35 000 |
| Yang | 25 000 |
| Current accounts | |
| Fu | 2 500Cr |
| Li | 1 500 Cr |
| Yang | 1 000 Dr |
| Drawings | **$** |
| Fu | 10 000 |
| Li | 10 000 |
| Yang | 12 000 |
| Premises | 44 750 |
| Motor vehicles (cost) | 16 000 |
| Fixtures and fittings (cost) | 30 000 |
| Provisions for depreciation | |
| Motor vehicles | 3 200 |
| Fixtures and fittings | 17 500 |
| Trade payables | 54 700 |
| Trade receivables | 45 000 |
| Provision for doubtful debts | 1 500 |
| Bank | 7 560 Dr |
| Purchases | 111 200 |
| Revenue (sales) | 209 500 |
| Returns outward | 4 750 |
| Inventory at 1 May 2010 | 30 650 |
| Salaries and wages | 42 100 |
| Heat and light | 3 890 |
| General expenses | 16 750 |
| Discount received | 5 300 |
| Marketing expenses | 12 050 |
| Rent | 7 500 |

**Additional information at 30 April 2011:**

**1** Inventory was valued at $28 100.
**2** General expenses, $4 200, were prepaid.
**3** Rent, $2 500, was accrued.
**4** Depreciation is to be charged as follows:
Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method
Fixtures and fittings at the rate of 10% per annum on cost, using the straight line method.
**5** The provision for doubtful debts is to be maintained at 5% of trade receivables.
**6** On 30 April 2011 the partners agreed to allow Yang to reduce his capital balance by $10 000. The sum was transferred to his current account on that date. The transfer took place after calculating the interest on capital for the year.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account of Fu, Li and Yang for the year ended 30 April 2011. **[24]**

**(b)** Prepare the statement of financial position (balance sheet) of Fu, Li and Yang at 30 April 2011. The current accounts details may be included within the statement of financial position (balance sheet) or in ledger account format. **[16]**

## QUESTION 5 NOVEMBER 2011 P21 Q5

Donney and Raj are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 4% per annum. Raj receives a salary of $12 000 per annum.
The following balances were extracted from the books on 30 September 2011:

| | |
|---|---|
| Capital accounts | $ |
| Donney | 150 000 |
| Raj | 100 000 |
| Current accounts | |
| Donney | Cr 15 000 |
| Raj | Dr 3 500 |
| Drawings | |
| Donney | 15 000 |
| Raj | 15 000 |
| Revenue (sales) | 365 000 |
| Inventory at 1 October 2010 | 53 500 |
| Purchases | 173 000 |
| Returns inwards | 9 200 |
| Returns outwards | 5 500 |
| Carriage | 16 500 |
| Administration expenses | 25 750 |
| Advertising | 23 480 |
| Wages and salaries | 66 700 |
| Land and buildings | 170 000 |
| Motor vehicles (cost) | 75 000 |
| Fixtures and fittings (cost) | 50 000 |
| Provisions for depreciation | |

| | |
|---|---|
| Motor vehicles | 25 000 |
| Fixtures and fittings | 24 000 |
| Sundry expenses | 10 250 |
| Loan interest paid | 2 000 |
| 8% Loan repayable 31 December 2025 | 50 000 |
| Trade receivables | 62 500 |
| Provision for doubtful debts | 2 000 |
| Trade payables | 30 500 |
| Bank | Cr 4 380 |

**Additional information:**

**1** Inventory at 30 September 2011, $61 450.

**2** Carriage is to be apportioned 30% to the collection of purchases and 70% to the delivery of goods to customers.

**3** At 30 September 2011:
Administration expenses, $630, were prepaid.
Wages and salaries, $2 700, were accrued.

**4** Depreciation is to be charged on:
Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method.
Fixtures and fittings at the rate of 15% on cost using the straight-line method.

**5** Trade receivables include a debt of $2 500 which is considered irrecoverable.

**6** The provision for doubtful debts is to be maintained at 4% of trade receivables.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account of Donney and Raj for the year ended 30 September 2011. **[23]**

**(b)** Prepare the balance sheet of Donney and Raj at 30 September 2011.
The current accounts details may be included within the balance sheet or in account format outside the balance sheet. **[17]**

## QUESTION 6 — MAY 2012 P22 Q5

Su and Li are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 5% per annum. Su is entitled to a salary of $15 000 per annum. The following balances were extracted from the books on 30 April 2012:

| | $ |
|---|---|
| Land and buildings (cost) | 200 000 |
| Equipment (cost) | 48 000 |
| Fixtures and fittings (cost) | 35 000 |
| Provisions for depreciation: | |
| Land and buildings | 14 000 |
| Equipment | 12 000 |
| Fixtures and fittings | 26 000 |
| Revenue | 380 000 |
| Inventory at 1 May 2011 | 53 750 |
| Purchases | 170 000 |
| Returns from customers | 11 100 |
| Returns to suppliers | 8 900 |

| | |
|---|---|
| Carriage outwards | 6 290 |
| Administration expenses | 25 720 |
| Marketing expenses | 17 800 |
| Wages and salaries | 69 530 |
| Communication expenses | 8 900 |
| Loan interest paid | 3 600 |
| Building works | 24 000 |
| 6% Loan repayable 31 December 2020 | 80 000 |
| Trade receivables | 58 000 |
| Provision for doubtful debts | 2 500 |
| Trade payables | 20 340 |
| Bank deposit | 5 000 |
| Bank | Cr 9 150 |
| Capital accounts: Su | 120 000 |
| Li | 100 000 |
| Current accounts: Su | Cr 500 |
| Li | Dr 2 700 |
| Drawings: Su | 20 000 |
| Li | 14 000 |

**Additional information**

**1** Inventory at 30 April 2012, $38 500.

**2** The $15 000 salary paid to Su had been posted to the wages and salaries account and not to her drawings account.

**3** Building works consisted of an extension to the building, $20 000, and repairs to the existing air conditioning, $4 000.

**4** At 30 April 2012 communication expenses, $890, were prepaid and marketing expenses, $4 000, were accrued.

5 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** Buildings at the rate of 2% per annum on cost. No depreciation is charged on land. On 1 April 2011 the land was valued at $75 000.
- **(ii)** Equipment at the rate of 20% per annum using the diminishing (reducing) balance method.
- **(iii)** Fixtures and fittings at the rate of 10% using the straight-line method.

**6** Trade receivables contain a debt of $3000 which is considered irrecoverable.

**7** The provision for doubtful debts is to be maintained at 6% of remaining trade receivables.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account of Su and Li for the year ended 30 April 2012. **[22]**

**(b)** Prepare the balance sheet of Su and Li at 30 April 2012. The current accounts details may be included within the balance sheet or in account format outside the balance sheet. **[18]**

## QUESTION 7 NOVEMBER 2013 P21 Q5

Genet and Vass are in partnership. The following balances were extracted from their books on 31 January 2013.

| | $ | |
|---|---|---|
| Capital accounts 1 February 2012 | | |
| Genet | 60 000 | |
| Vass | 40 000 | |
| Current accounts 1 February 2012 | | |
| Genet | 2 400 | Cr |
| Vass | 3 600 | Dr |
| Drawings | | |
| Genet | 9 000 | |
| Vass | 10 000 | |
| Inventory 1 February 2012 | 12 400 | |
| Purchases | 66 200 | |
| Returns to suppliers | 1 230 | |
| Revenue | 148 200 | |
| Import duty | 2 846 | |
| Transport costs | 4 330 | |
| General expenses | 16 822 | |
| Wages | 9 600 | |
| Insurance premiums | 10 400 | |
| Marketing expenses | 12 200 | |
| Discounts received | 2 428 | |
| Trade receivables | 8 110 | |
| Trade payables | 10 180 | |
| Loan interest paid | 1 000 | |
| Storage expenses | 9 612 | |
| Provision for doubtful debts | 600 | |
| Leasehold property (cost) | 80 000 | |
| 8% Bank loan repayable 1 May 2018 | 15 000 | |
| Storage equipment (cost) | 26 000 | |
| Motor vehicles (cost) | 40 000 | |
| Provisions for depreciation: | | |
| Leasehold property | 12 000 | |
| Storage equipment | 9 360 | |
| Motor vehicles | 19 520 | |
| Bank | 1 202 | Cr |

**Additional information**

**1** Inventory was valued at $14 230 on 31 January 2013.
**2** Insurance premiums were paid up to 28 February 2013.
**3** General expenses, $322, were owing at the year end.
**4** A bad debt, $110, is to be written off.
**5** The costs of bringing goods into the business amounts to 80% of the transport costs.
**6** New storage equipment, $6 000, was purchased during the year. This had been recorded in the storage expenses account in error.
**7** The provision for doubtful debts is to be maintained at 5% of trade receivables.
**8** A full year's depreciation charge is made on non-current assets in the year of purchase, but no charge is made in the year of sale. Depreciation is charged as follows:
   **a** Leasehold at $2000 per annum.

**b** Storage equipment at 12% using the straight-line method of depreciation.
**c** Motor vehicles at the rate of 20% per annum using the diminishing balance method.

**9** The partnership agreement states:
Interest on capital is allowed at 4% per annum.
Vass is to receive an annual salary of $5 000.
Profits and losses are to be shared in the ratio of their capital.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 31 January 2013. **[24]**

**(b)** Draw up the current accounts of the partners for the year ended 31 January 2013. **[5]**

**(c)** Prepare the balance sheet (statement of financial position) at 31 January 2013. **[11]**

## QUESTION 8 — NOVEMBER 2013 P22 Q5

Cain and Les are in partnership providing book-keeping and general administration services to small businesses. They share profits and losses in the ratio of 3:2 respectively. Interest on drawings is charged at 4%, while interest on capital is allowed at the rate of 5% p.a.. Les receives an annual salary of $16 000.
The following balances were extracted from their books on 30 September 2013:

| Capital accounts 1 October 2012 | **$** |
|---|---|
| Cain | 90 000 |
| Les | 60 000 |
| Current accounts 1 October 2012 | |
| Cain Cr | 700 |
| Les Dr | 15 500 |
| Drawings | |
| Cain | 12 000 |
| Les | 15 000 |
| Premises at cost | 118 000 |
| Office equipment at cost | 60 000 |
| Motor vehicles at cost | 22 000 |
| Provision for depreciation: Premises | 7 080 |
| Office equipment | 21 600 |
| Motor vehicles | 7 200 |
| Fees (Revenue) | 103 769 |
| Staff salaries | 14 170 |
| General expenses | 23 460 |
| Heat and light | 4 760 |
| Communication expenses | 7 680 |
| Motor vehicle expenses | 3 650 |
| Discounts allowed | 3 400 |
| Discounts received | 1 400 |
| Bank loan interest paid | 3 000 |
| 8% Bank loan (repayable 30 June 2019) | 40 000 |
| Trade payables | 1 960 |
| Trade receivables | 10 720 |
| Provision for doubtful debts | 520 |
| Bank | Dr 20 889 |

**Additional information**

1 Commission received, $2 400, had been credited to the communication expenses account in error.
2 Heat and light, $150, were outstanding and general expenses $1 010 were prepaid on 30 September 2013.
3 Bank charges, $123, had not been recorded in the books.
4 Motor vehicle expenses, $2 000, had been recorded in the motor vehicles account.
5 The provision for doubtful debts is to be maintained at 5% of trade receivables.
6 Depreciation is charged on premises and office equipment at the rate of 6% and 12% respectively using the straight line method.
7 Motor vehicles are depreciated at the rate of 20% per annum using the diminishing (reducing) balance method.
8 On 1 October 2012 Cain reduced his capital account balance by $10 000. This sum was to be left in the business as an interest free loan, to be repaid on 31 March 2018.

**REQUIRED**

**(a)** Prepare income statement & appropriation account for the year ended 30 September 2013. **[20]**
**(b)** Prepare the current accounts for the year ended 30 September 2013. **[7]**
**(c)** Prepare the balance sheet (statement of financial position) at 30 September 2013. **[13]**

## QUESTION 9 MAY 2014 P21 Q5

Chan and Fong are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 5% per annum and is charged on drawings at the rate of 5% per annum. Fong receives a salary of $10 000 per annum. The following balances were extracted from the books on 30 April 2014.

| | $ |
|---|---|
| Revenue | 480 500 |
| Inventory at 1 May 2013 | 47 700 |
| Purchases | 209 000 |
| Returns from customers | 11 800 |
| Returns to suppliers | 10 500 |
| Land and buildings (cost) | 250 000 |
| Motor vehicles (cost) | 45 000 |
| Fixtures and fittings (cost) | 28 000 |
| Provisions for depreciation: | |
| Motor vehicles | 25 000 |
| Fixtures and fittings | 12 000 |
| Office expenses | 36 500 |
| Motor vehicle expenses | 13 600 |
| Selling expenses | 30 800 |
| Wages and salaries | 80 000 |
| Heat and light | 4 750 |
| Bank loan interest paid | 9 000 |
| Capital accounts: | |
| Chan | 60 000 |
| Fong | 40 000 |

| | | |
|---|---|---|
| Current accounts: | | |
| Chan | 1 500 | Cr |
| Fong | 4 000 | Cr |
| Drawings | | |
| Chan | 6 000 | |
| Fong | 10 000 | |
| 8% Loan repayable 30 March 2016 | 200 000 | |
| Trade receivables | 55 000 | |
| Provision for doubtful debts | 2 100 | |
| Trade payables | 36 050 | |
| Bank | 34 500 | Dr |

**Additional information**

**1** Inventory at 30 April 2014, $38 350.

**2** The motor vehicle expenses are to be apportioned one quarter to collecting goods for resale and three quarters to delivery of goods to customers.

**3** At 30 April 2014:
- **(i)** Heat and light, $750, was accrued
- **(ii)** Office expenses, $4 000, were prepaid.

**4** Half of Fong's $10 000 salary had been paid to him and posted to the wages and salaries account.

**5** Fixtures and fittings costing $2 000 purchased by cheque on 20 April 2014 had not been recorded in the books.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year:
- **(i)** Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
- **(ii)** Fixtures and fittings at the rate of 10% using the straight-line method.

**7** Trade receivables contains a debt of $7 500, which is considered irrecoverable. The provision for doubtful debts is to be maintained at 6%.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 April 2014. **[22]**

**(b)** Prepare the current accounts for the year ended 30 April 2014. **[4]**

**(c)** Prepare the statement of financial position at 30 April 2014. **[14]**

## QUESTION 10 NOVEMBER 2014 P22 Q5

Darius and Edgar are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is allowed at the rate of 5% per annum. Edgar is entitled to a salary of $12 000 per annum. The following balances were extracted from the books on 31 July 2014.

| | $ |
|---|---|
| Leasehold buildings (cost) | 75 000 |
| Motor vehicles (cost) | 40 000 |
| Fixtures and fittings (cost) | 25 000 |
| Provisions for depreciation: | |
| Leasehold buildings | 18 000 |
| Motor vehicles | 10 000 |

| | | |
|---|---|---|
| Fixtures and fittings | 15 000 | |
| Trade payables | 55 900 | |
| Trade receivables | 39 500 | |
| Provision for doubtful debts | 1 900 | |
| 8% Bank loan (repayable 31 March 2015) | 40 000 | |
| Bank interest paid | 1 600 | |
| Bank | 31 400 | Dr |
| Capital accounts: | | |
| Darius | 40 000 | |
| Edgar | 40 000 | |
| Current accounts at 1 August 2013: | | |
| Darius | 500 | Cr |
| Edgar | 900 | Cr |
| Drawings: | | |
| Darius | 12 000 | |
| Edgar | 12 000 | |
| Purchases | 148 300 | |
| Revenue | 256 000 | |
| Returns inwards | 5 200 | |
| Inventory at 1 August 2013 | 25 800 | |
| Heat and light | 7 600 | |
| Other operating expenses | 6 350 | |
| Wages and salaries | 28 950 | |
| Motor vehicle expenses | 11 000 | |
| Rent receivable | 3 500 | |
| Rent payable | 12 000 | |

**Additional information at 31 July 2014**

**1** Inventory was valued at $34 100.

**2** Other operating expenses prepaid $1 800.

**3** Rent receivable of $1 500 was outstanding.

**4** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** an appropriate amount is to be charged on the leasehold buildings which are held on a 25 year lease
- **(ii)** motor vehicles at the rate of 30% per annum using the diminishing (reducing) balance method
- **(iii)** fixtures and fittings at the rate of 10% per annum using the straight-line method.

**5** Trade receivables of $4 500 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

**6** On 31 January 2014 the partners had agreed to allow Edgar to increase his capital by $20 000. Edgar paid a cheque into the partnership bank account on that date.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 31 July 2014. **[23]**

**(b)** Prepare the current accounts for the year ended 31 July 2014. **[4]**

**(c)** Prepare the statement of financial position at 31 July 2014. **[13]**

## QUESTION 11 MAY 2015 P22 Q5

Farah and Hana are in partnership. The partnership agreement states that they share profits and losses equally. Interest on capital is allowed at the rate of 4% per annum. Interest is charged on drawings made during the year at the rate of 5% per annum. No salaries are paid to the partners.

The following balances were extracted from the books on 30 April 2015.

| | $ |
|---|---|
| Premises (cost) | 60 000 |
| Delivery vehicles (cost) | 30 000 |
| Office fixtures (cost) | 15 000 |
| Provisions for depreciation | |
| Premises | 3 600 |
| Delivery vehicles | 10 000 |
| Office fixtures | 11 000 |
| Trade payables | 7 900 |
| Trade receivables | 18 750 |
| Provision for doubtful debts | 500 |
| Bank overdraft | 12 200 |
| Capital accounts: Farah | 50 000 |
| Hana | 30 000 |
| Current accounts at 1 May 2014: Farah | 3 250 Cr |
| Hana | 1 850 Cr |
| Drawings: Farah | 6 000 |
| Hana | 6 000 |
| Purchases | 81 250 |
| Revenue | 190 000 |
| Returns inwards | 8 600 |
| Inventory at 1 May 2014 | 15 600 |
| Advertising expenses | 11 000 |
| Wages and salaries | 31 450 |
| Delivery vehicle expenses | 14 900 |
| Heat and light | 9 750 |
| Other operating expenses | 12 000 |

**Additional information**

The following information was available 30 April 2015.

**1** Inventory was valued at $13 650.

**2** Advertising expenses prepaid were $800.

**3** Heat and light $150 was outstanding.

**4** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
Premises at the rate of 2% on cost per annum
Delivery vehicles at the rate of 20% per annum using the diminishing (reducing) balance method
Office fixtures at the rate of 10% per annum using the straight-line method.

**5** The provision for doubtful debts is to be maintained at 4%.

**6** A cheque payment of $550, made to a credit supplier on 15 April, had not been recorded in the books.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 April 2015. **[18]**
**(b)** Prepare the current accounts for the year ended 30 April 2015. **[7]**
**(c)** Prepare the statement of financial position at 30 April 2015. **[15]**

## QUESTION 12 NOVEMBER 2015 P21 Q3 (a to c)

Aina and Barry are in partnership. The partnership agreement states the following:

Interest is charged on drawings at the rate of 6% per annum
Interest is paid on capital at the rate of 4% per annum
Interest is paid on partners' loans at the rate of 5% per annum
Barry receives a salary of $8 000 per annum
Profits and losses are shared $^{3}/_{5}$ Aina and $^{2}/_{5}$ Barry.

The following information was available on 1 May 2014.

| | | $ | |
|---|---|---|---|
| Capital account | Aina | 50 000 | |
| | Barry | 20 000 | |
| Current account | Aina | 800 | debit |
| | Barry | 6 500 | credit |
| Loan to partnership | Barry | 40 000 | |

Additional information for the year ended 30 April 2015

**1** Barry increased his capital in the partnership by $20 000 on 1 November 2014.
**2** Drawings during the year were:

| | $ |
|---|---|
| Aina | 7 500 |
| Barry | 10 000 |

**3** Profit for the year before loan interest was $19 800.

**REQUIRED**

**(a)** Prepare the appropriation account of the partnership for the year ended 30 April 2015. **[8]**
**(b)** Prepare the current accounts of the partners for the year ended 30 April 2015. Balance the accounts and bring down the balances on 1 May 2015. **[6]**
**(c)** State **two** advantages of a partnership. **[2]**

## QUESTION 13 NOVEMBER 2016 P21 Q5

Li and Yang are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 4% per annum and is charged on drawings at the rate of 10% per annum.
Partners are entitled to annual salaries, Li $8 000 and Yang $5 000.
The following balances were extracted from the books on 30 September 2016.

| Capital accounts | $ |
|---|---|
| Li | 50 000 |
| Yang | 50 000 |
| Current accounts | |
| Li | 4 300 Credit |
| Yang | 2 900 Credit |

| | |
|---|---|
| Drawings | **$** |
| Li | 15 000 |
| Yang | 9 000 |
| Land and buildings (cost) | 200 000 |
| Computing equipment (cost) | 60 000 |
| Office fixtures (cost) | 35 000 |
| Provisions for depreciation | |
| Land and buildings | 22 000 |
| Computing equipment | 20 000 |
| Office fixtures | 10 000 |
| Provision for doubtful debts | 2 000 |
| Revenue | 625 000 |
| Inventory at 1 October 2015 | 52 600 |
| Purchases | 295 000 |
| Returns from customers | 15 750 |
| Returns to supplier | 4 850 |
| General expenses | 27 500 |
| Heat and light | 5 300 |
| Marketing expenses | 41 000 |
| Wages and salaries | 153 000 |
| Administration expenses | 16 800 |
| 5% Bank loan (repayable 2021) | 120 000 |
| Bank loan interest paid | 4 000 |
| Trade receivables | 69 200 |
| Trade payables | 62 500 |
| Bank | 25 600 Credit |

**Additional information**

**1** Inventory at 30 September 2016 was $57 900.

**2** A sale of goods made on credit on 26 September, $2 800, had not been recorded in the books.

**3** At 30 September 2016

Marketing expenses, $1 100, were accrued

Administration expenses $250, were prepaid.

**4** The partners' salaries had been paid to Li and Yang. These had been posted to the wages and salaries account.

**5** Office fixtures costing $5 000 and with an accumulated depreciation of $3 000 had been sold for $2 000. A cheque was received on 20 August 2016. No entries had been recorded in the books.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

**(i)** buildings at the rate of 2% per annum. The buildings have a cost of $100 000. No depreciation is charged on land.

**(ii)** computing equipment at the rate of 30% per annum using the diminishing (reducing) balance method.

**(iii)** office fixtures at the rate of 20% per annum using the straight-line method.

**7** Trade receivables include a debt of $4 000 which is considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 September 2016. **[19]**

**(b)** Prepare the current accounts for the year ended 30 September 2016. Balance the accounts and bring down the balances on 1 October 2016. **[5]**

**(c)** Prepare the statement of financial position at 30 September 2016. **[16]**

# CHAPTER 8 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q4 (a to c)

**(a)**

| Possible differences | Partnership | Company |
|---|---|---|
| **Liability of the owners** | Liability of partners towards the debts of the partnership is unlimited meaning that if a partnership is unable to meet its debts from its assets, then private assets of partners may be used to pay off the unpaid amount of the debt (unless he is a limited partner). | The liability of individual members is limited to the fully paid amount of the shares they own. |
| **Legal status** | A partnership is not a separate legal entity, so all partners are personally liable for the debts of the firm and the property is owned by them jointly as partners. | A limited company is a separate legal entity quite distinct from the members who form the company. A company can own property in its own name, sue and be sued. |
| **Number of owners** | Minimum number of partners is two, with maximum number limited to 20 (with the exception of different service providing professionals e.g. lawyers, accountants etc.) | Minimum number of shareholders is two, with no upper limit except, of course, that it is limited by the number of authorized shares. |
| **Transferability of ownership** | A partner cannot easily transfer his share within the partnership without the consent of other partners. | A shareholder can easily transfer his share within the company without the consent of other shareholders. |
| **Management of business** | All partners (except partner with limited liability) are entitled to manage the affairs of the business. | All ordinary shareholders have no say in the management of a company rather it vests in the hands of a few directors elected by shareholders. |

**(b)** **Bell and Hayward's Appropriation Account**

| | $ | $ |
|---|---|---|
| Profit for the year | | 20 500 |
| Interest on drawings: | | |
| Bell ($6 000 × 4%) | 240 | |
| Hayward ($20 000 × 4%) | 800 | 1 040 |
| | | 21 540 |
| Interest on capital: | | |
| Bell [($40 000 × 6%) + ($10 000 × 6% × $^{9}/_{12}$)] | 2 850 | |
| Hayward ($20 000 × 6%) | 1 200 | |
| Salary – Hayward | 12 000 | (16 050) |
| | | 5 490 |
| Profit Share: | | |
| Bell ($5 490 × $^{1}/_{2}$) | 2 745 | |
| Hayward ($5 490 × $^{1}/_{2}$) | 2 745 | 5 490 |

**(c)** **Hayward - Current account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 1 500 | Interest on capital | 1 200 |
| Interest on drawings | 800 | Salary | 12 000 |
| Drawings | 20 000 | Profit share | 2 745 |
| | | Balance c/d | 6 355 |
| | 22 300 | | 22 300 |
| Balance b/d | 6 355 | | |

## QUESTION 2 — NOVEMBER 2009 P2 Q5

**(a)** **Paul and Judi**

**Income statement for the year ended 30 September 2009**

| | $ | $ | $ |
|---|---|---|---|
| Sales | | 210 000 | |
| less Returns In | | 4 500 | 205 500 |
| **Cost of Sales** | | | |
| Opening inventory | | 12 650 | |
| Purchases | 139 750 | | |
| Less Drawings | (4 000) | 135 750 | |
| | | 148 400 | |
| Closing inventory | | (15 400) | 133 000 |
| **Gross profit c/f** | | | 72 500 |
| | | $ | $ |
| **Gross profit b/f** | | | 72 500 |
| **Expenses** | | | |
| Staff wages | | 18 000 | |
| General expenses | | 9 650 | |
| Advertising ($10 000 – $2 850) | | 7 150 | |
| Rent | | 17 500 | |
| Depreciation[$24 000 – $4 000) × 15%] + ($4 000 × 15% × $^8/_{12}$) | | 3 400 | |
| Increase in provision for doubtful debts[($16 000 × 5%)–$550] | | 250 | (55 950) |
| | | | 16 550 |
| Other Incomes | | | |
| Rent receivable ($6 000 + $2 000) | | | 8 000 |
| **Profit for the year** | | | 24 550 |
| Interest on capital: Paul ($30 000 × 4%) | | 1 200 | |
| Judi ($20 000 × 4%) | | 800 | (2 000) |
| | | | 22 550 |
| Share of profit: Paul ($22 550 × $^3/_5$) | | 13 530 | |
| Judi ($22 550 × $^2/_5$) | | 9 020 | 22 550 |

**(b)** **Paul and Judi**

**Balance Sheet as at 30 September 2009**

| **Non-current assets** | $ | $ | $ |
|---|---|---|---|
| Fixtures ($12 600 + $3 400) | | 24 000 | |
| Provision for Depreciation | | 16 000 | 8 000 |

| | $ | $ | $ |
|---|---|---|---|
| **Current Assets** | | | |
| Closing inventory | | 15 400 | |
| Trade receivables | 16 000 | | |
| Less Provision for doubtful debts($16 000 × 5%) | 800 | 15 200 | |
| Prepaid advertising | | 2 850 | |
| Rent receivable | | 2 000 | |
| Bank | | 16 650 | |
| | | 52 100 | |
| **Current Liabilities** Trade payables | | 8 900 | 43 200 |
| | | | 51 200 |
| **Financed By** | | | |
| Capital: Paul | 30 000 | | |
| Judi | 20 000 | 50 000 | |
| Current accounts(W 1) Paul | 2 030 | | |
| Judi | (830) | 1 200 | 51 200 |

**WORKINGS** **Current Accounts**

| | Paul ($) | Judy ($) | | Paul ($) | Judy ($) |
|---|---|---|---|---|---|
| Balance b/f | | 650 | Balance b/f | 2 300 | |
| Drawings | 15 000 | 10 000 | Interest | 1 200 | 800 |
| Balance c/d | 2 030 | | Profits | 13 530 | 9 020 |
| | | | Balance c/d | | 830 |
| | 17 030 | 10 650 | | 17 030 | 10 650 |

## QUESTION 3 MAY 2011 P21 Q3

**(a)**
- Amounts of partners' salaries
- Rate of interest to be allowed on capital
- Rate of interest to be charged on drawings
- Arrangements for admission or retirement of partners

**(b)** **Choong and Tan**

**Appropriation Account for the year ended 30 April 2011**

| | $ | $ |
|---|---|---|
| Profit for the year | | 32 000 |
| Interest on capital: Choong ($80 000 × 5%) | 4 000 | |
| Tan ($50 000 × 5%) | 2 500 | |
| Salary: Tan | 9 000 | (15 500 |
| | | 16 500 |
| Share of profit: Choong ($16 500 × $^2/_3$) | 11 000 | |
| Tan ($16 500 × $^1/_3$) | 5 500 | 16 500 |

**(c)** **Partners' Current Accounts**

| | Choong | Tan | | Choong | Tan |
|---|---|---|---|---|---|
| Balance b/f | | 1 500 | Balance b/f | 1 200 | |
| Drawings | 14 700 | 16 000 | Interest on capital | 4 000 | 2 500 |
| Balance c/d | 1 500 | | Salary | | 9 000 |
| | | | Profit share | 11 000 | 5 500 |
| | | | Balance c/d | | 500 |
| | 16 200 | 17 500 | | 16 200 | 17 500 |

**(d)** Goodwill is an intangible and factious asset. It is difficult to value in monetary terms so contradicts money measurement concept.

**(e)** **Partners' Capital Accounts**

| **2010** | | **Choong** | **Tan** | **2010** | | **Choong** | **Tan** |
|---|---|---|---|---|---|---|---|
| | | **$** | **$** | | | **$** | **$** |
| May 01 | Goodwill | 60 000 | 30 000 | May 01 | Balance b/f | 80 000 | 50 000 |
| **2011** | | | | **2011** | | | |
| Apr 30 | Balance c/d | 20 000 | 20 000 | Apr 30 | | | |
| | | 80 000 | 50 000 | | | 80 000 | 50 000 |
| | | | | May 01 | Balance b/d | 20 000 | 20 000 |

## QUESTION 4 MAY 2011 P22 Q5

**(a)**

**Fu, Li and Yang**
**Income Statement and Appropriation Account**
**For the year ended 30 April 2011**

| | | | $ | $ | $ |
|---|---|---|---|---|---|
| Revenue | | | | | 209 500 |
| **Cost of Sales** | | | | | |
| | Opening inventory | | | 30 650 | |
| | Add Purchases | | 111 200 | | |
| | Less Returns | | (4 750) | 106 450 | |
| | Closing inventory | | | (28 100) | (109 000) |
| | | | | | 100 500 |
| **Add** | **Other Incomes :** Discount received | | | | 5 300 |
| Gross Profit | | | | | 105 800 |
| **EXPENSES** | | | | | |
| | Rent ($7 500 + $2 500) | | | 10 000 | |
| | Salaries and Wages | | | 42 100 | |
| | Heat and light | | | 3 890 | |
| | General expenses ($16 750 – $4 200) | | | 12 550 | |
| | Marketing expenses | | | 12 050 | |
| | Depreciation- | Motor vehicles [($16 000 – $3 200) × 20%] | | 2 560 | |
| | | Fixtures ($30 000 × 10%) | | 3 000 | |
| | Increase in prov for doubtful debts [($45 000 × 5%} – $1 500] | | | 750 | (86 900) |
| Profit for the year | | | | | 18 900 |
| Interest on drawings: | Fu ($10 000 × 5%) | | | 500 | |
| | Li ($10 000 × 5%) | | | 500 | |
| | Yang ($12 000 × 5%) | | | 600 | 1 600 |
| Interest on capital: | Fu ($40 000 × 4%) | | | 1 600 | |
| | Li ($35 000 × 4%) | | | 1 400 | |
| | Yang ($25 000 × 4%) | | | 1 000 | (4 000) |
| | | | | | 16 500 |
| Profit share: | Fu ($16 500 × $^2/_5$) | | | 6 600 | |
| | Li ($16 500 × $^2/_5$) | | | 6 600 | |
| | Yang ($16 500 × $^1/_5$) | | | 3 300 | 16 500 |

**(b)** **Statement of Financial Position as at 30 April 2011**

| **Non-Current Assets** | | **Cost ($)** | **Prov. For Depn ($)** | **Net book value ($)** |
|---|---|---|---|---|
| Premises | | 44 750 | | 44 750 |
| Motor vehicles ($3 200 + $2 560) | | 16 000 | 5 760 | 10 240 |
| Fixtures ($17 500 + $3 000) | | 30 000 | 20 500 | 9 500 |
| | | 90 750 | 26 260 | 64 490 |
| **Current Assets** | | | | |
| Inventory | | | 28 100 | |
| Trade receivables | | 45 000 | | |
| Less Provision for doubtful debts ($45 000 × 5%) | | (2 250) | 42 750 | |
| Prepaid general expenses | | | 4 200 | |
| Bank | | | 7 560 | |
| | | | 82 610 | |
| **Current Liabilities** | | | | |
| Trade payables | | 54 700 | | |
| Accrued rent | | 2 500 | 57 200 | 25 410 |
| | | | | 89 900 |
| **Equity** | | | | |
| Capital account: | Fu | 40 000 | | |
| | Li | 35 000 | | |
| | Yang ($25 000 – $10 000) | 15 000 | 90 000 | |
| Current account | Fu (see workings) | 200 | | |
| | Li (see workings) | (1 000) | | |
| | Yang (see workings) | 700 | (100) | 89 900 |

**(WORKING)** **Current Accounts**

| | Fu ($) | Li ($) | Yang ($) | | Fu ($) | Li ($) | Yang ($) |
|---|---|---|---|---|---|---|---|
| Balance b/f | | | 1 000 | Balance b/f | 2 500 | 1 500 | |
| Drawings | 10 000 | 10 000 | 12 000 | Capital transfer | | | 10 000 |
| Interest on Drawings | 500 | 500 | 600 | Interest on capital | 1 600 | 1 400 | 1 000 |
| Balance c/d | 200 | | 700 | Share of profit | 6 600 | 6 600 | 3 300 |
| | | | | Balance c/d | | 1 000 | |
| | 10 700 | 10 500 | 14 300 | | 10 700 | 10 500 | 14 300 |

## QUESTION 5 NOVEMBER 2011 P21 Q5

**(a)** **Donney and Raj**

**Income Statement for the year ended 30 September 2011**

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) | | 365 000 | |
| Less Returns | | (9 200) | 355 800 |
| **Cost of Sales** | | | |
| Opening Inventory | | 53 500 | |
| Purchases | 173 000 | | |
| Add Carriage inwards ($16 500 × 30%) | 4 950 | | |
| Less Returns | (5 500) | 172 450 | |
| Closing inventory | | (61 450) | 164 500 |
| Gross profit | | | 191 300 |

| | $ | $ | $ |
|---|---|---|---|
| **Expenses** | | | |
| Carriage outwards ($16 500 × 70%) | | 11 550 | |
| Administration expenses ($25 750 – $630) | | 25 120 | |
| Advertising | | 23 480 | |
| Wages and salaries ($66 700 + $2 700) | | 69 400 | |
| Depreciation- Vehicles [($75 000 − $25 000) × 20%] | | 10 000 | |
| Fixtures ($50 000 × 15%) | | 7 500 | |
| Sundry expenses | | 10 250 | |
| Finance costs (loan interest)(2 000 + 2 000) | | 4 000 | |
| Bad debt | | 2 500 | |
| Increase in prov. for doubtful debts [($60 000×4%)−$2 000) | | 400 | (164 200) |
| Profit for the year | | | 27 100 |
| **Appropriations:** | | | |
| Interest on capital: Donney | 6 000 | | |
| Raj | 4 000 | 10 000 | |
| Salary Raj | | 12 000 | (22 000) |
| | | | 5 100 |
| Profit share: Donney | | 3 400 | |
| Raj | | 1 700 | 5 100 |

**(b)** **Balance Sheet as at 30 September 2011**

| **Non-current Assets** | **Cost ($)** | **Accumulated Depreciation ($)** | **Net Book Value ($)** |
|---|---|---|---|
| Property | 170 000 | | 170 000 |
| Motor vehicles ($25 000 + $10 000) | 75 000 | 35 000 | 40 000 |
| Fixtures and fittings ($24 000 + $7 500) | 50 000 | 31 500 | 18 500 |
| | 295 000 | 66 500 | 228 500 |
| **Current Assets** | | | |
| Inventory | | 61 450 | |
| Trade receivables ($62 500 − $2 500) | 60 000 | | |
| Less: provision for doubtful debts ($60 000 × 4%) | (2 400) | 57 600 | |
| Other receivables (Prepaid admin expenses) | | 630 | |
| | | 119 680 | |
| **Current Liabilities** | | | |
| Trade payables | 30 500 | | |
| Accrued Wages and salaries | 2 700 | | |
| Accrued loan interest ($50 000 × 8%) − $2 000] | 2 000 | | |
| Bank overdraft | 4 380 | (39 580) | |
| **Net current assets** | | | 80 100 |
| | | | 308 600 |
| **Less Non-current liabilities** | | | |
| 8% loan repayable 31 December 2025 | | | (50 000) |
| | | | 258 600 |
| **Equity** | | | |
| Capital accounts: Donney | 150 000 | | |
| Raj | 100 000 | 250 000 | |
| Current accounts: Donney | 9 400 | | |
| Raj | (800) | 8 600 | 258 600 |

## QUESTION 6 MAY 2012 P22 Q5

**(a)**

**Su and Li**
**Income statement (and appropriation account)**
**For the year ended 30 April 2012**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | 380 000 | |
| Less Returns | | (11 100) | 368 900 |
| Cost of Sales | | | |
| Inventory at 1 May 2011 | | 53 750 | |
| Purchases | 170 000 | | |
| Less Returns to suppliers | (8 900) | 161 100 | |
| | | 214 850 | |
| Less Inventory at 30 April 2012 | | (38 500) | |
| Cost of sales | | | (176 350) |
| Gross profit | | | 192 550 |
| **Expenses** | | | |
| Carriage outwards | | 6 290 | |
| Administration expenses | | 25 720 | |
| Marketing ($17 800 + $4 000) | | 21 800 | |
| Wages and salaries ($69 530 – $15 000) | | 54 530 | |
| Communication expenses ($8 900 – $890) | | 8 010 | |
| Loan interest ($80 000 × 6%) | | 4 800 | |
| Building repairs | | 4 000 | |
| Bad debt | | 3 000 | |
| Increase in provision for doubtful debts [($55 000×6%)−$2 500] | | 800 | |
| Depreciation- Buildings [($200 000 − $75 000) + $20 000] × 2% | | 2 900 | |
| Equipment [($48 000 − $12 000) × 20%] | | 7 200 | |
| Fixtures ($35 000 × 10%) | | 3 500 | (142 550) |
| Profit for the year | | | 50 000 |
| **Appropriations** | | | |
| Interest on capital: Su ($120 000 × 5%) | | 6 000 | |
| Li ($100 000 × 5%) | | 5 000 | |
| Salary Su | | 15 000 | (26 000) |
| | | | 24 000 |
| Share of profit: Su ($24 000 × $^3/_5$) | | 14 400 | |
| Li ($24 000 × $^2/_5$) | | 9 600 | 24 000 |

**(W 1)** **Current accounts**

| | Su ($) | Li ($) | | Su ($) | Li ($) |
|---|---|---|---|---|---|
| Balance b/d | | 2 700 | Balance b/d | 500 | |
| Drawings | 20 000 | 14 000 | Interest on capital | 6 000 | 5 000 |
| Drawings salary | 15 000 | | Salary | 15 000 | |
| Balance c/d | 900 | | Share of profit | 14 400 | 9 600 |
| | | | Balance c/d | | 2 100 |
| | 35 900 | 16 700 | | 35 900 | 16 700 |
| Balance c/d | | 2 100 | Balance c/d | 900 | |

**(c)** **Balance Sheet**
**As at 30 April 2012**

| | | | |
|---|---|---|---|
| **Non-current assets** | **Cost ($)** | **Depn. ($)** | **NBV ($)** |
| Land and buildings ($200 000 + $20 000); ($14 000 + $2 900) | 220 000 | 16 900 | 203 100 |
| Equipment ($12 000 + $7 900) | 48 000 | 19 200 | 28 800 |
| Fixtures and fittings ($26 000 + $3 500) | 35 000 | 29 500 | 5 500 |
| | 303 000 | 65 600 | 237 400 |
| **Current assets** | | | |
| Inventory | | 38 500 | |
| Trade receivables ($58 000 – $3 000) | 55 000 | | |
| Less: provision for doubtful debts ($55 000 × 6%) | 3 300 | 51 700 | |
| Other receivables | | 890 | |
| Bank deposit | | 5 000 | |
| | | 96 090 | |
| **Current liabilities** | | | |
| Trade payables | 20 340 | | |
| Other payables: | 4 000 | | |
| Loan interest due [($80 000 × 6%) – $3 600] | 1 200 | | |
| Bank overdraft | 9 150 | (34 690) | 61 400 |
| | | | 298 800 |
| **Non-current liabilities** | | | |
| 6% loan | | | (80 000) |
| | | | 218 800 |
| **Equity** | | | |
| **Capital accounts:** Su | 120 000 | | |
| Li | 100 000 | 220 000 | |
| **Current accounts:** Su | 900 | | |
| Li | (2 100) | (1 200) | 218 800 |

## QUESTION 7 NOVEMBER 2013 P21 Q5

**(a)** **Income Statement and Appropriation Account**
**For the year ended 31 January 2013**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | | 148 200 |
| **Cost of Sales** | | | |
| Opening inventory | | 12 400 | |
| Purchases | 66 200 | | |
| Less Returns | (1 230) | | |
| Add Import duty | 2 846 | | |
| Transport on purchases ($4 330 × 80%) | 3 464 | 71 280 | |
| Closing Inventory | | (14 230) | (69 450) |
| Gross profit | | | 78 750 |
| **Other Incomes** | | | |
| Discount received | | 2 428 | |
| Decrease in prov. for doubtful debts [$600–($8000×5%)] | | 200 | 2 628 |
| | | | 81 378 |

| EXPENSES | $ | $ | $ |
|---|---|---|---|
| Marketing expenses ($12 200 | | 12 000 | |
| Wages | | 9 600 | |
| Transport cost on sales ($4 330 × 20%) | | 866 | |
| General running expenses ($16 822 + $322) | | 17 144 | |
| Insurance premiums ($10 400 × $^{11}/_{12}$) | | 9 600 | |
| Loan interest ($15 000 × 8%) | | 1 200 | |
| Storage expenses ($9 612 – $6 000) | | 3 612 | |
| Bad debts | | 110 | |
| Depreciation: Lease | 2 000 | | |
| Storage equipment[($26000+$6000)×12%] | 3 840 | | |
| Motor vehicles [($40 000 – $19 520) × 20%] | 4 096 | 9 936 | (64 268) |
| Profit for the year | | | 17 110 |
| Appropriations | | | |
| Interest on capital: Genet ($60 000 × 4%) | 2 400 | | |
| Vass ($40 000 × 4%) | 1 600 | 4 000 | |
| Salary : Vass | | 5 000 | (9 000) |
| Profit available for distribution | | | 8 110 |
| Profit share: Genet ($8 110 × $^{3}/_{5}$) | | 4 866 | |
| Vass ($8 110 × $^{2}/_{5}$) | | 3 244 | 8 110 |

**(b)** **Partners' current accounts**

| | Genet $ | Vass $ | | Genet $ | Vass $ |
|---|---|---|---|---|---|
| Balance b/d | | 3 600 | Balance b/f | 2 400 | |
| Drawings | 9 000 | 10 000 | Interest on Capital | 2 400 | 1 600 |
| Balance c/d | 666 | | Salary | | 5 000 |
| | | | Share of Profit | 4 866 | 3 244 |
| | | | Balance c/d | | 3 756 |
| | 9 666 | 13600 | | 9 666 | 13 600 |
| Balance b/d | | 3 756 | Balance b/d | 666 | |

**(c)** **Genet and Vass**

**Balance Sheet (Statement of Financial Position) as at 31 January 2013**

| | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| **NON-CURRENT ASSETS** | $ | $ | $ |
| Leasehold property ($12 000 + $2 000) | 80 000 | 14 000 | 66 000 |
| Storage equipment ($26 000 + $6 000) ($9360+ $3840) | 32 000 | 13 200 | 18 800 |
| Motor vehicles ($19 520 + $4 096) | 40 000 | 23 616 | 16 384 |
| | 152 000 | 50 816 | 101 184 |
| **CURRENT ASSETS** | | | |
| Closing Inventory | | 14 230 | |
| Trade receivables ($8 110 – $110) | 8 000 | | |
| Provision for doubtful debts ($8 000 × 5%) | (400) | 7 600 | |
| Other receivables: Insurance ($10 400 × $^{1}/_{12}$) | | 800 | |
| | | 22 630 | |

| **CURRENT LIABILITIES** | **$** | **$** | **$** |
|---|---|---|---|
| Trade payables | 10 180 | | |
| Other payables: Loan interest [($15 000 × 8%) – $1 000] | 200 | | |
| General expenses | 322 | | |
| Bank overdraft | 1 202 | (11 904) | |
| Net current assets (working capital) | | | 10 726 |
| | | | 111 910 |
| **NON-CURRENT LIABILITIES** | | | |
| 8% bank loan 1 May 2018 | | | (15 000) |
| | | | 96 910 |
| **EQUITY** | | | |
| Capital: Genet | | 60 000 | |
| Vass | | 40 000 | 100 000 |
| Current accounts: Genet | | 666 | |
| Vass | | (3 756) | (3 090) |
| | | | 96 910 |

## QUESTION 8 NOVEMBER 2013 P22 Q5

**(a)** **Income statement and appropriation account**
**For the year ended 30 September 2013**

| **INCOMES** | **$** | **$** |
|---|---|---|
| Fees (Revenue) | 103 769 | |
| Commission received | 2 400 | |
| Discount received | 1 400 | 107 569 |
| **EXPENSES** | | |
| Staff salaries | 14 170 | |
| General expenses ($23 460 – $1 010) | 22 450 | |
| Heat and light expenses ($4 760 + $150) | 4 910 | |
| Communication expenses ($7 680 + $2 400) | 10 080 | |
| Motor vehicle expenses ($3 650 + $2 000) | 5 650 | |
| Discounts allowed | 3 400 | |
| Bank loan interest ($40 000 × 8%) | 3 200 | |
| Bank charges | 123 | |
| Increase in provision for doubtful debts [($10 720 × 5%) –$520] | 16 | |
| Depreciation: Premises ($118 000 × 6%) | 7 080 | |
| Office equipment ($60 000 × 12%) | 7 200 | |
| Motor vehicles ($22 000 – $2 000 – $7 200) × 20%] | 2 560 | (80 839) |
| Profit for the year | | 26 730 |
| Add Interest in drawings: Cain | 480 | |
| Les | 600 | 1 080 |
| | | 27 810 |
| Less Interest on capital: Cain | 4 000 | |
| Les | 3 000 | |
| Salary Les | 16 000 | (23 000) |
| | | 4 810 |
| Share of profit: Cain | 2 886 | |
| Les | 1 924 | 4 810 |

**(b)** **Current accounts**

| | Cain ($) | Les ($) | | Cain ($) | Les ($) |
|---|---|---|---|---|---|
| Balance b/d | | 15 500 | Balance b/f | 700 | |
| Interest on drawings | 480 | 600 | Salary | | 16 000 |
| Drawings | 12 000 | 15 000 | Interest on capital | 4 000 | 3 000 |
| | | | Share of profit | 2 886 | 1 924 |
| | | | Balance c/d | 4 894 | 10 176 |
| | 12 480 | 31 100 | | 12 480 | 31 100 |
| Balance b/d | 4 894 | 10 176 | | | |

**(c)** **Statement of Financial Position at 30 September 2013**

| | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| **Non-Current Assets** | **$** | **$** | **$** |
| Premises ($7 080 + $7 080) | 118 000 | 14 160 | 103 840 |
| Office equipment ($21 600 + $7 200) | 60 000 | 28 800 | 31 200 |
| Motor vehicles ($22 000 – $2 000); ($7 200 + $2 560) | 20 000 | 9 760 | 10 240 |
| | 198 000 | 52 720 | 145 280 |
| **CURRENT ASSETS** | | | |
| Trade receivables | 10 720 | | |
| Provision for doubtful debts ($10 720 × 5%) | (536) | 10 184 | |
| Other receivables | | 1 010 | |
| Bank ($20 889 – $123) | | 20 766 | |
| | | 31 960 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 1 960 | | |
| Other payables: Bank interest | 200 | | |
| Heat and light | 150 | (2 310) | |
| Net Current Assets | | | 29 650 |
| | | | 174 930 |
| **NON-CURRENT LIABILITIES** | | | |
| 8% bank loan (repayable 30 June 2019) | | 40 000 | |
| Cain loan (repayable 31 March 2018) | | 10 000 | (50 000) |
| | | | 124 930 |
| **EQUITY** | | | |
| Capital accounts | | | |
| Cain ($90 000 – $10 000) | | 80 000 | |
| Les | | 60 000 | 140 000 |
| Current accounts | | | |
| Cain (Dr) | | (4 894) | |
| Les (Dr) | | (10 176) | (15 070) |
| | | | 124 930 |

## QUESTION 9 MAY 2014 P21 Q5

**(a)** **Chan and Fong**

**Income Statement and Appropriation Account**

**For the year ended 30 April 2014**

| | | $ | $ | $ |
|---|---|---|---|---|
| Revenue | | | 480 500 | |
| Less | Returns from customers | | (11 800) | 468 700 |
| **Cost of Sales** | | | | |
| | Opening Inventory | | 47 700 | |
| | Purchases | 209 000 | | |
| | Less Return to suppliers | (10 500) | | |
| | Carriage inwards - motor vehicle expenses ($13 600 × $^1/_4$) | 3 400 | 201 900 | |
| | Closing Inventory | | (38 350) | (211 250) |
| Gross profit | | | | 257 450 |
| **Expenses** | | | | |
| | Carriage outwards - motor vehicle expenses ($13 600 × $^1/_4$) | | 10 200 | |
| | Office expenses ($36 500 – $4 000) | | 32 500 | |
| | Selling expenses | | 30 800 | |
| | Wages and salaries [$80 000 – ($10 000 × $^1/_2$)] | | 75 000 | |
| | Heat and light ($4 750 + $750) | | 5 500 | |
| | Bank loan interest ($200 000 × 8%) | | 16 000 | |
| | Bad debts | | 7 500 | |
| | Increase in prov. for doubtful debts [($47 500 × 6%)– $2 100] | | 750 | |
| | Depreciation: Motor vehicles [($45 000 – $25 000) × 25%] | | 5 000 | |
| | Fixtures & fittings [($28 000 + $2 000) × 10%] | | 3 000 | (186 250) |
| Profit for the year | | | | 71 200 |
| Add | Interest on drawings: Chan ($6 000 × 5%) | | 300 | |
| | Fong ($10 000 × 5%) | | 500 | 800 |
| | | | | 72 000 |
| Less | Interest on capital: Chan ($60 000 × 5%) | | 3 000 | |
| | Fong ($40 000 × 5%) | | 2 000 | |
| | Salary Fong | | 10 000 | (15 000) |
| | | | | 57 000 |
| Profit share: | Chan ($57 000 × $^2/_3$) | | 38 000 | |
| | Fong ($57 000 × $^1/_3$) | | 19 000 | 57 000 |

**(b)** **Current accounts**

| Details | Chan ($) | Fong ($) | Details | Chan ($) | Fong ($) |
|---|---|---|---|---|---|
| Drawings | 6 000 | 10 000 | Balance b/f | 1 500 | 4 000 |
| Interest on drawings | 300 | 500 | Interest on capital | 3 000 | 2 000 |
| Balance c/d | 36 200 | 19 500 | Salary | | 5 000 |
| | | | Profit share | 38 000 | 19 000 |
| | 42 500 | 30 000 | | 42 500 | 30 000 |

**(c)** **Chan and Fong**

**Statement of Financial Position at 30 April 2014**

| NON-CURRENT ASSETS | Cost ($) | Accumulated Depn ($) | NBV ($) |
|---|---|---|---|
| Land and buildings | 250 000 | – | 250 000 |
| Motor vehicles ($25 000 + $5 000) | 45 000 | 30 000 | 15 000 |
| Fixtures & fittings ($28000 + $2000); ($12000 + $3000) | 30 000 | 15 000 | 15 000 |
| | 325 000 | 45 000 | 280 000 |

| **CURRENT ASSETS** | **$** | **$** | **$** |
|---|---|---|---|
| Inventory | | 38 350 | |
| Trade receivables ($55 000 – $7 500) | 47 500 | | |
| Less: provision for doubtful debts ($47 500 × 6%) | (2 850) | 44 650 | |
| Other receivables (Prepaid office expenses) | | 4 000 | |
| Bank ($34 500 – $2 000 ) | | 32 500 | |
| | | 119 500 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 36 050 | | |
| Other payables: Heat and light | 750 | | |
| Loan interest due ($16 000 – $9 000) | 7 000 | (43 800) | 75 700 |
| | | | 355 700 |
| **NON-CURRENT LIABILITIES** | | | |
| 8% loan repayable 30 March 2016 | | | (200 000) |
| | | | 155 700 |
| **EQUITY** | | | |
| Capital accounts: Chan | | 60 000 | |
| Fong | | 40 000 | 100 000 |
| Current accounts: Chan | | 36 200 | |
| Fong | | 19 500 | 55 700 |
| | | | 155 700 |

## QUESTION 10 NOVEMBER 2014 P22 Q5

**(a)**

**Darius and Edgar**

**Income Statement and Appropriation Account for the year ended 31 July 2014**

| | **$** | **$** |
|---|---|---|
| Revenue | 256 000 | |
| Less Returns | (5 200) | 250 800 |
| **Cost of Sales** | | |
| Opening inventory | 25 800 | |
| Purchases | 148 300 | |
| | 174 100 | |
| Closing inventory | (34 100) | (140 000) |
| Gross Profit | | 110 800 |
| **OTHER INCOMES** | | |
| Rent receivable ($3 500 + $1 500) | 5 000 | |
| Decrease in prov. for doubtful debts[($39 500–$4 500) × 4%] –$1 900 | 500 | 5 500 |
| | | 116 300 |
| **EXPENSES** | | |
| Rent payable | 12 000 | |
| Wages and salaries | 28 950 | |
| Heat and light | 7 600 | |
| Other operating expenses ($6 350 – $1 800) | 4 550 | |
| Motor vehicle expenses | 11 000 | |
| Bank loan interest ($1 600 + $1 600) | 3 200 | |
| Depreciation Leasehold buildings $\left(\frac{\$75\ 000}{25\ \text{years}}\right)$ | 3 000 | |

| | | | |
|---|---|---|---|
| | Motor vehicles [($40 000 – $10 000) × 30%] | 9 000 | |
| | Fixtures ($25 000 × 10%) | 2 500 | |
| Bad debts | | 4 500 | (86 300) |
| Profit for the year | | | 30 000 |
| **APPROPRIATIONS** | | | |
| Interest on capital | Darius ($40 000 × 5%) | 2 000 | |
| | Edgar [($20 000 × 5%) + ($20 000 × 5% × $^6/_{12}$)] | 1 500 | |
| Salary – Edgar | | 12 000 | ( 15 500) |
| | | | 14 500 |
| Share of profit: | Darius ($14 500× $^3/_5$) | 8 700 | |
| | Edger ($14 500× $^2/_5$) | 5 800 | 14 500 |

**(b)** **Current accounts**

| | Darius ($) | Edgar($) | | Darius ($) | Edgar($) |
|---|---|---|---|---|---|
| Drawings | 12 000 | 12 000 | Balance b/f | 500 | 900 |
| Balance c/d | | 8 200 | Interest on capital | 2 000 | 1 500 |
| | | | Share of profit | 8 700 | 5 800 |
| | | | Salary | | 12 000 |
| | | | Balance c/d | 800 | |
| | 12 000 | 20 200 | | 12 000 | 20 200 |

**(c)** **Darius and Edgar**

**Statement of Financial Position at 31 July 2014**

| **Non-current assets** | **Cost ($)** | **Accumulated Depreciation ($)** | **Book Value ($)** |
|---|---|---|---|
| Leasehold buildings ($18 000 + $3 000) | 75 000 | 21 000 | 54 000 |
| Motor vehicles ($10 000 + $9 000) | 40 000 | 19 000 | 21 000 |
| Fixtures ($15 000 + $2 500) | 25 000 | 17 500 | 7 500 |
| | 140 000 | 57 500 | 82 500 |
| **CURRENT ASSETS** | | | |
| Inventory | | 34 100 | |
| Trade receivables ($39 500 – $4 500) | 35 000 | | |
| Prov. for doubtful debts[($39 500–$4 500) × 4%] | (1 400) | 33 600 | |
| Other receivables : accrued rent receivable | 1 500 | | |
| operating expenses prepaid | 1 800 | 3 300 | |
| Bank | | 31 400 | |
| | | 102 400 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 55 900 | | |
| 8% Bank loan (repayable 31 March 2015) | 40 000 | | |
| Other payables : Interest due ($3 200 – $1 600) | 1 600 | (97 500) | 4 900 |
| | | | 87 400 |
| **EQUITY** | | | |
| Capital accounts: Darius | 40 000 | | |
| Edgar | 40 000 | 80 000 | |
| Current accounts: Darius | (800) | | |
| Edgar | 8 200 | 7 400 | 87 400 |

## QUESTION 11 MAY 2015 P22 Q5

**(a)**

**Farah and Hana**
**Income Statement and Appropriation Account**
**For the year ended 30 April 2015**

| | $ | $ |
|---|---|---|
| Revenue | 190 000 | |
| Returns inwards | (8 600) | 181 400 |
| **Cost of Sales** | | |
| Inventory 1 May 2014 | 15 600 | |
| Purchases | 81 250 | |
| | 96 850 | |
| Inventory 30 April 2015 | (13 650) | |
| Cost of sales | | (83 200) |
| Gross profit | | 98 200 |
| Expenses | | |
| Advertising ($11 000 – $800) | 10 200 | |
| Wages and salaries | 31 450 | |
| Delivery vehicle expenses | 14 900 | |
| Heat and light ($9 750 + $150) | 9 900 | |
| Other operating expenses | 12 000 | |
| Depreciation: Premises ($60 000 × 2%) | 1 200 | |
| Delivery vehicles[($30 000 – $10 000) × 20%] | 4 000 | |
| Office fixtures ($15 000 × 10%) | 1 500 | |
| Increase in Provision for doubtful debts [($18 750 × 4%) – $500] | 250 | (85 400) |
| Profit for the year | | 12 800 |
| Add Interest on drawings: | | |
| Farah ($6 000 × 5%) | 300 | |
| Hana ($6 000 × 5%) | 300 | 600 |
| | | 13 400 |
| Less Interest on capital: | | |
| Farah ($50 000 × 4%) | (2 000) | |
| Hana ($30 000 × 4%) | (1 200) | (3 200) |
| | | 10 200 |
| Profit share: Farah ($10 200 × $^1/_2$) | 5 100 | |
| Hana ($10 200 × $^1/_2$) | 5 100 | 10 200 |

**(b)** **Current accounts**

| | Farah $ | Hana $ | | Farah $ | Hana $ |
|---|---|---|---|---|---|
| Drawings | 6 000 | 6 000 | Balance b/f | 3 250 | 1 850 |
| Interest on drawings | 300 | 300 | Interest on capital | 2 000 | 1 200 |
| Balance c/d | 4 050 | 1 850 | Profit share | 5 100 | 5 100 |
| | 10 350 | 8 150 | | 10 350 | 8 150 |
| | | | Balance b/d | 4 050 | 1 850 |

**(c) Statement of Financial Position at 30 April 2015**

| **Non-current assets** | **Cost ($)** | **Depn. ($)** | **NBV ($)** |
|---|---|---|---|
| Premises ($3 600 + $1 200) | 60 000 | 4 800 | 55 200 |
| Delivery vehicles ($10 000 + $4 000) | 30 000 | 14 000 | 16 000 |
| Office fixtures ($11 000 + $1 500) | 15 000 | 12 500 | 2 500 |
| | 105 000 | 31 300 | 73 700 |
| **Current Assets** | | | |
| Closing inventory | | 13 650 | |
| Trade receivables | 18 750 | | |
| Less Provision for doubtful debts ($18 750 × 4%) | (750) | 18 000 | |
| Other receivables - prepayments | | 800 | 32 450 |
| Total assets | | | 106 150 |
| **Capital and liabilities** | | | |
| Capital accounts: Farah | 50 000 | | |
| Hana | 30 000 | 80 000 | |
| Current accounts: Farah | 4 050 | | |
| Hana | 1 850 | 5 900 | 85 900 |
| **Current Liabilities** | | | |
| Trade payables ($7 900 – $550) | | 7 350 | |
| Other payables – accruals | | 150 | |
| Bank overdraft ($12 200 + $550) | | 12 750 | 20 250 |
| | | | 106 150 |

## QUESTION 12 NOVEMBER 2015 P21 Q3 (a to c)

**(a) Aina and Barry**

**Appropriation Account for the year ended 30 April 2015**

| | $ | $ |
|---|---|---|
| Profit for the year [$19 800 – ($40 000 × 5%)] | | 17 800 |
| Add interest on drawings: Aina ($7 500 × 6%) | 450 | |
| Barry ($10 000 × 6%) | 600 | 1 050 |
| Less Interest on capital: Aina ($50 000 × 4%) | 2 000 | 18 850 |
| Barry [($20 000 × 4%) + ($20 000 × 4% × $^6/_{12}$)] | 1 200 | |
| Salary: Barry | 8 000 | (11 200) |
| | | 7 650 |
| Share of profit: Aina ($7 650 × $^3/_5$) | 4 590 | |
| Barry ($7 650 × $^2/_5$) | 3 060 | 7 650 |

**(b) Current Accounts**

| | Aina ($) | Barry($) | | Aina($) | Barry($) |
|---|---|---|---|---|---|
| Balance b/f | 800 | | Balance b/f | | 6 500 |
| Drawings | 7 500 | 10 000 | Interest on loan ($40000×5%) | | 2 000 |
| Interest on drawings | 450 | 600 | Interest on capital | 2 000 | 1 200 |
| Balance c/d | | 10 160 | Salary | | 8 000 |
| | | | Profit share | 4 590 | 3 060 |
| | | | Balance c/d | 2 160 | |
| | 8 750 | 20 760 | | 8 750 | 20 760 |

**(c)** Availability of more finance
Sharing of risks and responsibilities
Availability of more skills/expertise
Sharing of losses

## QUESTION 13 NOVEMBER 2016 P21 Q5

**(a)**

**Li and Yang**
**Income Statement and Appropriation**
**For the year ended 30 September 2016**

| | $ | $ |
|---|---|---|
| Revenue ($625 000 + $2 800) | 627 800 | |
| Less Returns inwards | (15 750) | 612 050 |
| **Cost of Sales** | | |
| Opening inventory | 52 600 | |
| Purchases | 295 000 | |
| Less Return outwards | (4 850) | |
| | 342 750 | |
| Less Closing inventory | (57 900) | |
| Cost of sales | | (284 850) |
| Gross profit | | 327 200 |
| **Expenses** | | |
| General expenses | 27 500 | |
| Heat and light | 5 300 | |
| Marketing expenses ($41 000 + $1 100) | 42 100 | |
| Wages and salaries ($153 000 – $8 000 – $5 000) | 140 000 | |
| Administration expenses ($16 800 – $250) | 16 550 | |
| Bank loan interest ($120 000 × 5%) | 6 000 | |
| Depreciation- Buildings ($100 000 × 2%) | 2 000 | |
| Computers [($60 000 – $20 000) × 30%] | 12 000 | |
| Office fixtures [($35 000 – $5 000) × 20%] | 6 000 | |
| Bad debts | 4 000 | |
| Increase in prov for doubtful debts [($69200+$2800–$4000)×5%}–$2000] | 1 400 | (262 850) |
| Profit for the year | | 64 350 |
| Add Interest on drawings: Li ($15 000 × 4%) | 1 500 | |
| Yang ($9 000 × 10%) | 900 | 2 400 |
| | | 66 750 |
| Less Interest on capital: Li ($50 000 × 4%) | 2 000 | |
| Yang ($50 000 × 4%) | 2 000 | |
| Salary Li | 8 000 | |
| Yang | 5 000 | (17 000) |
| | | 49 750 |
| Profit share: | | |
| Li ($49 750 × $^3/_5$) | 29 850 | |
| Yang ($49 750 × $^2/_5$) | 19 900 | 49 750 |

**(b)** **Current accounts**

| **Date** | | **Li** | **Yang** | **Date** | | **Li** | **Yang** |
|---|---|---|---|---|---|---|---|
| **2016** | | **$** | **$** | **2016** | | **$** | **$** |
| Sept 30 | Drawings incl salary | 23 000 | 14 000 | Oct 1 | Balance b/f | 4 300 | 2 900 |
| Sept 30 | Interest on drawings | 1 500 | 900 | Sept 30 | Interest on capital | 2 000 | 2 000 |
| Sept 30 | Balance c/d | 19 650 | 14 900 | Sept 30 | Salary | 8 000 | 5 000 |
| | | | | Sept 30 | Profit share | 29 850 | 19 900 |
| | | 44 150 | 29 800 | | | 44 150 | 29 800 |
| | | | | Oct 1 | Balance b/d | 19 650 | 14 900 |

**(c)** **Li and Yang**

**Statement of Financial Position at 30 September 2016**

| | **Cost** | **Accumulated depreciation** | **Net Book Value** |
|---|---|---|---|
| **Non-Current Assets** | **$** | **$** | **$** |
| Land and buildings ($22 000 + $2 000) | 200 000 | 24 000 | 176 000 |
| Computer equipment ($20 000 + $12 000) | 60 000 | 32 000 | 28 000 |
| Office fixtures($35000–$5000) ; ($10000–$3000+$6000) | 30 000 | 13 000 | 17 000 |
| | 290 000 | 69 000 | 221 000 |
| **Current Assets** | | | |
| Closing inventory | | 57 900 | |
| Trade receivables ($69 200 + $2 800 – $4 000) | 68 000 | | |
| Less: provision for doubtful debts ($68 000 × 5%) | (3 400) | 64 600 | |
| Other receivables: Prepaid administration expenses | | 250 | 122 750 |
| **Total assets** | | | 343 750 |
| **Equity** | | | |
| **Capital Accounts:** | | | |
| Li | | 50 000 | |
| Yang | | 50 000 | 100 000 |
| **Current Accounts:** | | | |
| Li (‘b’ part) | | 19 650 | |
| Yang (‘b’ part) | | 14 900 | 34 550 |
| **Non-Current Liabilities** | | | |
| 5% Bank loan repayable 2021 | | | 120 000 |
| **Current Liabilities** | | | |
| Trade payables | | 62 500 | |
| Other payables: Accrued marketing expenses | | 1 100 | |
| Loan interest due ($6 000 – $4 000) | | 2 000 | |
| Bank ($25 600 – $2 000) | | 23 600 | 89 200 |
| **Total equity and liabilities** | | | 343 750 |

# CHAPTER 9 AMALGAMATION OF SOLE PROPRIETORSHIPS

## QUESTION 1 MAY 2010 P22 Q3

Chan and David were sole traders with the following assets and liabilities on 31 March 2009.

| | **Chan** **$** | **David** **$** |
|---|---|---|
| Intangible assets (goodwill) | 30 000 | |
| Non-current assets | 23 000 | 10 000 |
| Inventory | 7 000 | 5 000 |
| Trade receivables | 3 000 | 4 000 |
| Trade payables | 5 000 | 6 000 |
| Cash (bank) | | 2 000 |
| Loans repayable within 12 months (bank overdraft) | 8 000 | |
| Capital | 50 000 | 15 000 |

On 1 April 2009 Chan and David formed a partnership, Newstart. They entered into the following agreement:

**1** Intangible assets (goodwill) would **not** appear in the books of the new partnership.
**2** No interest would be allowed on capital.
**3** Interest would be charged on drawings at the rate of 5% of the balance at the end of the year.
**4** Salaries would be paid at the rate of: Chan $8 000 per annum and David $7 000 per annum.
**5** Profits and losses would be shared in the ratio Chan and David 2: 1

**REQUIRED**

**(a)** Explain the term goodwill and give **one** example. **[2]**

**(b)** State **two** accounting principles (concepts) which supports goodwill not being included in the balance sheet of a business. **[4]**

**(c)** Calculate the capital of **each** partner, Chan and David, after writing off the goodwill on 1 April 2009. **[4]**

**(d)** Prepare the balance sheet of Newstart at 1 April 2009. **[6]**

The following information is available at the end of the first year of trading of Newstart on 31 March 2010.

| | | **$** |
|---|---|---|
| Profit for the year | | 10 250 |
| Drawings: | Chan | 15 000 |
| | David | 20 000 |

**REQUIRED**

**(e)** Prepare the profit and loss appropriation account for the year ended 31 March 2010. **[5]**

# CHAPTER 9 SOLUTIONS

## QUESTION 1 MAY 2010 P22 Q3

**(a)** Goodwill reflects the ability of a business to earn more than the normal rate of return on its physical net assets. In other words goodwill represents the cumulative effect of various internal or external factors which put a business into an advantageous position in relation to its competitors in attracting more customers. This may be due to number of factors like personal reputation of the owners, advantageous location of the business premises, less or negligible competition, good after sale services etc.

**(b)** Because of the difficulties involved in valuing the asset of goodwill objectively, other than at the time of purchase, so under **money measurement concept** it is generally not recognized as an asset. As goodwill is a factious asset so its inclusion in balance sheets as an asset will artificially improve the net worth of the business so is often omitted from the balance sheet for reasons of **prudence**.

**(c)** **Calculation of capital accounts balances after goodwill adjustment**

| | Effects on capital | |
|---|---|---|
| | **Chan ($)** | **David($)** |
| Capital account balances before goodwill adjustment | 50 000 | 15 000 |
| Goodwill written off (↓ $30 000) | ($^2/_3$)↓20 000 | ($^1/_3$) ↓10 000 |
| Capital account balances after goodwill adjustment | 30 000 | 5 000 |

**(d)** **Newstart**
**Balance Sheet as at 1 April 2009**

| | $ | $ | $ |
|---|---|---|---|
| **Non-Current Assets** ($23 000 + $10 000) | | | 33 000 |
| **Current Assets** | | | |
| Inventory ($7 000 + $5 000) | | 12 000 | |
| Trade receivables ($3 000 + $4 000) | | 7 000 | |
| Cash (bank) | | 2 000 | |
| | | 21 000 | |
| **Current Liabilities** | | | |
| Trade payables ($5 000 + $6 000) | 11 000 | | |
| Loans repayable within 12 months (bank overdraft) | 8 000 | (19 000) | 2 000 |
| | | | 35 000 |
| **Equity** | | | |
| Capital Chan (“c” part) | | 30 000 | |
| David (“c” part) | | 5 000 | 35 000 |

**(e)** **Newstart**
**Appropriation Account**

| | $ | $ |
|---|---|---|
| Profit for the year | | 10 250 |
| Interest on drawings: | | |
| Chan ($15 000 × 5%) | 750 | |
| David ($20 000 × 5%) | 1 000 | 1 750 |
| | | 12 000 |

| | | | |
|---|---|---|---|
| Salary | Chan | 8 000 | |
| | David | 7 000 | (15 000) |
| | | | (3 000) |
| Loss Share: | Chan ($3 000 × $^2/_3$) | (2 000) | |
| | David ($3 000 × $^1/_3$) | (1 000) | (3 000) |

# CHAPTER 10 CAPITAL & REVENUE

## QUESTION 1 MAY 2010 P21 Q2 (f)

During the year ended 30 April 2010, Sparky Ltd carried out work on the buildings.

**1** Built an extension
**2** Redecorated the interior
**3** Installed air conditioning

**REQUIRED**

State whether each item, 1 to 3 above, is capital expenditure or revenue expenditure. **[3]**

## QUESTION 2 NOVEMBER 2010 P22 Q3 (g & h)

**(g)** Explain the term capital expenditure. **[2]**

**(h)** In the table below, place a tick (√) under the correct heading to indicate which of the following is capital expenditure or revenue expenditure.

| | Capital expenditure | Revenue expenditure |
|---|---|---|
| Advertising campaign<br>A new computer system<br>Purchase of computer CDs | | |

**[3]**

## QUESTION 3 MAY 2011 P22 Q2 (f)

Identify by ticking the appropriate box, (✓) whether **each** payment is capital expenditure or revenue expenditure.

| | Capital expenditure | Revenue expenditure |
|---|---|---|
| Purchase of spares for machinery<br>Installation of additional machinery<br>Repairs to office equipment<br>Purchase of additional loose tools | | |

**[4]**

## QUESTION 4 MAY 2013 P21 Q1 (f & g)

**(f)** Explain the difference between capital and revenue expenditure. **[4]**

**(g)** Indicate by placing a tick (✓) which transactions are capital expenditure and which are revenue expenditure.

| | Transaction | Capital expenditure | Revenue expenditure |
|---|---|---|---|
| **(i)** | Purchase of fixtures and fittings | | |
| **(ii)** | Installing and testing an air conditioning system | | |
| **(iii)** | Insurance of shop premises | | |

**[3]**

## QUESTION 5 MAY 2013 P22 Q1 (e & f)

**(e)** Explain the difference between capital receipts and revenue receipts. **[4]**

**(f)** Indicate by placing a tick (✓) which transactions are capital receipts and which are revenue receipts.

| **Transaction** | **Capital receipt** | **Revenue receipt** |
|---|---|---|
| Cash sales | | |
| Loan from a bank | | |
| Discount received | | |
| Commission received | | |
| Sale of a motor vehicle | | |

**[5]**

## QUESTION 6 NOVEMBER 2014 P21 Q2 (f)

Swift Limited are considering the following expenditure on delivery vehicle 2.

1 Replacement tyres
2 A new trailer
3 An annual maintenance service.

**REQUIRED**

State whether each of the items 1, 2 and 3 above is capital expenditure or revenue expenditure**.** **[3]**

## QUESTION 7 NOVEMBER 2014 P22 Q2 (e & f)

Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. Ajib is considering:

| | |
|---|---|
| Proposal 1 | Charging the total purchase price of the motor van to the 2015 income statement. |
| Proposal 2 | Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017. |

**REQUIRED**

**(e)** Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals. **[6]**

Ajib also incurred the following expenditure.

**1** Delivery of motor van from manufacturer
**2** Fuel for motor van
**3** Signwriting his business name on the motor van
**4** Motor van insurance

**REQUIRED**

**(f)** State whether each of the items above is capital expenditure or revenue expenditure. **[4]**

## QUESTION 8 NOVEMBER 2015 P21 Q1 (d & e)

**(d)** Explain **each** of the following accounting terms.

**(i)** Revenue expenditure **[2]**
**(ii)** Capital receipt **[2]**

**(e)** Indicate by placing a tick (✓) whether each of the following transactions is revenue expenditure, revenue receipt, capital expenditure or capital receipt.

| Transaction | Revenue expenditure | Revenue receipt | Capital expenditure | Capital receipt |
|---|---|---|---|---|
| Sale of motor van | | | | |
| Purchase new motor van tyres | | | | |
| Cash discount received | | | | |
| Purchase a new motor van | | | | |

**[4]**

## QUESTION 9 NOVEMBER 2016 P22 Q2 (c & d)

**(c)** Define the term 'revenue receipt'. **[2]**

**(d)** Complete the following table by inserting a (✓) showing whether **each** transaction is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt. The first one has been completed as an example.

| **Transaction** | **Revenue** | | **Capital** | |
|---|---|---|---|---|
| | **Expenditure** | **Receipt** | **Expenditure** | **Receipt** |
| Sold office computer | | | | ✓ |
| Received interest on deposit account | | | | |
| Took out a 5-year bank Loan | | | | |
| Paid property insurance | | | | |
| Bought motor vehicle to deliver goods | | | | |
| Received commission | | | | |

**[5]**

# CHAPTER 10 SOLUTIONS

## QUESTION 1 MAY 2010 P21 Q2 (f)

**1.** Capital expenditure
**2.** Revenue expenditure
**3.** Capital expenditure

## QUESTION 2 NOVEMBER 2010 P22 Q3 (g & h)

**(g)** Capital expenditure is the expenditure on purchase, acquisition or improvement of non-current assets and have useful life of more than one year.

**(h)**

| | | Capital expenditure | Revenue expenditure |
|---|---|---|---|
| **(i)** | Advertising campaign | | √ |
| **(ii)** | A new computer system | √ | |
| **(iii)** | Purchase of computer CDs | | √ |

## QUESTION 3 MAY 2011 P22 Q2 (f)

| | Capital expenditure | Revenue expenditure |
|---|---|---|
| Purchase of spares for machinery | | √ |
| Installation of additional machinery | √ | |
| Repairs to office equipment | | √ |
| Purchase of additional loose tools | √ | |

## QUESTION 4 MAY 2013 P21 Q1 (f & g)

**(f)** Capital expenditures are the expenditures incurred on the acquisition or improvement of non-current assets

Revenue expenditures are incurred on the day-to-day running operations of the business and are shown as expenses in the income statement.

**(g)**

| | Transaction | Capital expenditure | Revenue expenditure |
|---|---|---|---|
| **(i)** | Purchase of fixtures and fittings | √ | |
| **(ii)** | Installing & testing air conditioning system | √ | |
| **(iii)** | Insurance of shop premises | | √ |

## QUESTION 5 MAY 2013 P22 Q1 (e & f)

**(e)** **Capital Receipts:**
Amount received from non-regular income or one-off income like proceeds from sale of non-current assets, additional capital investment by the owner etc.

**Revenue Receipts:**
Regular income received from sale of goods by the business **or o**ther regular amounts of income earned by the business like rental income, interest income etc.

**(f)**

| Transaction | Capital receipt | Revenue receipt |
|---|---|---|
| Cash sales | | √ |
| Loan from bank | √ | |
| Discount received | | √ |
| Commission received | | √ |
| Sale of a motor vehicle | √ | |

## QUESTION 6 NOVEMBER 2014 P21 Q2 (f)

**1** Revenue expenditure
**2** Capital expenditure
**3** Revenue expenditure

## QUESTION 7 NOVEMBER 2014 P22 Q2 (e & f)

**(e)** **Matching concept**
The non-current assets give benefit to the business for more than one year so through an appropriate depreciation charge, the cost of non-current assets is matched against revenues over their useful lives.
**Consistency concept**
A chosen method should be consistently applied. Changing the method could distort profit calculations.

**(f)** **1** Capital expenditure
**2** Revenue expenditure
**3** Capital expenditure
**4** Revenue expenditure

## QUESTION 8 NOVEMBER 2015 P21 Q1 (d & e)

**(d)** **(i)** Revenue expenditures are recorded as expenditures in the income statement. These expenditure are incurred to run business on a day to day basis. The period of benefit of these expenditures is less than one accounting period.

**(ii)** Capital receipts arise from balance sheet items. These receipts include the sale of a non-current asset, additional capital investment by the owner and receipts of long term loans.

**(e)**

| Transaction | Revenue expenditure | Revenue receipt | Capital expenditure | Capital receipt |
|---|---|---|---|---|
| Sale of motor van | | | | ✓ |
| Purchased new motor van tyres | ✓ | | | |
| Cash discount received | | ✓ | | |
| Purchase a new motor van | | | ✓ | |

## QUESTION 9 NOVEMBER 2016 P22 Q2 (c & d)

**(c)** Revenue receipts are entered in the income statement and refer to all money the business makes through its operations. These come from repeat transactions with customers or on account of services. Examples include sale of goods, commission, interest or rent received.

**(d)**

| Transaction | Revenue | | Capital | |
|---|---|---|---|---|
| | **Expenditure** | **Receipt** | **Expenditure** | **Receipt** |
| Sold office computer | | | | √ |
| Received interest on deposit account | | √ | | |
| Took out a 5 year bank loan | | | | √ |
| Paid property insurance | √ | | | |
| Bought motor vehicle to deliver goods | | | √ | |
| Commission received | | √ | | |

# CHAPTER 11 CORRECTION OF ERRORS

## QUESTION 1 MAY 2009 P2 Q2

Miranda prepared her draft financial statements for the year ended 30 April 2009 and calculated a net profit for the year of $14 670. After the preparation of the draft financial statements the following errors were discovered, which had not been revealed by the trial balance.

**(i)** Goods, $2 000, purchased on credit from A Morston had not been entered in the accounting records.

**(ii)** Goods, $650, sold on credit to T Cley had been correctly entered in the sales account but had been entered into the account of C Tilley.

**(iii)** A motor vehicle expense, $500, for the year had been posted to the motor vehicles account.

**(iv)** A discount received from L Staithe of $190 had been entered in the discount allowed column in the cash book and credited to the account of L Staithe.

**REQUIRED**

**(a)** Name the type of error in **(i)** to **(iv)** above. **[4]**

**(b)** Prepare the journal entries required to correct each of the errors **(i)** to **(iv).** Narratives are not required. **[9]**

**(c)** Calculate the revised net profit for the year ended 30 April 2009. **[5]**

## QUESTION 2 NOVEMBER 2010 P22 Q2 (a to c)

Jayani prepared a trial balance at 30 September 2010, which balanced.A draft income statement was then prepared and a gross profit of $60 000 and a profit for the year of $15 000 was calculated.

Jayani then discovered the following errors:

**1** A sale of office equipment at net book vaule, $3 000, had been recorded in the sales account.

**2** Purchases of goods, $650, on credit from Alana had been credited to the purchases account and debited to Alana's account.

**3** An invoice from JGL Insurance, $425, for buildings insurance, had not been recorded in the books.

**REQUIRED**

**(a)** Prepare journal entries to correct the errors in 1 to 3 above. Narratives are not required. **[6]**

**(b)** Name the type of error made in 1 to 3 above. **[3]**

**(c)** Calculate the revised gross profit and profit for the year for Jayani, following the correction of the errors 1 to 3 above.

Where the error would have no effect on the gross profit or profit for the year , state 'no effect'.

| | **Gross profit ($)** | **Net Profit for the year ($)** |
|---|---|---|
| Draft profit | 60 000 | 15 000 |
| Error 1 | | |
| Error 2 | | |
| Error 3 | | |
| Revised profit | | |

**[8]**

## QUESTION 3 MAY 2011 P21 Q2 (c)

Kya is a wholesaler. She prepares control accounts at the end of each month. Later when preparing the trial balance, Kya discovered the following errors:

**1** A receipt of $485 from a customer, D. Hulme, had been correctly entered in the cash book but had been credited to the account of D. Holme.

**2** A purchase of office equipment, $550, had been correctly entered in the cash book, but had been entered in error into the purchases account.

**REQUIRED**

**(i)** Prepare the journal entries to correct the errors in 1 and 2 above.
Narratives are **not** required. **[4]**

**(ii)** State the name of the accounting concepts (principles) which have **not** been followed in 1 and 2 above. **[2]**

## QUESTION 4 NOVEMBER 2011 P21 Q2 (a to e)

Majda prepared a trial balance on 31 August 2011. The trial balance failed to agree and a suspense account was opened.
It was discovered that all of the errors had been made in one of the trade receivable accounts, M.H. Supplies Ltd.
Details of the account for August 2011 were as follows:

**M.H. Supplies Ltd account**

| **Date** | **Description** | **Dr** | **Cr** | **Balance** |
|---|---|---|---|---|
| **2011** | | **$** | **$** | **$** |
| 01 August | Balance | | | 1 650 Dr |
| 10 August | Sales | 460 | | 2 110 Dr |
| 13 August | Sales returns | | 60 | 2 050 Dr |
| 23 August | Bank | | 1 617 | 433 Dr |
| 23 August | Discount | 33 | | 466 Dr |

The following errors were found:

**1** On 10 August goods, list price $800, less 20% trade discount, were sold to M.H. Supplies Ltd. The transaction was correctly recorded in the sales journal.

**2** On 20 August a credit sale of goods, $1 200, to M.H. Supplies Ltd, was correctly entered in the sales journal, but was posted to the account of M. Hardware Ltd.

**3** On 23 August M.H. Supplies Ltd paid the balance on 1 August, less 2% cash discount. The transaction was correctly recorded in the cash book.

**REQUIRED**

**(a)** Name the document sent to M.H. Supplies Ltd to record the transaction of 13 August 2011. **[1]**

**(b)** Name the type of error made on 20 August 2011. **[1]**

**(c)** Prepare the journal entries to correct the errors 1 to 3 above. Narratives are **not** required. **[6]**

**(d)** Prepare the suspense account, clearly showing the original difference on the trial balance. **[4]**

**(e)** Calculate the correct balance owed by M.H. Supplies Ltd to Majda on 31 August. **[4]**

## QUESTION 5 MAY 2012 P21 Q1 (e & f)

**(e)** State **three** types of errors **not** revealed by the trial balance. **[3]**

After Yang prepared the trial balance he discovered the following error:
March 5 A sale of goods to Wilbur, $6 000, was debited to sales and credited to Wilbur.

**(f)** Prepare the journal entry to correct the error. A narrative is **not** required. **[2]**

## QUESTION 6 MAY 2012 P22 Q2

Haung's income statement showed a draft profit for the year of $15 500. After completion of the income statement the following errors were discovered:

**1** Purchases of goods on credit from Takka, $4 000, had been omitted from the books.
**2** Goods sold on credit to Nolan, $380, had been posted to the account of North.
**3** Discount received, $3 050, had been debited to the discount received account.
**4** A debt of $375, owing by Long, was considered irrecoverable. No entries had been made in the books.

**REQUIRED**

**(a)** Prepare the journal entries to correct the errors 1 – 4 above. Narratives are **not** required. **[3]**

**(b)** Prepare a statement showing the corrected profit for the year.

**Statement of revised profit.**

| | | $ | $ | $ | $ |
|---|---|---|---|---|---|
| | **Draft profit for year** | | | | **15 500** |
| | | **Increase** | **Decrease** | **No effect** | |
| **1** | | | | | |
| **2** | | | | | |
| **3** | | | | | |
| **4** | | | | | |
| | Revised profit for year | | | | |

**[4]**

Haung is considering a number of possible actions when preparing his future income statements.

**(i)** Charging the income statement with the total cost of non-current assets purchased in the year.
**(ii)** Recording the value of the increased skill of the workforce as an income for the year.
**(iii)** Changing the method of depreciation to be used for each non-current asset to reflect current market values.

**REQUIRED**

**(c)** State, in **each** of **(i)** to **(iii)** above, which accounting concept would be broken if Haung implemented his proposals. In each case, give a reason for your answer. **[9]**

## QUESTION 7 NOVEMBER 2012 P22) Q2

The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

**Trial Balance at 31 August 2012**

| | **Dr ($)** | **Cr ($)** |
|---|---|---|
| Capital | 18 240 | |
| Bank overdraft | 3 000 | |
| Fixtures and fittings | 14 100 | |
| Provision for depreciation – fixtures and fittings | | 8 800 |
| Inventory | 14 200 | |
| Trade receivables | 12 300 | |
| Trade payables | 9 900 | |

| | | |
|---|---|---|
| Revenue | 110 000 | |
| Purchases | | 51 000 |
| Discount received | 1 800 | |
| Wages and salaries | | 26 000 |
| Sundry expenses | 34 000 | |
| Discount allowed | | 620 |
| | 217 540 | 86 420 |

**(a)** Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account. **[9]**

**Additional information:**

The following errors were later discovered:

**1** A sale of goods, \$200, to A. Winscom had been posted to the account of W. Wilson.

**2** A purchase of fixtures, \$900, had been posted to the purchases account.

**3** Wages, \$1 500, had been debited to the bank and credited to the wages account.

**4** Discount received, \$240, had been correctly entered in the cash book and had been debited to the discount received account.

**REQUIRED**

**(b)** Name the type of errors in 1 to 3 above. **[3]**

**(c)** Prepare journal entries to correct the errors in 1 to 4 above. Narratives are **not** required. **[8]**

## QUESTION 8 — MAY 2013 P22 Q2

John Given's trial balance at 31 May 2013 failed to agree and a suspense account for the difference, \$926 debit, was opened.

The following errors were discovered:

**1** Commission received, \$120, had been recorded in the account twice.

**2** Total trade receivables were understated by \$824.

**3** A payment for insurance, \$650, had been correctly entered in the cash book, but recorded in the insurance account as \$560.

**4** The total of the sales returns journal had been overcast by \$108.

**REQUIRED**

**(a)** Show the entries in the general journal to correct items **1 to 4** above. Narratives are **not** required. **[8]**

**(b)** Prepare the suspense account at 31 May 2013. **[4]**

**(c)** Explain **three** types of errors not shown by a trial balance. **[6]**

## QUESTION 9 — NOVEMBER 2013 P21) Q3

Rod's trial balance at 30 September 2013 failed to agree.

**(a)** Name **two** types of errors not shown by a trial balance. **[2]**

Rod later discovered the following errors:

**1** the sales journal had been over added by \$279;

**2** the total of the discount allowed column in the cash book, \$123, had been credited to the discount received account;

**3** a payment to B Kaur, \$105, had been correctly entered in the bank account but posted to the creditor's account as \$150.

**(b)** Complete the following table showing the effect and amount **each** of the above errors would have on B Kaur's profit for the year if left uncorrected. The first item has been completed as an example. **[4]**

**(c)** Write up the journal entries to correct these errors. Narratives are **not** required. **[7]**

## QUESTION 10 MAY 2014 P21 Q2 (b & c) )

Ghani is preparing his financial statements. On reviewing his purchases account, Ghani found the following errors.

**1.** Goods purchased for cash, $450, had **not** been recorded in the books.
**2.** Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590.
**3.** A purchase of a motor vehicle, $6 000, had been recorded in the purchases account.
**4.** Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account.

**REQUIRED**

**(b)** Prepare journal entries to correct the errors in **1 to 4** above. Narratives are **not** required. **[6]**

**(c)** Complete the table below naming the type of error and the effect on the gross profit of correcting the error. The first item has been completed as an example.

| | | **Type of error** | **Effect on gross Profit** |
|---|---|---|---|
| **1** | Goods purchased for cash, $450, had not been recorded in the books. | *Omission* | *Decrease $450* |
| **2** | Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590. | | |
| **3** | A purchase of a motor vehicle, $6 000, had been recorded in the purchases account. | | |
| **4** | Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account. | | |

**[6]**

## QUESTION 11 MAY 2014 P22 Q2 (b to d) )

On 1 April 2014, Yee discovered the following errors:

**1** A cheque received from D Moy, $450, had been posted to the account of D Kay.
**2** An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970.
**3** Discount received, $45, had been debited to the discount received account and credited to F Tay.
**4** Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.

**REQUIRED**

**(b)** Prepare the journal entries to correct the errors in **1 to 4** above. Narratives are **not** required. **[8]**

**(c)** Complete the following table to name the type of error in **1 to 4** given above. The first item has been completed as an example.

| | | Type of error |
|---|---|---|
| 1 | A cheque received from D Moy, $450, had been posted to the account of D Kay. | *Commission* |
| 2 | An invoice for goods received, costing $790, had been recorded in the purchases journal as $970. | |
| 3 | Discount received, $45, had been debited to the discount received account and credited to F Tay. | |
| 4 | Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account. | |

**[3]**

**(d)** State **two** reasons why a suspense account would be used. **[2]**

## QUESTION 12 NOVEMBER 2014 P21 Q1 (c) )

On 31 August 2014 Adil had the following balances in his books. He was aware that there were some book-keeping errors and that the trial balance would not balance.

| | $ |
|---|---|
| Non-current assets | 9 500 |
| Trade payables | 8 500 |
| Trade receivables | 7 250 |
| Inventory | 3 850 |
| Bank overdraft | 1 600 |
| Purchases | 14 400 |
| Revenue | 22 000 |
| Bank loan | 2 000 |
| Capital | 3 000 |

**REQUIRED**

Complete the trial balance at 31 August 2014, balancing the trial balance by the use of an appropriate account. **[5]**

## QUESTION 13 MAY 2015 P21 Q1 (a & b)

Mira prepared a trial balance using the following information on 31 March 2015. The trial balance failed to balance.

| | $ |
|---|---|
| Office fixtures (at cost) | 18 000 |
| Office fixtures provision for depreciation | 7 200 |
| Trade payables | 5 400 |
| General expenses (prepaid) | 1 520 |
| Trade receivables | 3 700 |
| Inventory | 7 800 |
| Bank overdraft | 2 600 |
| Capital | 16 000 |

**REQUIRED**

**(a)** Prepare the trial balance at 31 March 2015, including an appropriate balancing entry. **[4]**

On inspecting the books, Mira found the following errors:

**1** A payment for general expenses, $750, had been correctly entered in the bank account, but had been recorded in the general expenses account as $570.

**2** General expenses, $1 000, had been recorded in the office fixtures account.

**REQUIRED**

**(b)** Prepare the entries in the general journal to correct items 1 & 2. Narratives are **not** required. **[4]**

## QUESTION 14 — NOVEMBER 2015 P21 Q2

Martino's trial balance at 30 September 2015 did not agree and a suspense account was opened.
The following errors were discovered.

**1** The total of the purchases journal had been undercast by $950.

**2** Discount received, $85, had been debited to the discount received account.

**3** A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.

**4** A purchase of office fixtures, $2 300, had been recorded in the general expenses account.

**REQUIRED**

**(a)** Show the entries in the general journal to correct items 1 to 4. Narratives are **not** required. **[8]**

**(b)** Prepare the suspense account at 30 September 2015 showing the original difference on the trial balance. **[4]**

**(c)** Complete the following table to show the effect on the profit for the year of **correcting** each error.
The first item has been completed as an example.

| | Error | Increase/Decrease/ No effect | Amount $ |
|---|---|---|---|
| 1 | The total of the purchases journal had been undercast by $950. | *Decrease* | *950* |
| 2 | Discount received, $85, had been debited to the discount received account. | | |
| 3 | A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570. | | |
| 4 | A purchase of office fixtures, $2 300, had been recorded in the general expenses account. | | |

**[6]**

**(d)** Explain why an error of commission would **not** be revealed by the trial balance. **[2]**

## QUESTION 15 — NOVEMBER 2015 P22 Q2 (b to d)

After preparing the sales ledger control account, Yana discovered the following errors.

**1** Goods sold on credit to Tong, $560, had not been recorded in the books.

**2** Proceeds of sale of fixtures and fittings, $800, had been recorded as cash sales.

**3** Discount allowed to R Biggs, $56, had been debited to his account and credited to the discount allowed account.

**4** A sale of goods to Mia, $75, had been recorded in the account of Mason.

**REQUIRED**

**(b)** Name the type of error in each of 1–4. Error 1 has been completed as an example. **[3]**

**(c)** Prepare the general journal entries to correct the errors in 1–4. Narratives are **not** required. **[8]**

**(d)** State **one** reason why a trader may use a suspense account. **[1]**

## QUESTION 16 NOVEMBER 2016 P21 Q2 (c & d)

Valda found the following errors in her books.

**1** A cheque received from Fatin, $930, had been correctly entered in the cash book but had been credited to the account of Martin.

**2** The total of the discount allowed column in the cash book, $970, had been credited to the discount received account.

**3** Returns inwards of $390 had been correctly recorded in Ann's account, but had been recorded as $930 in the returns inwards account.

**REQUIRED**

**(c)** Name the type of error that Valda made by crediting Martin's account. **[1]**

**(d)** Prepare the general journal entries to correct errors 1, 2 and 3. Narratives are not required. **[7]**

## QUESTION 17 NOVEMBER 2016 P22 Q1 (a & b)

The following balances remained in the books of Fabio at 30 June 2016. He was aware that there were some book-keeping errors and that the trial balance would not balance.

| | $ |
|---|---|
| Motor vehicle | 9 500 |
| Trade payables | 8 500 |
| Inventory | 4 850 |
| Revenue (Sales) | 22 000 |
| Purchases | 14 400 |
| Bank loan | 2 000 |
| Bank overdraft | 1 630 |
| Trade receivables | 7 250 |
| Capital | 3 000 |

**REQUIRED**

**(a)** Complete the trial balance at 30 June 2016, balancing the trial balance by the use of an appropriate account. **[4]**

On inspection of his books, Fabio located the following errors.

**1** A sale of goods, $850, had been correctly recorded in the account of a credit customer, but had been recorded in the revenue (sales) account as $580.

**2** A purchase of goods, $700, had been correctly entered in the account of a credit supplier, but had been credited to the purchases account.

**REQUIRED**

**(b)** Prepare the general journal entries to correct errors 1 and 2. Narratives are **not** required. **[4]**

## QUESTION 18 NOVEMBER 2016 P22 Q2 (b)

After preparing the draft income statement, which showed a profit for the year of $24 000, Lyana discovered some errors.

**REQUIRED**

Complete the following table showing the effect on the profit for the year of correcting each error. Calculate the revised profit for the year.

| | Increase | Decrease | Net |
|---|---|---|---|
| | $ | $ | $ |
| Profit for the year | | | 24 000 |
| Purchases of $500 had not been recorded in the books. | | | |
| Goods, $800, had been counted twice in the closing inventory. | | | |
| No adjustment had been made for prepaid insurance $950. | | | |
| Discount allowed, $1600, had been added to gross profit. | | | |
| Equipment costing $15 000 (accumulated depreciation $6600) had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%. | | | |
| Commission receivable, $400, had been omitted from the draft income statement. | | | |
| | | | |
| Revised profit for the year | | | |

**[8]**

# CHAPTER 11 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q2

**(a)**
- **(i)** Error of omission
- **(ii)** Error of commission
- **(iii)** Error of principle
- **(iv)** Error of reversal

| **(b)** | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| **(i)** | Purchases | 2 000 | |
| | A Morston | | 2 000 |
| **(ii)** | T Cley | 650 | |
| | C Tilley | | 650 |
| **(iii)** | Motor vehicle expenses | 500 | |
| | Motor vehicle | | 500 |
| **(iv)** | L Staithe | 380 | |
| | Discount allowed | | 190 |
| | Discount received | | 190 |

**(c)** **Statement to calculate the revised profit for the year**

| | | **$** | **$** |
|---|---|---|---|
| Original profit for the year | | | 14 670 |
| Add | Discount received recorded as discount allowed now corrected | | 380 |
| | | | 15 050 |
| Less | Purchases from A Morston not recorded in the books now accounted for | 2 000 | |
| | Motor expenses posted to motor vehicle account now corrected | 500 | (2 500) |
| Revised profit for the year | | | 12 550 |

## QUESTION 2 NOVEMBER 2010 P22 Q2 (a to c)

**(a)** **Journal**

| | | **Dr ($)** | **CR ($)** |
|---|---|---|---|
| **1** | Sales | 3 000 | |
| | Equipment Disposal | | 3 000 |
| **2** | Purchases | 1 300 | |
| | Alana | | 1 300 |
| **3** | Buildings insurance | 425 | |
| | JGL Insurance | | 425 |

**WORKING**

| | **Actual Entry** | | | **Wrong Entry** | | | **Rectifying Entry** | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Dr. $** | **Cr.$** | | **Dr. $** | **Cr.$** | | **Dr. $** | **Cr.$** |
| **1.** | Bank | 3 000 | | Bank | 3 000 | | Sales | 3 000 | |
| | Equip disposal | | 3 000 | Sales | | 3 000 | Equip disposal | | 3 000 |
| **2.** | Purchases | 650 | | Alana | 650 | | Purchases | 1 300 | |
| | Alana | | 650 | Purchases | | 650 | Alana | | 1 300 |
| **3.** | Insurance | 425 | | No entry | | | Insurance | 425 | |
| | JGL Insurance | | 425 | | | | JGL Insurance | | 425 |

**(b)** **(i)** Error of Principle
**(ii)** Complete reversal of entries
**(iii)** Error of Omission

**(c)**

| | Gross profit<br>$ | Profit for the year<br>$ |
|---|---|---|
| Draft profit | 60 000 | 15 000 |
| Error 1 | (3 000) | (3 000) |
| Error 2 | (1 300) | (1 300) |
| Error 3 | - | (425) |
| Revised profit | 55 700 | 10 275 |

## QUESTION 3 MAY 2011 P21 Q2 (c)

**(i)** **Journal**

| | | Dr ($) | Cr ($) |
|---|---|---|---|
| **1.** | D. Holme | 485 | |
| | D. Hume | | 485 |
| **2.** | Office equipment | 550 | |
| | Purchases | | 550 |

**(ii)** Matching concept

## QUESTION 4 NOVEMBER 2011 P21 Q2 (a to e)

**(a)** Credit note
**(b)** Error of commission

**(c)** **JOURNAL**

| | | | Dr ($) | Cr ($) |
|---|---|---|---|---|
| **(i)** | Apr10 | M.H Supplies Ltd [($800 × 80%) – $460] | 180 | |
| | | Suspense | | 180 |
| **(ii)** | Apr 20 | M.H Supplies | 1 200 | |
| | | M. Hardware Ltd | | 1 200 |
| **(iii)** | Apr 23 | Suspense | 66 | |
| | | M. H Supplies Ltd | | 66 |

**(d)** **Suspense Account**

| | $ | | $ |
|---|---|---|---|
| Balance/difference | 114 | M.H Supplies Ltd | 180 |
| M.H Supplies | 66 | | |
| | 180 | | 180 |

**(e)** **M.H Supplies Ltd adjusted balance at 31 August 2011**

| | | $ | $ |
|---|---|---|---|
| Original balance at 30 April | | | 466 |
| Add | Sale of $640 posted as $460 now corrected | 180 | |
| | Credit sales wrongly posted to M. Hardware Ltd now corrected | 1 200 | 1 380 |
| Less | Cash discount allowed wrongly posted on credit side now corrected | | (66) |
| Corrected balance in M. H Supplies Ltd account | | | 1 780 |

## QUESTION 5 MAY 2012 P21 Q1 (e & f)

**(e)** Error of Principle, Error of Commission, Error of Omission, Complete reversal of entries, Error of Original entry and Compensating error

**(f)** **Journal**

| Date | | Dr ($) | Cr ($) |
|---|---|---|---|
| | Wilbur ($6 000 + $6 000) | 12 000 | |
| | Sales | | 12 000 |

## QUESTION 6 MAY 2012 P22 Q2

**(a)** **Journal**

| | | DR ($) | CR ($) |
|---|---|---|---|
| **1.** | Purchases | 4 000 | |
| | Takka | | 4 000 |
| **2.** | Nolan | 380 | |
| | North | | 380 |
| **3.** | Suspense | 6 100 | |
| | Discount received | | 6 100 |
| **4.** | Bad debts | 375 | |
| | Long | | 375 |

**(b)** **Statement of revised profit**
**For the year ended 30 April 2012**

| | | $ | $ | $ | $ |
|---|---|---|---|---|---|
| | **Draft profit for year** | | | | **15 500** |
| | | **Increase** | **Decrease** | **No effect** | |
| 1 | Purchases | | 4 000 | | |
| 2 | Sales | | | No effect | |
| 3 | Discount | 6 100 | | | |
| 4 | Bad debt | | 375 | | |
| | Totals | 6 100 | 4 375 | | 1 725 |
| | Revised profit for the year | | | | 17 225 |

**(c)** **(i)** As non-current assets are used by the business for a period more than one year so their consumed cost should be charged as expense in the income statement over their lives under **'Matching'** concept.

**(ii)** **'Money measurement'** concept states that **o**nly those items are recorded in the financial statements which can be quantified in monetary terms. As the skill of the workforce cannot be measured in monetary terms so cannot be recorded as an income.

**(iii)** **'Consistency'** concept dictates that **t**he same depreciation method should be used from one year to the next.

## QUESTION 7 NOVEMBER 2012 P22) Q2

**Peng**
**Trial Balance at 31 August 2012**

| | Debit ($) | Credit ($) |
|---|---|---|
| Capital | | 18 240 |
| Bank overdraft | | 3 000 |

| | | |
|---|---|---|
| Fixtures and fittings | 14 100 | |
| Provision for depreciation – Fixtures and fittings | | 8 800 |
| Inventory | 14 200 | |
| Trade receivables | 12 300 | |
| Trade payables | | 9 900 |
| Revenue | | 110 000 |
| Purchases | 51 000 | |
| Discount received | | 1 800 |
| Wages and salaries | 26 000 | |
| Sundry expenses | 34 000 | |
| Discount allowed | 620 | |
| Suspense | | 480 |
| | 152 220 | 152 220 |

**(b)** **1.** Error of Commission
**2.** Error of Principle
**3.** Complete Reversal of Entries

**(c)** **Journal**

| | Debit ($) | Credit ($) |
|---|---|---|
| A. Winscom | 200 | |
| W. Wilson | | 200 |
| Fixtures | 900 | |
| Purchases | | 900 |
| Wages | 3 000 | |
| Bank | | 3 000 |
| Suspense | 480 | |
| Discount received | | 480 |

## QUESTION 8 MAY 2013 P22 Q2

**(a)** **General Journal**

| | | Dr ($) | Cr ($) |
|---|---|---|---|
| **1** | Commission received | 120 | |
| | Suspense | | 120 |
| **2** | - | - | |
| | Suspense | | 824 |
| **3** | Insurance ($650 – $560) | 90 | |
| | Suspense | | 90 |
| **4** | Suspense | 108 | |
| | Sales returns | | 108 |

**(b)** **Suspense account**

| **2013** | | **$** | **2013** | | **$** |
|---|---|---|---|---|---|
| May 31 | Difference in trial balance | 926 | May 31 | Commission received | 120 |
| | Sales returns | 108 | | Trial balance error (receivables) | 824 |
| | | | | Insurance | 90 |
| | | 1 034 | | | 1 034 |

**(c)** **Omission:** No debit and credit entered in the accounts. Transaction omitted completely from books
**Commission:** Correct amount posted to the wrong account but of the same nature e.g. rent expense recorded in wages expense account.
**Principle:** An entry made in the wrong class of account. For example, an expense treated as an asset or vice versa
**Complete reversal:** In this case the debit account is credited and the credit account is debited with correct amount.
**Original entry:** Original figure entered incorrectly, although the correct double entry principle has been observed using this figure
**Compensating:** Errors on one side of the ledger are compensated by errors of the same amount on the other side

## QUESTION 9 NOVEMBER 2013 P21) Q3

**(a)** Error of commission, omission, principle, compensating, original entry and complete reversal

**(b)**

| | **Overstated** | **Understated** | **No effect** | **Amount $** |
|---|---|---|---|---|
| **1** | ✓ | | | 279 |
| **2** | ✓ | | | 246 ($123 + $123) |
| **3** | | | ✓ | No effect |

**(c)** **General Journal**

| | | **Dr $** | **Cr $** |
|---|---|---|---|
| **1** | Sales | 279 | |
| | Suspense | | 279 |
| **2** | Discount received | 123 | |
| | Discount allowed | 123 | |
| | Suspense ($123 + $123) | | 246 |
| **3** | Suspense ($150 – $105) | 45 | |
| | B Kaur | | 45 |

## QUESTION 10 MAY 2014 P21 Q2 (b & c) )

**(b)** **Journal**

| | | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| **1** | Purchases | 450 | |
| | Cash | | 450 |
| **2** | Purchases ($950 – $590) | 360 | |
| | C Maxley | | 360 |
| **3** | Motor vehicle | 6 000 | |
| | Purchases | | 6 000 |
| **4** | Purchases ($820 + $820) | 1 640 | |
| | Y Li | | 1 640 |

**(c)**

| | | Type of error | Effect on gross profit |
|---|---|---|---|
| **1** | Goods purchased for cash, $450, had not been recorded in the books. | *Omission* | *Decrease $450* |
| **2** | Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590. | Original entry | Decrease $360 |
| **3** | A purchase of a motor vehicle, $6000, had been recorded in the purchases account. | Principle | Increase $6 000 |
| **4** | Goods purchased on credit from Y Li, $820, had been credited to the purchases account and debited to Y Li. | Reversal | Decrease $1 640 |

## QUESTION 11 MAY 2014 P22 Q2 (b to d) )

**(b)** **Journal**

| | Details | Dr $ | Cr $ |
|---|---|---|---|
| **1** | D Kay | 450 | |
| | D Moy | | 450 |
| **2** | G Fallen ($970 – $790) | 180 | |
| | Purchases | | 180 |
| **3** | F Tay | 90 | |
| | Discount received | | 90 |
| **4** | Fixture repairs | 800 | |
| | Fixtures and fittings | | 800 |

**(c)**

| | Type of error |
|---|---|
| **1** A cheque received from D Moy, $450, had been posted to the account of D Kay. | *Commission* |
| **2** An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970. | Original entry |
| **3** Discount received, $45, had been debited to the discount received account and credited to F Tay. | Complete Reversal |
| **4** Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account. | Principle |

**(d)** When the trial balance fails to agree then the difference is entered as suspense. This suspense account balance not only assists in the detection and correction of errors but also enables to prepare draft financial statements.

## QUESTION 12 NOVEMBER 2014 P21 Q1 (c) )

**Adil**
**Trial Balance at 31 August 2014**

| | Debit ($) | Credit ($) |
|---|---|---|
| Non-current assets | 9 500 | |
| Trade payables | | 8 500 |
| Trade receivables | 7 250 | |

| | | |
|---|---|---|
| Inventory | 3 850 | |
| Bank overdraft | | 1 600 |
| Purchases | 14 400 | |
| Revenue | | 22 000 |
| Bank loan | | 2 000 |
| Capital | | 3 000 |
| Suspense account | 2 100 | |
| | 37 100 | 37 100 |

## QUESTION 13 MAY 2015 P21 Q1 (a & b)

**(a)**

**Mira**

**Trial Balance at 31 March 2015**

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Office fixtures (at cost) | 18 000 | |
| Office fixtures provision for depreciation | | 7 200 |
| Trade payables | | 5 400 |
| General expenses | 1 520 | |
| Trade receivables | 3 700 | |
| Inventory | 7 800 | |
| Bank overdraft | | 2 600 |
| Capital | | 16 000 |
| Suspense | 180 | |
| | 31 200 | 31 200 |

**(b)** **General Journal**

| | Debit $ | Credit $ |
|---|---|---|
| General expenses | 180 | |
| Suspense | | 180 |
| General expenses | 1 000 | |
| Office fixtures | | 1 000 |

## QUESTION 14 NOVEMBER 2015 P21 Q2

**(a)** **General Journal**

| | | Debit $ | Credit $ |
|---|---|---|---|
| **1** | Purchases | 950 | |
| | Suspense | | 950 |
| **2** | Suspense | 170 | |
| | Discount received ($85 + $85) | | 170 |
| **3** | Rent ($750 – $570) | 180 | |
| | Suspense | | 180 |
| **4** | Office fixtures | 2 300 | |
| | General expenses | | 2 300 |

**(b)** **Suspense Account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Sept 30 | Difference in trial balance (*) | 960 | Sept 30 | Purchases | 950 |
| Sept 30 | Discount received | 170 | Sept 30 | Rent | 180 |
| | | 1 130 | | | 1 130 |

**(c)** **Statement to show effects of correcting entries on profit for the year**

| | **Error** | **Increase/Decrease/ No effect** | **Amount ($)** |
|---|---|---|---|
| **1** | The total of the purchases journal had been under cast by $950. | *Decrease* | *950* |
| **2** | Discount received, $85, had been debited to the discount received account. | Increase | 170 |
| **3** | A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570. | *Decrease* | 180 |
| **4** | The purchases of office fixtures, $2 300, had been recorded in the general expenses account. | Increase | 2 300 |

**(d)** This error occurs when a transaction is entered in the wrong account of the same class however the correct amounts are entered on the correct sides. This therefore, results in the same equal amounts on the both sides of the trial balance.

## QUESTION 15 NOVEMBER 2015 P22 Q2 (b to d)

| **(b)** | **Error** | **Type of error** |
|---|---|---|
| | 1 | *Omission* |
| | 2 | Principle |
| | 3 | Reversal |
| | 4 | Commission |

**(c)** **General journal**

| | **Details** | **Dr ($)** | **Cr ($)** |
|---|---|---|---|
| **1** | Tong | 560 | |
| | Sales | | 560 |
| **2** | Sales | 800 | |
| | Fixtures disposal | | 800 |
| **3** | Discount allowed ($56 + $56) | 112 | |
| | R Biggs | | 112 |
| **4** | Mia | 75 | |
| | Mason | | 75 |

**(d)** When a trial balance fails to balance then suspense account helps to identify the difference between the totals of two sides.
It helps in correction of errors

## QUESTION 16 NOVEMBER 2016 P21 Q2 (c & d)

**(c)** Error of commission

**(d)** **General journal**

| | | Debit ($) | Credit ($) |
|---|---|---|---|
| **1** | Martin | 930 | |
| | Fatin | | 930 |
| **2** | Discount allowed | 970 | |
| | Discount received | 970 | |
| | Suspense ($970 + $970) | | 1 940 |
| **3** | Suspense | 540 | |
| | Returns inwards ($930 – $390) | | 540 |

## QUESTION 17 NOVEMBER 2016 P22 Q1 (a & b)

**(a)** **Trial Balance at 30 June 2016**

| | Debit ($) | Credit ($) |
|---|---|---|
| Motor vehicle | 9 500 | |
| Trade payables | | 8 500 |
| Inventory | 4 850 | |
| Revenue (Sales) | | 22 000 |
| Purchases | 14 400 | |
| Bank loan | | 2 000 |
| Bank overdraft | | 1 630 |
| Trade receivables | 7 250 | |
| Capital | | 3 000 |
| Suspense **(balancing figure)** | 1 130 | |
| | 37 130 | 37 130 |

**(b)** **General journal**

| | | Debit ($) | Credit ($) |
|---|---|---|---|
| **1** | Suspense | 270 | |
| | Revenue - Sales - ($850 – $580) | | 270 |
| **2** | Purchases ($700 + $700) | 1 400 | |
| | Suspense | | 1 400 |

## QUESTION 18 NOVEMBER 2016 P22 Q2 (b)

| | Increase | Decrease | Net |
|---|---|---|---|
| Profit for the year | | | 24 000 |
| Purchases of $500 had not been recorded in the books. | | 500 | |
| Goods, $800, had been counted twice in the closing inventory. | | 800 | |
| No adjustment had been made for prepaid insurance $950. | 950 | | |
| Discount allowed, $1 600, had been added to gross profit. ($1600+$1600) | | 3 200 | |
| Equipment costing $15 000 (accumulated depreciation $6 600) had been depreciated by 20% on cost. The reducing balance method should have been used @ 20%. [(15 000 × 20%) – {(15 000 – $6 600) × 20%] | 1 320 | | |
| Commission receivable, $400, had been omitted from the draft income statement. | 400 | | |
| Total | 2 670 | 4 500 | (1 830) |
| Revised profit for the year | | | 22 170 |

# CHAPTER 12 CONTROL ACCOUNTS

## QUESTION 1 MAY 2010 P22 Q2 (a)

Tsang is in business buying and selling goods on credit. The following information is available for the month of March 2010.

| | $ |
|---|---|
| Revenue (sales) | 65 000 |
| Inventory 1 March | 3 400 |
| Trade payables 1 March | 1 700 |
| Payments to suppliers | 47 000 |
| Discount received | 300 |
| Inventory 31 March | 2 900 |
| Ordinary goods purchased | 47 900 |
| Wages & salaries expenses | 2 500 |

**REQUIRED**

Prepare the purchase ledger control account showing the balance of trade payables at 31 March 2010. **[5]**

## QUESTION 2 MAY 2011 P21 Q2 (a & b)

Kya is a wholesaler. She prepares control accounts at the end of each month. The following information relates to the month ended 30 April 2011.

| | $ |
|---|---|
| Sales ledger control account balance 1 April 2011 | 64 350 |
| Cheques received from trade receivables | 136 800 |
| Discount allowed | 5 250 |
| Bad debts written off | 7 900 |
| Cash sales | 10 750 |
| Credit sales | 153 400 |
| Returns inwards | 8 100 |

**REQUIRED**

**(a)** State **two** ways in which control accounts can be used by Kya in her business. **[2]**

**(b)** Prepare the sales ledger control account for the month ended 30 April 2011.
Balance the account and bring down the balance on 1 May 2011. **[8]**

## QUESTION 3 NOVEMBER 2011 P22 Q2 (a & b)

Indrea prepares a sales ledger control account. At 30 September 2011 the following information available:

| | $ |
|---|---|
| Trade receivables at 1 October 2010 | 25 000 |
| Credit sales for year | 80 000 |
| Receipts from credit customers for year | 75 000 |
| Trade receivables at 30 September 2011 | 30 000 |

**REQUIRED**

**(a)** Prepare the sales ledger control account for the year ended 30 September 2011. **[4]**

**(b)** State two reasons why Andrea prepares a sales ledger control account. **[4]**

## QUESTION 4 — MAY 2012 P21 Q2 (a & b)

Lau buys and sells goods on credit. The following information is provided by her for the month of March 2012:

| | $ |
|---|---|
| Trade payables 1 March 2012 | 15 300 |
| Purchases returns | 900 |
| Payments by cheque | 82 450 |
| Discount received | 1 350 |
| Refunds from trade payables | 700 |
| Trade payables 31 March 2012 | 9 150 |

**REQUIRED**

**(a)** Prepare the purchases ledger control account for the month of March 2012 clearly showing the value of the purchases for the month. **[8]**

**(b)** State **two** benefits to Lau of maintaining control accounts. **[2]**

## QUESTION 5 — NOVEMBER 2013 P22 Q2 (a to c)

Ann buys and sells on credit. She supplied the following information for the month ended 31 May 2013.

| **2013** | | | **$** |
|---|---|---|---|
| May | 1 | Trade receivables | 5 687 |
| | 31 | Credit sales | 72 641 |
| | | Receipts from credit customers | 64 500 |
| | | Credit notes issued to customers | 8 242 |
| | | Cash discounts allowed | 1 894 |
| | | Bad debts | 800 |
| | | Contra entry | 300 |

The sales journal had been under-cast by $86. A cheque received and banked on 8 May from John Lee for $2 300 had been returned by the bank because of insufficient funds.

**REQUIRED**

**(a)** Prepare the sales ledger control account for the month ended 31 May 2013. Balance the account at that date and bring the balance down on 1 June 2013. **[9]**

**(b)** State **three** benefits of using control accounts. **[6]**

**(c)** State **two** sources of information for the sales ledger control account. **[2]**

## QUESTION 6 — MAY 2014 P22 Q2 (a)

On 1 April 2014, Yee's sales ledger control account showed the following balances: $20 450 debit and $600 credit.

During April the following transactions were recorded:

| | $ |
|---|---|
| Credit sales | 50 500 |
| Cash sales | 10 000 |
| Returns from credit customers | 700 |
| Receipts from credit customers | 48 600 |
| Refunds to credit customers | 750 |
| Discount allowed | 1 200 |
| Bad debt written off | 800 |

On 1 May 2014, Yee's sales ledger control account showed a credit balance of $180. The debit balance is to be determined.

**REQUIRED**
Prepare the sales ledger control account for the month of April 2014. Balance the account and bring down the balances. **[7]**

## QUESTION 7 NOVEMBER 2015 P22 Q2 (a)

The following information is available from the books of Yana for August 2015.

| | $ |
|---|---|
| Trade receivables at 1 August 2015 | 27 520 |
| Credit sales | 32 400 |
| Cash sales | 19 970 |
| Sales returns from credit customers | 1 700 |
| Cheques received from credit customers | 40 150 |
| Discount allowed | 780 |
| Bad debts written off | 2 900 |
| Interest charged on overdue accounts | 600 |

**REQUIRED**
Prepare the sales ledger control account for August. Balance the account and bring down the balance on 1 September 2015. **[8]**

## QUESTION 8 NOVEMBER 2016 P21 Q2 (a & b)

Valda prepares a monthly control account for her sales ledger.
The following information relates to the month of August 2016.

| | Debit | Credit |
|---|---|---|
| | $ | $ |
| Sales ledger control account balances 1 August 2016 | 18 410 | 720 |
| Sales ledger control account balances 1 September 2016 | ? | 580 |

| | $ |
|---|---|
| Cheques received | 40 500 |
| Dishonoured cheque (included in cheques received) | 800 |
| Cash sales | 8 950 |
| Discount allowed | 970 |
| Bad debt written off | 2 750 |
| Credit sales | 39 600 |
| Returns inwards | 3 900 |

**REQUIRED**

**(a)** Prepare the sales ledger control account for the month of August 2016. Balance the account and bring down the balances on 1 September. **[8]**

**(b)** State two reasons for preparing control accounts. **[2]**

# CHAPTER 12 SOLUTIONS

## QUESTION 1 MAY 2010 P22 Q2 (a)

**Total Trade Payables account**

| **2010** | | **$** | **2010** | | **$** |
|---|---|---|---|---|---|
| Mar 31 | Bank | 47 000 | Mar 01 | Balance b/f | 1 700 |
| Mar 31 | Discount received | 300 | Mar 31 | Purchases | 47 900 |
| Mar 31 | Balance c/d | 2 300 | | | |
| | | 49 600 | | | 49 600 |
| | | | Apr 01 | Balance b/d | 2 300 |

## QUESTION 2 MAY 2011 P21 Q2 (a & b)

**(a) Advantages/Uses of Control Accounts**

**(i)** Help in speedy calculation of trade receivables and trade payables figures for inclusion in the Trial Balance and Balance Sheet.

**(ii)** Corresponding records of control account items in the subsidiary books act as check on frauds and misappropriations, which can easily be detected.

**(iii)** Mistakes and errors in trade receivables and trade payables control accounts can easily and quickly be detected and corrected.

**(iv)** Act as independent check on the arithmetical accuracy of the total of Sales ledger and purchase ledger balances.

**(v)** To provide totals of sales/purchases

**(vi)** Assist in preparation of financial statements from incomplete record

**(b)** **Sales Ledger Control Account**

| **2011** | | **$** | **2011** | | **$** |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f | 64 350 | Apr 01 | Bank | 136 800 |
| 30 | Sales | 153 400 | 30 | Discount allowed | 5 250 |
| | | | 30 | Bad debts | 7 900 |
| | | | 30 | Returns inwards | 8 100 |
| | | | 30 | Balance c/d | 59 700 |
| | | 217 750 | | | 217 750 |

## QUESTION 3 NOVEMBER 2011 P22 Q2 (a & b)

**(a)** **Sales Ledger Control Account**

| **2010** | | **$** | **2011** | | **$** |
|---|---|---|---|---|---|
| Oct 01 | Balance b/f | 25 000 | Sep 30 | Bank(receipts from credit customers) | 75 000 |
| **2011** | | | Sep 30 | Balance c/d (Dr.) | 30 000 |
| Sep 30 | Credit sales for year | 80 000 | | | |
| | | 105 000 | | | 105 000 |

**(b)** **(i)** Sales ledger control account acts as an independent check on the arithmetical accuracy of the total of sales ledger balances.

**(ii)** Mistakes and errors in sales ledger accounts can easily be detected and corrected by comparing totals of the subsidiary books with their corresponding amounts in sales ledger control account.

## QUESTION 4 — MAY 2012 P21 Q2 (a & b)

**(a)** **Purchases ledger control account**

| **2012** | | **$** | **2012** | | **$** |
|---|---|---|---|---|---|
| Mar 31 | Purchase returns | 900 | Mar 01 | Balance b/f | 15 300 |
| Mar 31 | Bank | 82 450 | Mar 31 | **Purchases (balancing figure)** | **77 850** |
| Mar 31 | Discount received | 1 350 | Mar 31 | Refunds from trade payables | 700 |
| Mar 31 | Balance c/d | 9 150 | | | |
| | | 93 850 | | | 93 850 |

**(b)** See May 2011 P21 Q2 (a)

## QUESTION 5 — NOVEMBER 2013 P22 Q2 (a to c)

**(a)** **Sales Ledger Control account**

| **2013** | | **$** | **2013** | | **$** |
|---|---|---|---|---|---|
| May 01 | Balance b/f | 5 687 | May 31 | Bank/cash | 64 500 |
| May 31 | Sales ($72 641 + $86) | 72 727 | | Returns in (Cr notes issued) | 8 242 |
| | Bank (dishonoured cheque) | 2 300 | | Discount allowed | 1 894 |
| | | | | Bad debts | 800 |
| | | | | Contra | 300 |
| | | | | Balance c/d | 4 978 |
| | | 80 714 | | | 80 714 |

**(b)** See May 2011 P21 Q2 (a)

**(a)** Sales journal, Sales returns journal, Cash book, General journal and Balance from sales ledger control account of last year

## QUESTION 6 — MAY 2014 P22 Q2 (a)

**Sales ledger control account**

| **2014** | | **$** | **2014** | | **$** |
|---|---|---|---|---|---|
| Apr 01 | Balance b/f | 20 450 | Apr 01 | Balance b/f | 600 |
| Apr 30 | Credit sales | 50 500 | Apr 30 | Return inwards | 700 |
| Apr 30 | Bank (refunds to customers) | 750 | Apr 30 | Bank (receipts from customers) | 48 600 |
| Apr 30 | Balance c/d | 180 | Apr 30 | Discount allowed | 1 200 |
| | | | Apr 30 | Bad debt written off | 800 |
| | | | Apr 30 | Balance c/d | 19 980 |
| | | 71 880 | | | 71 880 |

## QUESTION 7 — NOVEMBER 2015 P22 Q2 (a)

**Sales ledger control account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Aug 01 | Balance b/f | 27 520 | Aug 31 | Sales returns | 1 700 |
| Aug 31 | Sales | 32 400 | Aug 31 | Bank | 40 150 |
| Aug 31 | Interest charged | 600 | Aug 31 | Discount allowed | 780 |
| | | | Aug 31 | Bad debts | 2 900 |
| | | | Aug 31 | Balance c/d | 14 990 |
| | | 60 520 | | | 60 520 |

## QUESTION 8 NOVEMBER 2016 P21 Q2 (a & b)

**(a)** **Sales Ledger Control Account**

| **2016** | | **$** | **2016** | | **$** |
|---|---|---|---|---|---|
| Aug 1 | Balance b/f | 18 410 | Aug 01 | Balance b/f | 720 |
| Aug 31 | Bank (dishonoured cheque) | 800 | Aug 31 | Bank | 40 500 |
| Aug 31 | Credit sales | 39 600 | Aug 31 | Discount allowed | 970 |
| Aug 31 | Balance c/d | 580 | Aug 31 | Bad debt | 2 750 |
| | | | Aug 31 | Returns inwards | 3 900 |
| | | | Aug 31 | Balance c/d | 10 550 |
| | | 59 390 | | | 59 390 |
| Sept 1 | Balance b/d | 10 550 | Sept 1 | Balance b/d | 580 |

**(b)** **Advantages of Keeping control accounts**

**(i)** A sale ledger control account provides a check on the internal accuracy of the sales ledger; and a purchase ledger control account does the same for the purchase ledger.

**(ii)** It identifies the ledger or ledgers in which errors have been made when there is a difference on trial balance.

**(iii)** It provides trade receivables' and trade payables' balances quickly when trial balance is being prepared.

# CHAPTER 13 ACCOUNTS FROM INCOMPLETE RECORDS

## QUESTION 1 SPECIMEN 2010 P2 Q3 (a to c, e & f)

Jenny Palmer started business on 1 July 2009. She did not keep full records in the first month in business although she did make a note of transactions so that her book-keeper could prepare proper records from the start of August 2009.

Jenny's notes showed the following:

**1** She had sold goods for $790 cash during the month. She had also received $4 460 from trade receivables by cheque. Customers owed $1 420 at 31 July which she expected to receive during August. Jenny had been advised another customer had gone bankrupt and she decided to write off $140.

**2** Jenny bought all goods on credit from suppliers for $3 600. She had paid $1 900 by cheque and received a discount for $100.

**3** Jenny's inventory was valued at $240 on 31 July.

**REQUIRED**

**(a)** Calculate the total revenue (sales) for the month ended 31 July 2009. **[5]**

**(b)** Calculate the amount Jenny Palmer owes trade payables at 31 July 2009. **[3]**

**(c)** Calculate Jenny Palmer's gross profit for the month ended 31 July 2009. **[3]**

Jenny paid sundry expenses of $1 650 during July whereas total wage expense is $690 out of which $509 has been paid whereas $181 is still payable to tax authorities.

**REQUIRED**

**(e)** Prepare Jenny Palmer's income statement for the month ended 31 July 2009 using the information given and your answers above. **[5]**

Jenny's notes also showed the following:

**1** Jenny started business on 1 July with $2 000 in cash as capital.

**2** She purchased equipment costing $1200 on 1 July.

**3** She took $550 cash from the business for personal use during July.

**4** She had $71 in cash and $1370 in the bank on 31 July.

**REQUIRED**

**(f)** Draw up a Statement of Affairs for Jenny Palmer at 31 July 2009 using the information given and your answers above. **[8]**

## QUESTION 2 MAY 2010 P21 Q3 (a to c)

Indira is a computer consultant. She does not keep a full set of double entry accounts but the following information is available for the year ended 31 March 2010.

**Summarised Cash Book**

| | $ | | $ |
|---|---|---|---|
| Balance 1 April 2009 | 3 500 | Purchase of office equipment | 5 500 |
| Receipts of consultancy fees | 74 000 | Wages | 23 600 |
| Sale of office equipment | 750 | Drawings | 20 000 |
| | | Loan interest and repayments | 2 600 |
| | | General expenses | 12 900 |
| | | Rent | 9 000 |
| | | Balance 31 March 2010 | 4 650 |
| | 78 250 | | 78 250 |

The sale of office equipment was at net book value.
**Additional information:**

| | **1 April2009** | **31 March2010** |
|---|---|---|
| | **$** | **$** |
| Plant and equipment (Office equipment) | 16 000 | 17 500 |
| Trade receivables for consultancy fees | 14 200 | 11 000 |
| Non-current liability (6% loan) | 10 000 | 8 000 |
| Other receivables (General expenses prepaid) | 100 | 500 |
| Other payables (Rent accrued) | 400 | 600 |

**REQUIRED**

**(a)** **(i)** Calculate the capital at 1 April 2009. **[3]**

**(ii)** Calculate the consultancy fees for the year ended 31 March 2010. **[3]**

**(b)** Prepare the income statement or the year ended 31 March 2010. **[7]**

**(c)** Indira does not keep a full set of double entry accounts.
State two advantages to Indira of maintaining a full set of double entry accounts. **[4]**

## QUESTION 3 — MAY 2011 P22 Q3

Tanvir does not keep a full set of double entry accounts.
The following information is available for the year ended 30 April 2011.

**Summarised Bank account**

| | $ | | $ |
|---|---|---|---|
| Receipts from customers | 60 500 | Balance b/d | 100 |
| Sale of non-current asset | 750 | Payments to suppliers | 34 900 |
| Balance c/d | 10 250 | Wages | 15 000 |
| | | Lighting and heating | 2 500 |
| | | Drawings | 5 000 |
| | | Purchase of non-current asset | 8 000 |
| | | General expenses | 6 000 |
| | 71 500 | | 71 500 |

**Additional information:**

| | **1 May 2010 ($)** | **30 April 2011 ($)** |
|---|---|---|
| Inventory | 5 250 | 11 000 |
| Trade receivables | 9 750 | 8 400 |
| Trade payables | 10 500 | 9 300 |
| Non-current assets (book value) | 40 000 | 42 000 |
| Lighting and heating | 600Prepaid | 250 Accrued |
| 6% Bank loan repayable 30 April 2016 | 20 000 | 20 000 |
| Capital | 25 000 | ? |

The non-current asset sold during the year had a book value of $1 000.

**REQUIRED**

**(a)** Calculate for the year ended 30 April 2011:

**(i)** Sales **[3]**

**(ii)** Purchases **[3]**

**(b)** Prepare the income statement for the year ended 30 April 2011. **[9]**
**(c)** Prepare the statement of financial position (balance sheet) at 30 April 2011. **[5]**

## QUESTION 4 NOVEMBER 2012 P22) Q3 (a to c)

Leong commenced business on 1 October 2011 with a capital of $6000. Leong has not maintained a full set of accounting records. The following information is available on 30 September 2012:

| | $ |
|---|---|
| Trade receivables | 6 500 |
| Trade payables | 8 100 |
| Inventory | 11 600 |
| Prepaid expenses | 350 |
| Bank deposit | 2 600 |
| Motor van | 7 700 |
| Accrued expenses | 900 |
| 7% Bank loan repayable 1 May 2018 | 9 000 |
| Cash | 50 |

Additional information at 30 September 2012:

**1** Trade receivables include a sum of $500 which should be written off as a bad debt.
**2** Interest on the bank deposit account, $100, had not been credited to the account by the bank.

**REQUIRED**

**(a)** State **two** benefits to Leong of maintaining a full set of double entry accounts. **[2]**
**(b)** Prepare the statement of affairs at 30 September 2012. **[10]**
**(c)** During the year, Leong took $8 800 drawings from the business. Calculate the profit for the year ended 30 September 2012. **[4]**

## QUESTION 5 NOVEMBER 2014 P22 Q3

Basir is the owner of the Korner Café. He does not maintain full double entry books, but has provided the following information for the year ended 30 September 2014.

**Bank Account**

| | $ | | $ |
|---|---|---|---|
| Balance b/d | 4 000 | Rent of café | 5 500 |
| Takings banked | 43 200 | Payments to credit suppliers | 17 800 |
| | | Operating expenses | 13 600 |
| | | Fixtures and fittings | 450 |
| | | Bank loan interest | 250 |
| | | Balance c/d | 9 600 |
| | 47 200 | | 47 200 |
| Balance b/d | 9 600 | | |

**Additional information**

**1** All takings were in cash and were banked on the same day with the exception of:

| | $ |
|---|---|
| Staff wages | 14 900 |
| Drawings | 8 000 |
| Cash purchases | 950 |

2

| **Balances at:** | **1 October 2013** | **30 September 2014** |
|---|---|---|
| | **$** | **$** |
| Trade payables | 1 150 | 1 430 |
| Inventory | 350 | 720 |
| Rent of café prepaid | 500 | – |
| Rent of café accrued | – | 1 000 |
| 7 % Bank loan | 5 000 | 5 000 |
| Bank loan interest accrued | – | 100 |
| Fixtures and fittings (at valuation) | 2 250 | 2 200 |

**REQUIRED**

**(a)** State **two** advantages of maintaining full double entry records. **[2]**

**(b)** Calculate the total purchases for the year ended 30 September 2014. **[5]**

**(c)** Calculate the revenue for the year ended 30 September 2014. **[3]**

**(d)** Prepare the income statement for the year ended 30 September 2014. **[10]**

## QUESTION 6 — MAY 2015 P21 Q2 (a to c)

The following information was obtained from the books of Arden.

| | | **$** |
|---|---|---|
| 1 February 2015 | Trade receivables balance | 14 900 Dr |
| | Trade payables balance | 17 160 Cr |
| | | |
| 28 February 2015 | Cheques received from trade receivables | 45 800 |
| | Cheque from trade receivable later dishonoured | 200 |
| | Cheques paid to trade payables | 32 500 |
| | Discount allowed | 2 700 |
| | Discount received | 910 |
| | Purchases returns | 3 800 |
| | Bad debts | 1 800 |
| | Cash sales | 10 500 |
| 1 March 2015 | Trade receivables balance | 12 600 Dr |
| | Trade payables balance | 8 450 Cr |

**REQUIRED**

**(a)** Prepare the purchases ledger control account showing the credit purchases made in the month of February 2015. **[6]**

**(b)** Prepare the sales ledger control account showing the credit sales made for the month of February 2015. **[7]**

**Additional information**

| **1** | Payments for February | $ |
|---|---|---|
| | Wages | 15 200 |
| | General expenses | 7 900 |

| 2 | Balances at | 1 February 2015 ($) | 28 February 2015 ($) |
|---|---|---|---|
| | Inventory | 9 350 | 8 650 |
| | Non-current assets (at valuation) | 18 000 | 17 200 |
| | General expenses owing | 2 300 | 1 600 |

**REQUIRED**

**(c)** Prepare the income statement for the month ended 28 February 2015. **[6]**

## QUESTION 7 MAY 2016 P21 & 22 Q3

Alif is a trader. He does not maintain a full set of accounting records but the following information is available.

**1. Summarised bank transactions for the year ended 31 March 2016**

| Receipts | $ | Payments | $ |
|---|---|---|---|
| Trade receivables | 32 000 | Trade payables | 29 000 |
| Cash sales banked | 7 400 | Purchase of equipment | 2 500 |
| Interest receivable | 600 | Rent | 8 000 |
| | | Other operating expenses | 6 500 |

**2**

All cash sales were banked on the day of receipt with the exception of the following which were paid out of cash receipts.

| | $ |
|---|---|
| Wages | 9 000 |
| Drawings | 11 500 |

**3**

| Balances at: | 1 April 2015 ($) | 31 March 2016 ($) |
|---|---|---|
| Equipment (net book value) | 11 000 | 10 500 |
| Inventory | 12 000 | 11 500 |
| Trade receivables | 17 600 | 18 350 |
| Trade payables | 9 750 | 7 950 |
| Wages owing | 300 | 450 |
| Rent prepaid | 500 | 700 |
| Bank | 3 950 | ? |
| Capital | 35 000 | ? |

**REQUIRED**

**(a)** Calculate, for the year ended 31 March 2016, the value of the following:

**(i)** revenue (sales) **[4]**

**(ii)** purchases. **[2]**

**(b)** Prepare the income statement for the year ended 31 March 2016. **[8]**

**(c)** Prepare the statement of financial position at 31 March 2016. **[6]**

# CHAPTER 13 SOLUTIONS

## QUESTION 1 SPECIMEN 2010 P2 Q3 (a to c, e & f)

**(a)** **Total Trade Receivables account**

| | $ | | $ |
|---|---|---|---|
| Revenue (Sales) | 6 020 | Bank | 4 460 |
| | | Bad debt | 140 |
| | | Balance c/d | 1 420 |
| | 6 020 | | 6020 |

| | | | | |
|---|---|---|---|---|
| Total Sales | = | Credit sales | + | cash sales |
| | = | $6 020 | + | $790 |
| | = | $6 810 | | |

**(b)** **Total Trade Payables account**

| | $ | | $ |
|---|---|---|---|
| Bank | 1 900 | Purchases | 3 600 |
| Discount received | 100 | | |
| Balance c/d | 1 600 | | |
| | 3 600 | | 3 600 |

**(c)** **Income statement (trading section) for the month ended 31 July 2009**

| | $ | $ |
|---|---|---|
| Revenue (Sales) | | 6 810 |
| Cost of Sales | | |
| Purchases | 3 600 | |
| Less Closing inventory | (240) | 3 360 |
| Gross profit | | 3 450 |

**(e)** **Jenny Palmer**
**Income Statement for the month ended 31 July 2009**

| | $ | $ |
|---|---|---|
| Gross profit | 3 450 | |
| Other Incomes: Discount received | 100 | 3 550 |
| Expenses | | |
| Wages and salaries | 690 | |
| Bad debts | 140 | |
| Sundry expenses | 1 650 | (2 480) |
| Profit for the year | | 1 070 |

**(f)** **Jenny Palmer**
**Balance Sheet at 31 July 2009**

| | $ | $ |
|---|---|---|
| **Non-current assets** | | |
| Equipment | | 1 200 |
| **Current Assets** | | |
| Inventory | 240 | |
| Trade receivables | 1 420 | |
| Bank | 1 370 | |
| Cash | 71 | |
| | 3 101 | |

| **Current Liabilities** | | **$** | **$** | **$** |
|---|---|---|---|---|
| | Trade payables | 1 600 | | |
| | Other payables - tax authorities | 181 | 1 781 | 1 320 |
| | | | | 2 520 |
| Capital | | | 2 000 | |
| Add | Profit for the year | | 1 070 | |
| Less | Drawings | | (550) | 2 520 |

## QUESTION 2 — MAY 2010 P21 Q3 (a to c)

**(a) (i) Calculation of capital at 1 April 2009.**

| | **$** | **$** |
|---|---|---|
| **Assets** | | |
| Office equipment | 16 000 | |
| Trade receivables | 14 200 | |
| Other receivables (prepaid expenses) | 100 | |
| Cash (bank) | 3 500 | 33 800 |
| **Liabilities** | | |
| Non-current liabilities (6% Loan) | 10 000 | |
| Other payables (accrued rent) | 400 | (10 400) |
| **Capital** | | 23 400 |

**(ii) Calculation of consultancy fees for the year ended 31 March 2010.**

| | **$** |
|---|---|
| Receipts of consultancy fees | 74 000 |
| Trade receivables at 31 March 2010 | 11 000 |
| | 85 000 |
| Trade receivables at 1 April 2009 | 14 200 |
| Consultancy fees for the year | 70 800 |

**(b) Indira – Income statement for the year ended 31 March 2010**

| | **$** | **$** |
|---|---|---|
| Consultancy fees | | 70 800 |
| **Expenses** | | |
| Wages | 23 600 | |
| Finance costs (loan interest) [$2 600 – ($10 000 – $8 000)] | 600 | |
| General expenses ($12 900 + $100 – $500) | 12 500 | |
| Rent ($9 000 – $400 + $600) | 9 200 | |
| Depreciation on equipment ($16 000 + $5 500 – $750 – $17 500) | 3 250 | (49 150) |
| Profit for the year | | 21 650 |

**(c)**

- It provides an arithmetic check on accounting records, since the total amount of debit entries must equal the total amount of credit entries.
- Using a Sales Ledger and Purchase Ledger means you can track who owes the business money and who the business owes money to much more easily.
- Financial position of the business can be determined much more clearly, at any given time.
- Double entry accounts can help detect and reduce accounting errors.

## QUESTION 3 — MAY 2011 P22 Q3

**(a)** **Trade receivables Control Account (to calculate sales)**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 9 750 | Bank (receipts from customers) | 60 500 |
| **Sales** | **59 150** | Balance c/d | 8 400 |
| | 68 900 | | 68 900 |

**Trade payables Control Account (to calculate purchases)**

| | $ | | $ |
|---|---|---|---|
| Bank (payments to suppliers) | 34 900 | Balance b/f | 10 500 |
| Balance c/d | 9 300 | **Purchases** | **33 700** |
| | 44 200 | | 44 200 |

**Income Statement for the year ended 30 April 2011**

| | $ | $ |
|---|---|---|
| Revenue (sales) | | 59 150 |
| **Cost of Sales** | | |
| Opening inventory | 5 250 | |
| Add Purchases | 33 700 | |
| Closing inventory | (11 000) | (27 950) |
| **Gross profit** | | 31 200 |
| **EXPENSES** | | |
| Wages | 15 000 | |
| Lighting and heating ($2 500 + $250 +$600) | 3 350 | |
| General expenses | 6 000 | |
| Loan interest ($20 000 × 6%) | 1 200 | |
| Loss on sale of non-current asset ($1 000 – $750) | 250 | |
| Depreciation on non-current asset ($40 000 + $8 000 – $1 000 – $42 000) | 5 000 | (30 800) |
| **Profit for the year** | | 400 |

**(c)** **Statement of Financial Position as at 30 April 2011**

| | $ | $ | $ |
|---|---|---|---|
| Non-Current Assets | | | 42 000 |
| **Current Assets** | | | |
| Closing inventory | 11 000 | | |
| Trade receivables | 8 400 | 19 400 | |
| **Current Liabilities** | | | |
| Trade payables | 9 300 | | |
| Accrued lighting and heating | 250 | | |
| Accrued loan interest | 1 200 | | |
| Bank overdraft | 10 250 | (21 000) | (1 600) |
| | | | 40 400 |
| **Non-Current Liabilities:** 6% Bank loan | | | (20 000) |
| | | | 20 400 |
| **EQUITY** | | $ | $ |
| Capital at 1 May 2010 | | 25 000 | |
| Add Profit for the year | | 400 | |
| Less Drawings | | (5 000) | 20 400 |

## QUESTION 4 — NOVEMBER 2012 P22) Q3 (a to c)

**(a)** Individual accounts of e.g. trade receivables, maintained
Balances available at all times
Each transaction recorded for ease of reference

**(b)** **Statement of Affairs at 30 September 2012**

| | $ | $ | $ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Motor vehicle | | | 7 700 |
| **CURRENT ASSETS** | | | |
| Inventory | 11 600 | | |
| Trade receivables (6 500 – 500) | 6 000 | | |
| Other receivables (350 + 100) | 450 | | |
| Bank deposit | 2 600 | | |
| Cash | 50 | 20 700 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 8 100 | | |
| Other payables | 900 | 9 000 | 11 700 |
| | | | 19 400 |
| **NON-CURRENT LIABILITIES** | | | |
| Loan | | | (9 000) |
| **Capital at 30 September 2012** | | | **10 400** |

**(c)** **Leong**
**Statement to calculate profit for the year 30 September 2012**

| | $ |
|---|---|
| Closing capital | 10 400 |
| Drawings | 8 800 |
| Opening capital | (6 000) |
| Profit for the year | 13 200 |

## QUESTION 5 — NOVEMBER 2014 P22 Q3

**(a)**
- Complete and detailed record of all transactions
- Transactions are not forgotten or overlooked
- Improve reliability and accuracy
- Financial statements can be easily prepared

**(b)** Purchases = Cash purchases + Credit purchases
= $950 + $18 080 (W1)
= $19 030

**(W 1)** **Trade Payables Account**

| | $ | | $ |
|---|---|---|---|
| Payments to credit suppliers | 17 800 | Balance b/d | 1 150 |
| Balance c/d | 1 430 | **Credit purchases (balancing figure)** | **18 080** |
| | 19 230 | | 19 230 |

**(c)** **Cash Account**

| | $ | | $ |
|---|---|---|---|
| **Revenue (balancing figure)** | **67 050** | Takings banked | 43 200 |
| | | Staff wages | 14 900 |
| | | Drawings | 8 000 |
| | | Cash purchases | 950 |
| | 67 050 | | 67 050 |

**(d)**

**Basir's Korner Café**
**Income Statement**
**For the year ended 30 September 2014**

| | $ | $ |
|---|---|---|
| Revenue (sales) | | 67 050 |
| **Cost of Sales** | | |
| Opening inventory | 350 | |
| Purchases ('b' part) | 19 030 | |
| | 19 380 | |
| Closing inventory | (720) | |
| **Cost of sales** | | 18 660 |
| Gross profit | | 48 390 |
| **EXPENSES** | | |
| Rent ($5 500 + $500 + $1 000 ) | 7 000 | |
| Operating expenses | 13 600 | |
| Depreciation – Fixtures ($2 250 + $450 – $2 200) | 500 | |
| Staff wages | 14 900 | |
| Interest on loan ($5 000 x 7%) | 350 | (36 350) |
| Profit for the year | | 12 040 |

## QUESTION 6 MAY 2015 P21 Q2 (a to c)

**(a)** **Purchases ledger control account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Feb 28 | Bank | 32 500 | Feb 01 | Balance b/f | 17 160 |
| Feb 28 | Discount received | 910 | Feb 28 | Purchases (balancing figure) | 28 500 |
| Feb 28 | Purchases returns | 3 800 | | | |
| Feb 28 | Balance c/d | 8 450 | | | |
| | | 45 660 | | | 45 660 |
| | | | Mar 01 | Balance b/d | 8 450 |

**(b)** **Sales ledger control account**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Feb 01 | Balance b/f | 14 900 | Feb 28 | Bank | 45 800 |
| Feb 28 | Bank (dishonoured cheque) | 200 | Feb 28 | Discount allowed | 2 700 |
| Feb 28 | Sales (balancing figure) | 47 800 | Feb 28 | Bad debts | 1 800 |
| | | | Feb 28 | Balance c/d | 12 600 |
| | | 62 900 | | | 62 900 |
| Mar 01 | Balance b/d | 12 600 | | | |

**(c)** **Income Statement**
**For the month ended 28 February 2015**

| | $ | $ | $ |
|---|---|---|---|
| Sales: [$47 800 (credit sales) + $10 500 (cash sales)] | | | 58 300 |
| **Cost of Sales** | | | |
| Opening inventory - 1 February | | 9 350 | |
| Purchases | 28 500 | | |
| Less Returns outwards | (3 800) | 24 700 | |
| | | 34 050 | |
| Closing inventory - 28 February | | (8 650) | 25 400 |
| Gross profit | | | 32 900 |
| **Other Incomes** | | | |
| Discount received | | | 910 |
| | | | 33 810 |
| **Expenses:** | | | |
| Discount allowed | | 2 700 | |
| Bad debts | | 1 800 | |
| Depreciation ($18 000 – $17 200) | | 800 | |
| Wages | | 15 200 | |
| General expenses ($7 900 – $2 300 + $1 600) | | 7 200 | (27 700) |
| Profit for the month | | | 6 110 |

## QUESTION 7 MAY 2016 P21 & 22 Q3

**(a)** **(i)** Total Sales = Cash sales + Credit Sales
= $27 900 (W 1) + $32 750 (W 2)
= $60 650

**(W 1)** **Cash Account**

| | $ | | $ |
|---|---|---|---|
| **Cash sales (Balancing figure)** | 27 900 | Wages | 9 000 |
| | | Drawings | 11 500 |
| | | Cash sales banked | 7 400 |
| | 27 900 | | 27 900 |

**(W 2)** **Sales Ledger Control account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 17 600 | Bank (receipts) | 32 000 |
| **Revenue - sales (Balancing figure)** | 32 750 | Balance c/d | 18 350 |
| | 50 350 | | 50 350 |

**(ii)** **Purchases Ledger Control account**

| | $ | | $ |
|---|---|---|---|
| Bank (payments) | 29 000 | Balance b/f | 9 750 |
| Balance c/d | 7 950 | **Purchases (Balancing figure)** | **27 200** |
| | 36 950 | | 36 950 |

**(b)** **Alif**

**Income statement for the year ended 31 March 2016**

| | $ | $ |
|---|---|---|
| Revenue ('a' part) | | 60 650 |
| **Cost of Sales** | | |
| Opening inventory | 12 000 | |
| Purchases | 27 200 | |
| Closing inventory | (11 500) | |
| Cost of sales | | (27 700) |
| **Gross profit** | | 32 950 |
| **Other incomes** | | |
| Interest receivable | | 600 |
| | | 33 550 |
| **Expenses** | | |
| Rent ($8 000 – $700 + $500) | 7 800 | |
| Other operating expenses | 6 500 | |
| Wages ($9 000 + $450 – $300) | 9 150 | |
| Depreciation on equipment ($11 000 + $2 500 – $10 500) | 3 000 | (26 450) |
| Profit for the year | | 7 100 |

**(c)** **Statement of financial position at 31 March 2016**

| **Non-current assets** | $ | $ |
|---|---|---|
| Equipment | | 10 500 |
| **Current Assets** | | |
| Inventory | 11 500 | |
| Trade receivables | 18 350 | |
| Other receivables: Prepaid rent | 700 | 30 550 |
| | | 41 050 |
| **Equity** | | |
| Capital | 35 000 | |
| Profit for the year | 7 100 | |
| | 42 100 | |
| Drawings | (11 500) | 30 600 |
| **Current Liabilities** | | |
| Trade payables | 7 950 | |
| Other payables: Wages | 450 | |
| Bank [$3 950 + $40 000 (total receipts) – $46 000 (Total payments)] | 2 050 | 10 450 |
| | | 41 050 |

# CHAPTER 14 ACCOUNTS OF NON PROFIT ORGANISATIONS

## QUESTION 1 MAY 2009 P2 Q3 (c & d)

The Ranford Sports Club keeps a full set of double entry accounts and prepares monthly accounts. The summarised receipts and payments account for the month of April 2009 was as follows.

**Receipts and Payments Account**

| | $ | | $ |
|---|---|---|---|
| Balance b/d | 1 680 | Payments for café purchases | 4 320 |
| Café takings | 9 850 | General expenses | 1 890 |
| Donations | 50 | Repairs to café fixtures | 165 |
| Subscriptions | | Balance c/d | 5 735 |
| | 12 110 | | 12 110 |

**Additional information**

1 Other balances

| | 1 April | 30 April |
|---|---|---|
| | $ | $ |
| Café inventory | 1 700 | 1 230 |
| Trade payables for café purchases | 1 830 | 1 470 |
| Café fixtures | 5 450 | 5 400 |

2 The café takings recorded in the receipts and payments account do not include the income, $770, for a birthday party held on 20 April 2009.

3 The wages for the café manager have not been paid for the month of April. The café wages have been calculated as $815.

**REQUIRED**

**(c)** Prepare the café trading account for the month ended 30 April 2009. **[9]**

**(d)** State two differences between a receipts and payments account and an income and expenditure account. **[4]**

## QUESTION 2 NOVEMBER 2011 P21 Q3

The treasurer of the Sandbury Sports Club did not keep full accounting records. The following information was available at 31 October 2011

**Cash Book (summary)**

| | $ | | $ |
|---|---|---|---|
| Balance b/f 1 November 2010 | 105 | Purchase of refreshments | 19 000 |
| Subscription received: | | Rent and rates | 1 200 |
| – for the year ended 31 Oct 2010 | 150 | Operating expenses | 3 750 |
| – for the year ended 31 Oct 2011 | 3 200 | Purchase of equipment | 900 |
| – for the year ended 31 Oct 2012 | 310 | Balance c/d 31 October 2011 | 3 915 |
| Sales of refreshments | 25 000 | | |
| | 28 765 | | 28 765 |

**Additional information:**

| **1** Balances | **1 November 2010 ($)** | **31 October 2011 ($)** |
|---|---|---|
| Inventory of refreshments | 2 200 | 700 |
| Operating expenses | Prepaid 100 | Accrued 250 |
| Equipment (net book value) | 3 200 | 2 700 |
| Subscriptions in advance | 175 | 310 |
| Subscriptions in arrears | 270 | 90 |

**2** Subscriptions not collected for the year ended 31 October 2010 are to be considered as irrecoverable on 31 October 2011.

**REQUIRED**

**(a)** Calculate the accumulated fund at 1 November 2010. **[6]**

**(b)** Prepare the refreshments trading account for the year ended 31 October 2011. **[4]**

**(c)** Prepare the income and expenditure account for the year ended 31 October 2011. **[10]**

**(d)** **(i)** State the section of Sandbury Sports Club's balance sheet on 31 October 2011 in which subscriptions paid in advance will appear. Give a reason for your answer **[2]**

**(ii)** State the section of Sandbury Sports Club's balance sheet on 31 October 2011 in which purchase of equipment will appear. Give a reason for your answer. **[2]**

## QUESTION 3 MAY 2012 P21 Q3

The following balances were extracted from the books of Trinity Social Club on 30 April 2012:

| | **$** |
|---|---|
| Fixtures and fittings | 1 600 |
| Donations income for the year | 150 |
| Subscriptions | 1 980 |
| Rent | 1 400 |
| Sales of refreshments | 2 500 |
| General expenses | 780 |
| Purchases of refreshments | 1 150 |
| Bank overdraft | 100 |

**REQUIRED**

**(a)** Complete the following trial balance at 30 April 2012 clearly showing the value of the accumulated fund. **[5]**

**Trinity Social Club**
**Trial Balance at 30 April 2012**

| | **Debit** | **Credit** |
|---|---|---|
| | **$** | **$** |
| Fixtures and fittings | | |
| Donations income | | |
| Subscriptions | | |
| Rent | | |
| Sales of refreshments | | |
| General expenses | | |
| Purchases of refreshments | | |
| Bank overdraft | | |
| Accumulated fund | | |

**Additional information at 30 April 2012.**

**1** Subscriptions of $25 were paid in advance and $60 were in arrears.
**2** An invoice for refreshment purchases, $75, had not been entered in the books.
**3** Inventory of refreshments $430.
**4** General expenses accrued $170.
**5** Fixtures and fittings were valued at $1 360.

**REQUIRED**

**(b)** Prepare, for the year ended 30 April 2012:
- **(i)** Subscriptions account. Balance the account on that date. **[4]**
- **(ii)** Refreshments trading account. **[3]**

**(c)** Prepare an income and expenditure account for the year ended 30 April 2012. **[5]**

**(d)** State **two** differences between a receipts and payments account and an income and expenditure account. **[4]**

## QUESTION 4 NOVEMBER 2013 P22 Q3

The receipts and payments account of Brown Lane Rovers Football Club for the year ended 30 June 2013 was as follows.

| | $ | | $ |
|---|---|---|---|
| Balance b/d | 4 543 | Match expenses | 3 680 |
| Subscriptions | 7 200 | New kits and equipment | 4 656 |
| Sale of old kits and equipment | 1 008 | General expenses | 6 913 |
| Match day revenue | 1 233 | Purchase of refreshments | 2 078 |
| Donation income | 940 | Groundsman's wages | 1 940 |
| Sale of refreshments | 6 834 | Balance c/d | 2 491 |
| | 21 758 | | 21 758 |

**Additional information**

**1**

| | **1 July 2012** **$** | **30 June 2013** **$** |
|---|---|---|
| Subscriptions paid in advance | – | 540 |
| Subscriptions in arrears | 240 | – |
| Inventory of refreshments | 250 | 300 |
| Creditors (refreshment suppliers) | 1 034 | 1 140 |
| Kits and equipment at valuation | 5 000 | 8 104 |

**2** The kits and equipment sold during the year were valued at $1 230 on 1 July 2012.

**REQUIRED**

**(a)** Calculate the depreciation on the kits and equipment for the year ended 30 June 2013. **[5]**
**(b)** Calculate the profit or loss on the sale of the old kits and equipment. **[3]**
**(c)** Prepare the subscriptions account for the year ended 30 June 2013. Balance the account and bring the balance down on 1 July 2013. **[4]**
**(d)** Prepare the refreshments income statement for the year ended 30 June 2013. **[4]**
**(e)** Prepare the income and expenditure account for the year ended 30 June 2013. **[5]**
**(f)** State **one** difference between an income and expenditure account and a receipts and payments account. **[2]**

## QUESTION 5 — MAY 2014 P21 Q3

The Millennium Social Club provides a meeting place for members. The club also runs a café for the sale of refreshments.

The treasurer of the Millennium Social Club does not maintain a full set of double entry records, but has produced the following information for the year ended 30 April 2014.

**Receipts and Payments Account for the year ended 30 April 2014**

| Receipts | $ | Payments | $ |
|---|---|---|---|
| Balance b/d | 2 250 | General expenses | 7 600 |
| Subscriptions | 5 800 | Rent | 4 000 |
| Café takings | 41 000 | Payments to café suppliers | 12 400 |
| Donations | 3 100 | Wages & taxes of café manager | 14 000 |
| | | Heat and light | 1 000 |
| | | Bank loan | 2 800 |
| | | Purchase of equipment and fixtures | 700 |
| | | Balance c/d | 9 650 |
| | 52 150 | | 52 150 |
| Balance b/d | 9 650 | | |

**Additional information**

**1** Balances at:

| | 1 May 2013 | 30 April 2014 |
|---|---|---|
| | $ | $ |
| Subscriptions in advance | 750 | 400 |
| Subscriptions in arrears | — | 600 |
| Trade payables for café supplies | 1 250 | 1 100 |
| Inventory of café supplies | 930 | 790 |
| Heat and light due | 520 | 720 |
| Equipment and fixtures (at valuation) | 11 200 | 10 100 |
| 8% Bank loan | 10 000 | ? |
| Café manager's wages and employment taxes due | — | ? |

**2** The café manager's wages and employment taxes for the month of April 2014 were outstanding. In April 2014 she had worked a total of 180 hours.

160 hours were paid at $6 per hour
20 hours were paid at time and a half

Employee's tax and social security of $240 would be deducted from the gross pay.
The Millennium Social Club would pay 10% of the café manager's gross pay as an employer's contribution to social security.

**3** The 8% bank loan repayment included the interest due for the year.
**4** Half of the heat and light relates to the café.
**5** Half of the equipment and fixtures are used in the café.

**REQUIRED**

**(a)** Calculate the café manager's net pay for April 2014 **[3]**
**(b)** Prepare the café income statement for the year ended 30 April 2014. **[7]**
**(c)** Prepare the income and expenditure account for the year ended 30 April 2014. **[10]**

## QUESTION 6 MAY 2015 P22 Q3

The following information is available for the Axton Chess Club.

**Receipts and Payments Account for the year ended 31 March 2015**

| | $ | | $ |
|---|---|---|---|
| Balance b/d 1 April 2014 | 230 | Rent of clubroom | 2 000 |
| Subscriptions | 3 260 | Treasurer's salary | 250 |
| Competition entry fees received | 1 580 | Purchase of fixtures and equipment | 1 100 |
| Donations | 350 | Competition prizes | 750 |
| Balance c/d 31 March 2015 | 1 930 | Travelling expenses | 1 900 |
| | | Other operating expenses | 1 350 |
| | 7 350 | | 7 350 |
| | | Balance b/d 1 April 2015 | 1 930 |

**Additional information**

| **1** Balances at: | **1 April 2014** | **31 March 2015** |
|---|---|---|
| | $ | $ |
| Subscriptions in advance | – | 450 |
| Subscriptions in arrears | 530 | 750 |
| Fixtures and equipment (valuation) | 4 000 | 4 400 |
| Rent of clubroom prepaid | – | 50 |
| Rent of clubroom accrued | 70 | – |
| Other operating expenses accrued | 190 | 20 |
| Accumulated fund | 4 500 | ? |

**2** $280 of the subscriptions in arrears on 1 April 2014 were subsequently received.

**3** Subscriptions not paid after 12 months were considered irrecoverable.

**REQUIRED**

**(a)** Prepare the subscriptions account for the year ended 31 March 2015, showing the transfer to the income and expenditure account. Balance the account and bring down the balances on 1 April 2015. **[5]**

**(b)** Prepare the income and expenditure account for the year ended 31 March 2015. **[8]**

**(c)** Prepare the statement of financial position at 31 March 2015. **[7]**

# CHAPTER 14 SOLUTIONS

## QUESTION 1 MAY 2009 P2 Q3 (c & d)

**(c)**

**Café Trading account**
**For the month ended 30 April 2009**

| | $ | $ |
|---|---|---|
| Sales ($9 850 + $770) | | 10 620 |
| **Cost of Sales** | | |
| Opening inventory | 1 700 | |
| Purchases ($4 320 – $1 830 + $1 470) | 3 960 | |
| Closing inventory | 1 230 | 4 430 |
| Gross Profit | | 6 190 |
| **Expenses** | | |
| Wages ("b" part) | 815 | |
| Repairs to cafe fixtures | 165 | |
| Depreciation on café fixtures ($5 450 – $5 400) | 50 | 1 030 |
| Café profit | | 5 160 |

**(d)**

| Receipts and payments account | Income and expenditure account |
|---|---|
| It begins with an opening and ends with a closing balance of cash and bank (though sometimes they are merged) | There is no opening or closing balance. However, it ends with surplus or deficit of the period concerned. |
| It records all amounts received or paid whether relate to capital or revenue items. | It includes revenue items (income and expenses) relating to the period only |
| It includes cash items only | It also includes non-cash incomes or expenses of revenue nature. |
| It includes all cash and bank receipts and payments, whether they are related to current, past or future year. | It includes both cash and non-cash revenue items related to the current year only. |
| Closing balance indicates cash or bank balance | Closing balance indicates surplus or deficit for the period |

## QUESTION 2 NOVEMBER 2011 P21 Q3

**(a)** **Calculation of Accumulated Fund**

| **Assets** | **$** |
|---|---|
| Inventory of refreshments | 2 200 |
| Prepaid operating expenses | 100 |
| Equipment (net book value) | 3 200 |
| Subscriptions in arrears | 270 |
| Cash at bank | 105 |
| | 5 875 |
| **Liabilities** | |
| Subscriptions in advance | 175 |
| Accumulated fund | 5 700 |

**(b)** **Sandbury Sports Club**
**Refreshment Trading Account for the year ended 31 October 2011**

| | $ | $ |
|---|---|---|
| Sales of refreshments | | 25 000 |
| Cost of Sales | | |
| Opening inventory | 2 200 | |
| Purchases of refreshments | 19 000 | |
| | 21 200 | |
| Closing inventory | (700) | |
| Cost of sales | | (20 500) |
| Refreshment profit | | 4 500 |

**(c)** **Sandbury Sports Club**
**Income and Expenditure Account**
**For the year ended 31 October 2011**

| | $ | $ |
|---|---|---|
| **Income** | | |
| Subscriptions ($3 200 + $175 + $90) | 3 465 | |
| Profit on refreshments (‘b’ part) | 4 500 | 7 965 |
| **Expenditure** | | |
| Bad debts | 120 | |
| Rent and rates | 1 200 | |
| Operating expenses($3 750 + $100 + $250) | 4 100 | |
| Depreciation on equipment ($3 200 + $900 − $2 700) | 1 400 | (6 820) |
| Surplus | | 1 145 |

**(d)** **(i)** **Current liabilities**
They are creditors of the club as cash has been received in advance for services to be provided in the future

**(ii)** **Non-current assets**
It is capital expenditure as will be used for more than one accounting period

## QUESTION 3 MAY 2012 P21 Q3

**(a)** **Trinity Social Club**
**Trial Balance at 30 April 2012**

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Fixtures and fittings | 1 600 | |
| Donations received | | 150 |
| Subscriptions | | 1 980 |
| Rent | 1 400 | |
| Sales of refreshments | | 2 500 |
| General expenses | 780 | |
| Purchases of refreshments | 1 150 | |
| Bank overdraft | | 100 |
| Accumulated fund | | 200 |
| | 4 930 | 4 930 |

**(b)** **(i)** **Subscriptions account**

| 2012 | | $ | 2012 | | $ |
|---|---|---|---|---|---|
| Apr 30 | Income and expenditure | 2 015 | Apr 30 | Bank | 1 980 |
| Apr 30 | Balance c/d (in advance) | 25 | Apr 30 | Balance c/d (in arrears) | 60 |
| | | 2 040 | | | 2 040 |
| May 01 | Balance b/d (in arrears) | 60 | May 01 | Balance b/d (in advance) | 25 |

**(ii)** **Refreshment Trading Account for the year ended 30 April 2012**

| | $ | $ |
|---|---|---|
| Sales of refreshments | | 2 500 |
| Cost of sales | | |
| Purchases of refreshments ($1 150 + $75) | 1 225 | |
| Closing inventory | (430) | 795 |
| Profit on refreshments | | 1 705 |

**(c)** **Income and Expenditure Account for the year ended 30 April 2012**

| | $ | $ |
|---|---|---|
| **Incomes** | | |
| Subscriptions [b (i)] | 2 015 | |
| Profit on refreshments [b (ii)] | 1 705 | |
| Donations income for the year | 150 | 3 870 |
| **Expenditures** | | |
| Rent | 1 400 | |
| General expenses ($780 + $170) | 950 | |
| Depreciation on fixtures and fittings ($1 600 – $1 360) | 240 | 2 590 |
| **Surplus** | | 1 280 |

**(b)**

| Receipts and payments account | Income and expenditure account |
|---|---|
| It begins with an opening and ends with a closing balance of cash and bank (though sometimes they are merged) | There is no opening or closing balance. However, it ends with surplus or deficit of the period concerned. |
| It records all amounts received or paid whether relate to capital or revenue items. | It includes revenue items (income and expenses) relating to the period only |
| It includes cash items only | It also includes non-cash incomes or expenses of revenue nature. |
| It includes all cash and bank receipts and payments, whether they are related to current, past or future year. | It includes both cash and non-cash revenue items related to the current year only. |
| Closing balance indicates cash or bank balance | Closing balance indicates surplus or deficit for the period |

## QUESTION 4 NOVEMBER 2013 P22 Q3

**(a)** **Kits and Equipment Account**

| | $ | | $ |
|---|---|---|---|
| Balance b/f | 5 000 | Disposal | 1 230 |
| Bank (new purchase) | 4 656 | Depreciation (balancing figure) | 322 |
| | | Balance c/d | 8 104 |
| | 9 656 | | 9 656 |

(b) **Kits and Equipment Disposal Account**

| | $ | | $ |
|---|---|---|---|
| Kits and equipment | 1 230 | Bank | 1 008 |
| | | Loss on disposal (balancing figure) | 222 |
| | 1 230 | | 1 230 |

(c) **Subscriptions account**

| 2012 | | $ | 2013 | | $ |
|---|---|---|---|---|---|
| Jul 01 | Balance b/d | 240 | Jun 30 | Bank | 7 200 |
| 2013 | | | | | |
| Jun 30 | Income and expenditure | 6 420 | | | |
| Jun 30 | Balance c/d | 540 | | | |
| | | 7 200 | | | 7 200 |
| | | | Jul 01 | Balance b/d | 540 |

(d) **Brown Lane Rovers Football Club**
**Refreshments Income statement for the year ended 30 June 2013**

| | $ | $ |
|---|---|---|
| Revenue (Sales) | | 6 834 |
| Cost of Sales | | |
| Opening Inventory | 250 | |
| Purchases ($2 078 + $1 140 – $1 034) | 2 184 | |
| | 2 434 | |
| Closing inventory | (300) | (2 134) |
| Profit for the year | | 4 700 |

(e) **Brown Lane Football Club**
**Income and Expenditure account for the year ended 30 June 2013**

| **INCOMES** | $ | $ |
|---|---|---|
| Subscriptions (‘c’ part) | 6 420 | |
| Match day revenue | 1 233 | |
| Profit on refreshments (‘d’ part) | 4 700 | |
| Donation income | 940 | 13 293 |
| **EXPENDITURES** | | |
| Match expenses | 3 680 | |
| General expenses | 6 913 | |
| Groundsman’s wages | 1 940 | |
| Depreciation (‘a’ part) | 322 | |
| Loss on disposal (‘b’ part) | 222 | (13 077) |
| Surplus of income over expenditure | | 216 |

(f)

| Income and expenditure | Receipts and payments |
|---|---|
| Only records items of revenue nature. | Includes both capital and revenue items |
| Similar to income statement. | Similar to cash book. |
| Applies matching (accrual) concept. | Record when cash is received or paid. |
| Shows a surplus/deficit. | May have opening or (and) closing balances. |
| Includes non-cash items like depreciation. | Only includes items involving receipts and payments of cash |

## QUESTION 5 — MAY 2014 P21 Q3

**(a) Calculation of café manager's net pay for April 2014**

| | $ |
|---|---|
| Gross wages [(160 hours @ $6) + (20 hours @ $9)] | 1140 |
| Less Tax and social security deduction | (240) |
| Net pay | 900 |

**(b)**

**Millenium Social Club**
**Café Income Statement for the year ended**

| | $ | $ |
|---|---|---|
| **Revenue** (Café takings) | | 41 000 |
| **Cost of Sales** | | |
| Opening inventory | 930 | |
| Purchases ($12 400 + $1 100 – $1 250) | 12 250 | |
| | 13 180 | |
| Closing inventory | (790) | (12 390) |
| Cost of sales | | 28 610 |
| **Expenses:** | | |
| Wages and taxes [$14 000 + $1 140 ('a' part) + ($1 140 × 10%)] | 15 254 | |
| Heat and light [($1 000 + $720 – $520) × $^1/_2$] | 600 | |
| Depreciation on equipment & fixtures [($11200+$700–$10100)× $^1/_2$] | 900 | (16 754) |
| Profit on café | | 11 856 |

**(c)**

**Millenium Social Club**
**Income and Expenditure Account for the year ended 30 April 2014**

| | $ | $ |
|---|---|---|
| **INCOMES** | | |
| Subscriptions ($5 800 + $750 – $400 + $600) | 6 750 | |
| Profit on café | 11 856 | |
| Donations | 3 100 | 21 706 |
| **EXPENDITURES** | | |
| Heat and light [($1 000 + $720 – $520) × $^1/_2$] | 600 | |
| Depreciation on equipment & fixtures [($11 200 + $700 – $10 100)× $^1/_2$] | 900 | |
| Bank loan interest ($10 000 × 8%) | 800 | |
| General expenses | 7 600 | |
| Rent | 4 000 | (13 900) |
| Excess of income over expenditure | | 7 806 |

## QUESTION 6 — MAY 2015 P22 Q3

**(a) Subscriptions account**

| **2014** | | $ | **2015** | | $ |
|---|---|---|---|---|---|
| Apr 01 | Balance b/d (arrears) | 530 | Mar 31 | Bank | 3 260 |
| **2015** | | | Mar 31 | Bad debts ($530 – $280) | 250 |
| Mar 31 | Income and expenditure (*) | 3 280 | Mar 31 | Balance c/d (arrears) | 750 |
| Mar 31 | Balance c/d (advances) | 450 | | | |
| | | 4 260 | | | 4 260 |
| Apr 01 | Balance b/d | 750 | 1 April | Balance b/d | 450 |

**(b)** **Axton Chess Club**

**Income and Expenditure Account for the year ended 31 March 2015**

| | | |
|---|---|---|
| **Income:** | **$** | **$** |
| Subscriptions | 3 280 | |
| Competition profit ($1 580 – $750) | 830 | |
| Donations | 350 | 4 460 |
| **Expenditures:** | | |
| Rent ($2 000 –$70 – $50) | 1 880 | |
| Treasurer's salary | 250 | |
| Travelling expenses | 1 900 | |
| Other operating expenses ($1 350 – $190 + $20) | 1 180 | |
| Depreciation on fixtures ($4 000 + $1 100 – $4 400) | 700 | |
| Bad debts | 250 | 6 160 |
| **Deficit** | | (1 700) |

**(c)** **Statement of Financial Position at 31 March 2015**

| | | |
|---|---|---|
| Total assets | **$** | **$** |
| Non-current asset | | |
| Fixtures and equipment | | 4 400 |
| Current assets | | |
| Subscriptions in arrears | 750 | |
| Other receivables - prepayments | 50 | 800 |
| Total assets | | 5 200 |
| Accumulated fund | | |
| Balance at start | 4 500 | |
| Less Deficit for the year | (1 700) | 2 800 |
| Current liabilities | | |
| Subscriptions in advance | 450 | |
| Other payables – accrued | 20 | |
| Bank overdraft | 1 930 | 2 400 |
| Total accumulated fund & liabilities | | 5 200 |

# CHAPTER 15 MANUFACTURING ACCOUNTS

## QUESTION 1 SPECIMEN 2010 P2 Q6

Alison Brown is a manufacturer. The following balances were extracted from the books on 31 July 2009.

**Alison Brown**
**Trial Balance at 31 July 2009**

| | $ |
|---|---|
| Inventory at 1 August 2005 | |
| Raw materials | 34 760 |
| Work in progress | 4 820 |
| Finished goods | 8 300 |
| Purchases of raw materials | 396 300 |
| Purchases of finished goods | 11 340 |
| Carriage on purchases of raw materials | 1 200 |
| Revenue (sales) | 798 200 |
| Sales returns | 6 400 |
| Direct factory wages | 198 600 |
| Factory manager's salary | 18 600 |
| Office salaries | 43 330 |
| Sundry factory expenses | 24 360 |
| Sundry office expenses | 18 950 |
| Distribution costs | 23 460 |
| Land and buildings (cost) | 40 000 |
| Factory plant and machinery (cost) | 96 000 |
| Office equipment (cost) | 17 400 |
| Provision for depreciation of factory plant and machinery | 42 000 |
| Provision for depreciation of office equipment | 6 000 |
| Trade receivables | 84 350 |
| Bank (Dr) | 2 050 |
| Trade payables | 64 160 |
| Capital | 132 160 |
| Drawings | 12 300 |

**Additional Information:**

**1** Inventory at 31 July 2009 was valued as follows:

| | $ |
|---|---|
| Raw materials | 47 290 |
| Work in progress | 4 670 |
| Finished goods | 9 200 |

**2** At 31 July 2009:

**(i)** Direct factory wages, $16 550, were accrued.

**(ii)** Office salaries, $1860, were prepaid.

**3** Depreciation is to be charged on factory plant and machinery at 25% per annum using the diminishing (reducing) balance method.

**4** Office equipment is to be depreciated using the straight-line method at 20% on cost. Office equipment, $15 000, was purchased on 1 August 2004. Additional office equipment, $2 400, was purchased on 30 April 2009. No other changes in non-current assets occurred in the year ended 31 July 2009. Depreciation is calculated for the time assets are held in the business.

**5** A provision for doubtful debts is to be created at 2 % of trade receivables.

**6** Alison withdrew finished goods, $960, from the business during the year. This has not been included in the books.

**REQUIRED**

**(a)** Prepare the manufacturing account of Alison Brown for the year ended 31 July 2009. Show clearly cost of raw materials consumed, prime cost and cost of production. **[11]**

**(b)** Prepare the income statement of Alison Brown for the year ended 31 July 2009. **[13]**

**(c)** Prepare the balance sheet of Alison Brown at 1 July 2009. **[16]**

## QUESTION 2 — MAY 2010 P22 Q5

Wang Yee is a manufacturer. The following balances were extracted from his books on 31 January 2010.

| | |
|---|---|
| Inventories 1 February 2009 | **$** |
| Raw materials | 14 700 |
| Work in progress | 23 570 |
| Finished goods | 35 000 |
| Purchases of raw materials | 75 600 |
| Purchases of finished goods | 15 500 |
| Direct factory wages | 62 140 |
| Rent | 28 000 |
| Factory management salaries | 31 500 |
| Office salaries | 41 600 |
| Revenue (sales) | 342 500 |
| Revenue (sales returns) | 1 250 |
| Distribution costs | 28 650 |
| Sundry office expenses | 9 870 |
| Non-current liability (8% loan - repayable 31 December 2015) | 40 000 |
| Finance costs (loan interest) paid | 2 400 |
| Property (land and buildings) (cost) | 80 000 |
| Plant and machinery (cost) | 90 000 |
| Office equipment (cost) | 30 000 |
| Provision for depreciation of plant and machinery | 32 000 |
| Provision for depreciation of office equipment | 12 000 |
| Provision for doubtful debts | 1 550 |
| Trade receivables | 45 000 |
| Trade payables | 60 700 |
| Cash at bank (Cr) | 33 030 |
| Capital | 110 000 |
| Drawings | 17 000 |

**Additional information:**

**1.** Inventories at 31 January 2010 were valued as follows:

| | **$** |
|---|---|
| Raw materials | 16 250 |
| Work in progress | 18 780 |
| Finished goods | 32 500 |

**2** At 31 January 2010

Direct factory wages, $1 120, were accrued.

Sundry office expenses, $630, were prepaid.

**3** Rent is to be apportioned on the basis of area occupied. Three fifths ($^3/_5$) of the area is occupied by the factory and two fifths ($^2/_5$) by the offices.

**4** Depreciation is charged on plant and machinery at 20% per annum using the diminishing (reducing) balance method.

**5** Office equipment is depreciated using the straight-line method at 20% on cost.
Office equipment, $24 000, was purchased on 31 July 2006.
Additional office equipment, $6 000, was purchased on 30 September 2009.
No other changes in non-current assets occurred in the year ended 31 January 2010.
Depreciation is calculated for the time assets are held in the business.

**6** The provision for doubtful debts is to be maintained at 4% of trade receivables.

**REQUIRED**

**(a)** Prepare the manufacturing account of Wang Yee for the year ended 31 January 2010. Show clearly the cost of raw materials consumed, prime cost and cost of production. **[11]**

**(b)** Prepare the income statement of Wang Yee for the year ended 31 January 2010. **[15]**

**(c)** Prepare the balance sheet of Wang Yee at 31 January 2010. **[14]**

## QUESTION 3 MAY 2011 P21 Q5

Yip Sin is a manufacturer. The following balances were extracted from the books on 30 April 2011.

| | |
|---|---|
| Inventory at 1 May 2010 | **$** |
| Raw materials | 20 900 |
| Work in progress | 30 800 |
| Finished goods | 40 750 |
| Purchases of raw materials | 147 200 |
| Royalties paid | 10 000 |
| Direct factory wages | 85 960 |
| Factory indirect expenses | 23 450 |
| Rent | 30 000 |
| Factory management salaries | 36 000 |
| Office salaries | 28 500 |
| Revenue | 450 000 |
| Advertising | 20 940 |
| Distribution costs | 18 650 |
| General office expenses | 11 300 |
| 6% Loan – repayable 31 December 2020 | 50 000 |
| Loan interest paid | 1 500 |
| Plant and machinery (cost) | 75 000 |
| Office equipment (cost) | 24 000 |
| Provisions for depreciation: Plant and machinery | 25 000 |
| Office equipment | 9 000 |
| Provision for doubtful debts | 2 400 |
| Trade receivables | 64 000 |
| Trade payables | 61 750 |
| Bank | Dr 4 200 |
| Capital | 100 000 |
| Drawings | 25 000 |

**Additional information:**

**1** Inventory at 30 April 2011

| | $ |
|---|---|
| Raw materials | 28 100 |
| Work in progress | 34 250 |
| Finished goods | 42 350 |

**2** At 30 April 2011 Direct factory wages, $4 040, were accrued. Advertising, $1 700, was prepaid.

**3** Rent is to be apportioned four fifths ($^4/_5$) to the factory and one fifth ($^1/_5$) to the administration.

**4** A purchase of office equipment, $2 000, had been debited in error to the general office expenses account. No entries have been made in the books to correct the error.

**5** Depreciation is to be charged as follows:
Factory plant and machinery at 20% p.a. using the diminishing (reducing) balance method.
Office equipment at 10% on cost using the straight-line method.
A full year's depreciation is to be charged on all non-current assets owned at the end of the year.

**6** The provision for doubtful debts is to be maintained at 5% of trade receivables.

**REQUIRED**

**(a)** Prepare the manufacturing account of Yip Sin for the year ended 30 April 2011.
Show clearly the prime cost and cost of production. **[14]**

**(b)** Prepare the income statement of Yip Sin for the year ended 30 April 2011. **[13]**

**(c)** Prepare the balance sheet of Yip Sin at 30 April 2011. **[13]**

## QUESTION 4 NOVEMBER 2012 P21 Q3

Sandar Manufacturing makes a single product. The following balances were extracted from the books at the end of the financial year on 30 September 2012:

| | | $ |
|---|---|---|
| Inventory at 1 October 2011: | Raw materials | 17 500 |
| | Work in progress | 24 000 |
| | Finished goods | 50 000 |
| Purchases of raw materials | | 82 600 |
| Carriage | | 12 000 |
| Production wages | | 75 000 |
| Office wages | | 35 000 |
| Sundry office expenses | | 14 500 |
| Production manager's salary | | 20 500 |
| Factory rent, rates and power | | 18 400 |
| Royalties | | 9 000 |
| General factory expenses | | 15 200 |
| Premises maintenance | | 40 000 |
| Factory machinery (at cost) | | 120 000 |
| Factory machinery – provision for depreciation | | 70 000 |
| Inventory at 30 September 2012: | Raw materials | 16 300 |
| | Work in progress | 29 000 |
| | Finished goods | 46 000 |

**Additional information at 30 September 2012:**

**1** 60% of the carriage relates to raw materials and 40% to goods sold.

**2** General factory expenses owing $400.

**3** 70% of the maintenance relates to the factory premises and 30% to the office premises.
**4** Factory machinery is depreciated at the rate of 15% per annum using the diminishing (reducing) balance method.

**REQUIRED**
**(a)** Prepare the manufacturing account for the year ended 30 September 2012. Clearly label the prime cost and cost of production. **[16]**
**(b)** Explain the term direct cost. **[2]**
**(c)** Give **one** example of a direct cost from the list of balances given in the question. **[2]**

## QUESTION 5 NOVEMBER 2012 P22 Q5

The following balances were extracted from the books of Khan, a manufacturer, on 31 July 2012:

| | | $ | |
|---|---|---|---|
| Factory equipment (cost) | | 160 000 | |
| Office equipment (cost) | | 40 000 | |
| Provisions for depreciation: | Factory equipment | 56 000 | |
| | Office equipment | 26 000 | |
| Office equipment disposal account | | 500 | Dr |
| Bank | | 9 700 | Dr |
| Capital | | 200 000 | |
| Inventory at 1 August 2011: | Raw materials | 26 000 | |
| | Work-in-progress | 36 000 | |
| | Finished goods | 48 000 | |
| Purchases of raw materials | | 183 000 | |
| Direct factory expenses | | 38 000 | |
| Indirect factory expenses | | 19 700 | |
| Production wages | | 164 500 | |
| Rent and rates | | 22 000 | |
| Drawings | | 8 000 | |
| Production management salaries | | 63 000 | |
| Office wages and salaries | | 69 500 | |
| Revenue | | 680 000 | |
| Marketing expenses | | 27 850 | |
| Distribution costs | | 62 000 | |
| General office expenses | | 6 700 | |
| 8% Loan – repayable 31 December 2025 | | 35 000 | |
| Loan interest paid | | 2 100 | |
| Provision for doubtful debts | | 3 000 | |
| Trade receivables | | 75 000 | |
| Trade payables | | 53 550 | |

**Additional information at 31 July 2012:**
**1** Inventory was valued as follows:

| | $ |
|---|---|
| Raw materials | 29 000 |
| Work-in-progress | 40 000 |
| Finished goods | 55 000 |

**2** Production wages, $6500, were accrued. Marketing expenses, $1 350, were prepaid.

**3** Rent and rates are to be apportioned on the basis of area occupied. Three-quarters of the area is occupied by the factory and one-quarter by the administration.

**4** Contained within the office wages and salaries is $8000 taken by Khan. He also took finished goods for his own personal use, $1 500.

**5** Depreciation is to be charged as follows:

Factory equipment at 20% per annum using the diminishing (reducing) balance method
Office equipment at 10% per annum on cost using the straight-line method.

**6** The provision for doubtful debts is to be maintained at 6% of trade receivables.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 31 July 2012. Show clearly the prime cost and cost of production. **[14]**

**(b)** Prepare the income statement for the year ended 31 July 2012. **[13]**

**(c)** Prepare the balance sheet at 31 July 2012. **[13]**

## QUESTION 6 MAY 2013 P21 Q5

The following balances were extracted from the books of Paul Lee, a manufacturer, on 31 May 2013.

| | | $ | |
|---|---|---|---|
| Capital | | 220 000 | |
| Drawings | | 10 800 | |
| Factory machinery (cost) | | 210 000 | |
| Office equipment (cost) | | 60 000 | |
| Provision for depreciation: | Factory machinery | 75 600 | |
| | Office equipment | 21 600 | |
| Inventory at 1 June 2012: | Raw materials | 33 000 | |
| | Work in progress | 36 000 | |
| | Finished goods | 66 444 | |
| Purchases of raw materials | | 133 687 | |
| Revenue | | 426 088 | |
| Transport costs | | 29 400 | |
| Wages and salaries | | 140 600 | |
| Rent and rates | | 28 000 | |
| Indirect factory expenses | | 18 423 | |
| Lighting and heating | | 23 140 | |
| Selling and administration expenses | | 10 742 | |
| Bad debts | | 1 000 | |
| Loan interest paid | | 2 000 | |
| Trade payables | | 43 690 | |
| Trade receivables | | 34 400 | |
| Bank | | 658 | **Cr** |
| 6% Loan (repayable on 23 June 2018) | | 50 000 | |

**Additional information:**

**1** Inventory values at 31 May 2013:

| | |
|---|---|
| Raw materials | $38 000 |
| Work in progress | $42 600 |
| Finished goods | $71 200 |

**2** Transport costs are allocated 65% to raw materials and 35% to delivery of finished goods.
**3** Wages and salaries include $56 000 for production managers' salaries. The remaining balance is split 40% direct labour, 35% indirect labour and 25% office salaries.
**4** Rent and rates are apportioned factory 80% and office 20%.
**5** Lighting and heating are apportioned factory 70% and office 30%. On 31 May 2013 these were in arrears by $860.
**6** On 31 May 2013 selling and administration expenses had been prepaid by $230.
**7** A provision for doubtful debts, representing 4% of trade receivables, is to be created.
**8** Factory machinery is depreciated at 20% per annum using the diminishing (reducing) balance method. Office equipment is depreciated at 12% per annum on cost.

**REQUIRED**
**(a)** Prepare the manufacturing account for the year ended 31 May 2013. **[15]**
**(b)** Prepare the income statement for the year ended 31 May 2013. **[13]**
**(c)** Prepare the balance sheet (statement of financial position) at 31 May 2013. **[12]**

## QUESTION 7 — MAY 2014 P22 Q3 (a & b)

Cadmore Limited is a manufacturing business. The following information is available for the month of April 2014.

| | $ |
|---|---|
| Inventory at 1 April 2014: | |
| Raw materials | 10 830 |
| Work in progress | 12 700 |
| Finished goods | 25 800 |
| Factory wages | 60 690 |
| Office wages | 24 750 |
| Purchases of raw materials | 80 670 |
| Depreciation of factory machinery | 7 000 |
| Depreciation of office equipment | 5 000 |
| Rent of factory building | 2 000 |
| Rent of office building | 1 000 |
| Royalties | 7 500 |
| Factory management salaries | 10 750 |
| Office management salaries | 32 000 |
| Revenue | 290 450 |
| Insurance | 1 250 |
| General expenses | 8 000 |

**Additional information**
**1** Inventory at 30 April 2014:

| | |
|---|---|
| Raw materials | $12 400 |
| Work in progress | $9 980 |
| Finished goods | $24 700 |

**2** Insurance is to be apportioned 80% to the factory, 20% to the office.
**3** General expenses: $5 000 relate to the factory and $3 000 to the office.

**REQUIRED**
**(a)** **(i)** Explain the term direct cost. **[1]**
**(ii)** State **two** direct costs incurred by Cadmore Limited. **[2]**
**(b)** Prepare the manufacturing account of Cadmore Limited for the month ended 30 April 2014. **[11]**

## QUESTION 8 NOVEMBER 2014 P21 Q5

Nikolas is a manufacturer. The following balances were extracted from his books on 31 July 2014.

| | | $ | |
|---|---|---|---|
| Capital | | 80 000 | |
| Drawings | | 20 000 | |
| Machinery (cost) | | 125 000 | |
| Office fixtures (cost) | | 55 000 | |
| Provisions for depreciation: | Machinery | 75 000 | |
| | Office fixtures | 16 500 | |
| Bank | | 27 700 | Dr |
| Purchases of raw materials | | 132 500 | |
| Inventory at 1 August 2013: | Raw materials | 15 000 | |
| | Work in progress | 31 400 | |
| | Finished goods | 40 000 | |
| Revenue | | 505 000 | |
| Royalties | | 15 000 | |
| Indirect factory expenses | | 12 750 | |
| Factory wages | | 90 800 | |
| Insurance | | 6 200 | |
| Rent | | 11 000 | |
| Production managers' salaries | | 38 250 | |
| Office wages and salaries | | 56 000 | |
| Selling expenses | | 19 600 | |
| Distribution costs | | 31 500 | |
| Sundry office expenses | | 19 800 | |
| 8% Loan (repayable 31 May 2024) | | 60 000 | |
| Loan interest paid | | 3 500 | |
| Provision for doubtful debts | | 1 500 | |
| Trade receivables | | 58 000 | |
| Trade payables | | 71 000 | |

Additional information at 31 July 2014

**1** Inventory was valued as follows:

| | $ |
|---|---|
| Raw materials | 17 500 |
| Work in progress | 26 000 |
| Finished goods | 42 500 |

**2** Sundry office expenses prepaid $1 400.

**3** Insurance included a payment of $4 800 for the year ended 31 October 2014.

**4** Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

**5** Depreciation is to be charged as follows:

**(i)** machinery at 20% per annum using the diminishing (reducing) balance method

**(ii)** office fixtures at 10% using the straight-line method.

**6** Nikolas took $7 500 of finished goods for his own use.

**7** A debt of $3 000 was considered irrecoverable. A provision for doubtful debts is maintained at 4%.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 31 July 2014. **[14]**

**(b)** Prepare the income statement for the year ended 31 July 2014. **[13]**

**(c)** Prepare the statement of financial position at 31 July 2014. **[13]**

## QUESTION 9 — MAY 2015 P21 Q5

The following balances were extracted from the books of Spiron Manufacturing on 30 April 2015.

| | $ |
|---|---|
| Factory machinery (cost) | 80 000 |
| Office fixtures (cost) | 20 000 |
| Provision for depreciation | |
| Factory machinery | 60 000 |
| Office fixtures | 8 000 |
| Purchases of raw materials | 85 000 |
| Inventory at 1 May 2014 | |
| Raw materials | 10 150 |
| Work in progress | 15 000 |
| Finished goods | 21 200 |
| Revenue | 310 000 |
| Purchases of finished goods | 19 000 |
| Factory managers' salaries | 32 000 |
| Office wages and salaries | 41 900 |
| Direct factory expenses | 5 600 |
| Indirect factory expenses | 9 800 |
| Factory wages | 47 000 |
| Rent | 10 000 |
| Insurance | 8 000 |
| Marketing expenses | 12 400 |
| Distribution costs | 9 850 |
| Financial expenses | 7 650 |
| Provision for doubtful debts | 400 |
| Trade receivables | 23 900 |
| Trade payables | 14 350 |
| Bank | 7 700 Dr |
| Capital | 90 000 |
| Drawings | 16 600 |

Additional information at 30 April 2015

**1** Inventory was valued as follows:

| | **$** |
|---|---|
| Raw materials | 12 750 |
| Work in progress | 16 200 |
| Finished goods | 18 700 |

**2** Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

**3** Financial expenses owing were $850.
**4** Marketing expenses of $600 were prepaid.
**5** Depreciation is to be charged as follows:
 **(i)** Factory machinery at 25% per annum using the diminishing (reducing) balance method
 **(ii)** Office fixtures at 15% using the straight-line method.
**6** A debt of $1 900 was considered irrecoverable. A provision for doubtful debts is to be maintained at 5%.

**REQUIRED**
**(a)** Prepare the manufacturing account for the year ended 30 April 2015. Show clearly the prime cost and the cost of production. **[13]**
**(b)** Prepare the income statement for the year ended 30 April 2015. **[15]**
**(c)** Prepare the statement of financial position at 30 April 2015. **[12]**

## QUESTION 10 NOVEMBER 2015 P22 Q3 (a)

The following balances were extracted from the books of Fairview Manufacturing on 31 October 2015.

| | **$** |
|---|---|
| Purchases of raw materials | 486 000 |
| Purchases of finished goods | 74 000 |
| Carriage inwards | 36 000 |
| Factory wages | 295 000 |
| Office wages | 75 000 |
| Factory packaging cost | 55 000 |
| Rent | 38 400 |
| Factory management salaries | 75 600 |
| Office management salaries | 50 000 |
| Factory indirect expenses | 8 500 |
| Office expenses | 15 000 |
| Factory equipment (at cost) | 245 000 |
| Office equipment (at cost) | 60 000 |
| Provisions for depreciation: | |
| Factory equipment | 105 000 |
| Office equipment | 20 000 |
| Inventory 1 November 2014: | |
| Raw materials | 108 000 |
| Work in progress | 84 300 |
| Finished goods | 150 000 |

**Additional information**
**1** Inventory at 31 October 2015

| | $ |
|---|---|
| Raw materials | 94 000 |
| Work in progress | 81 400 |
| Finished goods | 160 000 |

**2** Half of the carriage inwards is for raw materials and half for finished goods.

**3** Factory wages owing are $9 000.
**4** 60% of factory packaging costs are direct and 40% indirect.
**5** Rent is allocated to the factory and the office on the basis of floor area occupied:
Factory 5000 sq m and Office 3000 sq m
**6** Factory equipment and office equipment are both depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

**REQUIRED**
Prepare the manufacturing account for the year ended 31 October 2015. **[13]**

## QUESTION 11 NOVEMBER 2016 P21 Q3 (d)

The following balances were extracted from the books of JT Manufacturing for the month of August 2016.

| **Inventory at 1 August 2016** | $ |
|---|---|
| Raw materials | 3 800 |
| Work in progress | 7 000 |
| Purchases of raw materials | 15 600 |
| Raw materials returns outward | 1 200 |
| Rent | 9 000 |
| Direct factory expenses | 800 |
| Factory direct wages | 9 350 |
| Total gross pay of factory indirect labour | 1 880 |
| Employer's social security contribution | 270 |
| Factory management salaries | 14 550 |
| Office wages and salaries | 32 450 |
| Power | 4 000 |
| Depreciation on factory machinery | 6 000 |
| Depreciation on office computers | 9 000 |

**Additional information at 31 August 2016**
**1** Inventory

| | **$** |
|---|---|
| Raw materials | 5 350 |
| Work in progress | 7 500 |

**2** Rent and power are to be apportioned: 60% to the factory, 40% to the office.
**REQUIRED**
Prepare the manufacturing account of JT Manufacturing for the month ended 31 August 2016. **[10]**

## QUESTION 12 NOVEMBER 2016 P22 Q5

The following balances were extracted from the books of Project Manufacturing on 30 September 2016.

| | **$** |
|---|---|
| Capital | 140 000 |
| Drawings | 39 800 |
| Revenue (Sales) | 380 000 |

| | |
|---|---|
| Purchases of finished goods | 36 000 |
| Factory managers' salaries | 29 000 |
| Office wages and salaries | 50 000 |
| Premises maintenance | 11 000 |
| Royalties | 8 000 |
| Factory wages | 73 000 |
| Rent | 16 400 |
| Insurance | 5 000 |
| Advertising expenses | 15 400 |
| Administration and finance costs | 9 500 |
| Factory machinery (cost) | 115 000 |
| Office fixtures (cost) | 14 000 |
| Provisions for depreciation | |
| Factory machinery | 50 000 |
| Office fixtures | 6 200 |
| Purchases of raw materials | 106 000 |
| Inventory at 1 October 2015 | |
| Raw materials | 8 700 |
| Work in progress | 19 000 |
| Finished goods | 34 100 |
| Provision for doubtful debts | 900 |
| Trade receivables | 32 000 |
| Commission received | 3 000 |
| Trade payables | 18 700 |
| Bank overdraft | 23 100 |

**Additional information at 30 September 2016**

**1** Inventory

| | **$** |
|---|---|
| Raw materials | 9 750 |
| Work in progress | 17 550 |
| Finished goods | 40 400 |

**2** Expenses are to be apportioned to the factory and the office as follows:

| | **Factory** | **Office** |
|---|---|---|
| Insurance | 80% | 20% |
| Rent | 75% | 25% |
| Premises maintenance | 60% | 40% |

**3** Administration and finance costs owing were $750.

**4** Advertising expenses of $1 200 were prepaid.

**5** Depreciation is to be charged as follows:

**(i)** factory machinery at 20% per annum using the diminishing (reducing) balance method

**(ii)** office fixtures at 10% per annum using the straight-line method.

**6** A provision for doubtful debts is to be maintained at the rate of 5%.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 30 September 2016. Show clearly the prime cost and the cost of production. **[15]**

**(b)** Prepare the income statement for the year ended 30 September 2016. **[14]**

**(c)** Prepare the statement of financial position at 30 September 2016. **[11]**

# CHAPTER 15 SOLUTIONS

## QUESTION 1 SPECIMEN 2010 P2 Q6

**(a)** **Alison Brown**

**Manufacturing Account for the year ended 31 July 2009**

| | | $ | $ |
|---|---|---|---|
| Cost of material consumed | | | |
| | Opening inventory of raw material | 34 760 | |
| | Purchases of raw material | 396 300 | |
| | Carriage of raw material | 1 200 | |
| | | 432 260 | |
| | Closing inventory of raw material | 47 290 | 384 970 |
| Direct wages ($198 600 + $16 550) | | | 215 150 |
| Prime cost | | | 600 120 |
| Factory Overheads | | | |
| | Factory manager's salary | 18 600 | |
| | Sundry factory expenses | 24 360 | |
| | Depreciation of factory plant and machinery (96 000 – 42 000) × 25% | 13 500 | 56 460 |
| | | | 656 580 |
| Add | Decrease in work in progress | | 150 |
| Production cost of goods completed | | | 656 730 |

**(b)** **Alison Brown**

**Income Statement for the year ended 31 July 2009**

| | | $ | $ | $ |
|---|---|---|---|---|
| Revenue (sales) | | | 798 200 | |
| Less sales returns | | | 6 400 | 791 800 |
| Less cost of sales | | | | |
| | Opening inventory of finished goods | | 8 300 | |
| | Production cost of goods completed | | 656 730 | |
| | Purchases of finished goods | 11 340 | | |
| | Less Drawings | (960) | 10 380 | |
| | | | 675 140 | |
| | Closing inventory of finished goods | | 9 200 | 666 210 |
| Gross profit | | | | 125 590 |
| | Office salaries ($43 330 – $1 860) | | 41 470 | |
| | Sundry office expenses | | 18 950 | |
| | Distribution costs | | 23 460 | |
| | Depreciation of equipment [(20%×15 000)+(20%×2 400× $^3/_{12}$ ) | | 3 120 | |
| | Provision for doubtful debts (2% × 84 350) | | 1 687 | 88 687 |
| Profit for the year | | | | 36 903 |

**(c)** **Alison Brown's Balance Sheet at 31 July 2009**

| **Non-Current Assets** | **Cost ($)** | **Depr'n to date ($)** | **Book value ($)** |
|---|---|---|---|
| Land and buildings | 40 000 | - | 40 000 |
| Factory plant and machinery | 96 000 | 55 500 | 40 500 |
| Office equipment | 17 400 | 9 120 | 8 280 |
| | 153 400 | 64 620 | 88 780 |

| | | $ | $ | $ |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Inventory : | Raw materials | 47 290 | | |
| | Work in progress | 4 670 | | |
| | Finished goods | 9 200 | 61 160 | |
| Trade receivables | | 84 350 | | |
| Less provision for doubtful debts | | 1 687 | 82 663 | |
| Other receivables (Prepayments) | | | 1 860 | |
| Cash equivalents (Bank) | | | 2 050 | |
| | | | 147 733 | |
| **Current Liabilities** | | | | |
| Trade payables | | 64 160 | | |
| Other payables (Accruals) | | 16 550 | 80 710 | 67 023 |
| | | | | 155 803 |
| **Equity (Capital)** | | | | |
| Capital at year start | | | 132 160 | |
| Add | Profit for the year | | 36 903 | |
| Less | Drawings ($12 300 + $960) | | (13 260) | 155 803 |

## QUESTION 2 MAY 2010 P22 Q5

**(a)** **Wang Yee**

**Manufacturing Account for the year ended 31 January 2010**

| | | $ | $ |
|---|---|---|---|
| Cost of material consumed | | | |
| | Opening inventory of raw material | 14 700 | |
| | Purchases of raw material | 75 600 | |
| | Closing inventory of raw material | (16 250) | 74 050 |
| Direct wages ($62 140 + $1 120) | | | 63 260 |
| Prime cost | | | 137 310 |
| Factory Overheads | | | |
| | Factory rent ($28 000 × $^3/_5$) | 16 800 | |
| | Factory management salaries | 31 500 | |
| | Depreciation of factory plant (90 000–32 000) × 20% | 11 600 | 59 900 |
| | | | 197 210 |
| Add | Opening work in progress | | 23 570 |
| Less | Closing work in progress | | (18 780) |
| Production cost of goods completed | | | 202 000 |

**(b)** **Income Statement for the year ended 31 January 2010**

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) | | 342500 | |
| Revenue (sales returns) | | (1 250) | 341 250 |
| **Cost of sales** | | | |
| Opening inventory of finished goods | | 35 000 | |
| Production cost of goods completed | 202 000 | | |
| Purchases of finished goods | 15 500 | 217 500 | |
| Closing inventory of finished goods | | (32 500) | (220 000) |
| Gross profit | | | 121 250 |

| **Expenses** | **$** | **$** |
|---|---|---|
| Rent ($28 000 × $^{2}/_{5}$) | 11 200 | |
| Office salaries | 41600 | |
| Distribution costs | 28650 | |
| Sundry office expenses ($9 870 – $630) | 9 240 | |
| Finance costs ($40 000 × 8%) | 3 200 | |
| Depreciation of equipment [(24 000×20%)+( 6 000×20%× $^{4}/_{12}$) | 5 200 | |
| Provision for doubtful debts [($45 000 × 4%) – $1 550] | 250 | (99 340) |
| Profit for the year | | 21910 |

**(c)** **Wang Yee**

**Balance Sheet at 31 January 2010**

| **Non-Current Assets** | **Cost ($)** | **Deprn to date ($)** | **Book value ($)** |
|---|---|---|---|
| Property (land and buildings) () | 80 000 | | 80 000 |
| Plant and machinery ($32 000 + $11 600) | 90 000 | 43 600 | 46 400 |
| Office equipment ($12 000 + $5 200) | 30 000 | 17 200 | 12 800 |
| | | | 139 200 |
| **Current Assets** | | | |
| Inventory: Raw materials | 16 250 | | |
| Work in progress | 18 780 | | |
| Finished goods | 32 500 | 67 530 | |
| Trade receivables | 45000 | | |
| Less provision for doubtful debts ($45 000 × 4%) | (1 800) | 43 200 | |
| Other receivables (Prepayments) | | 630 | |
| | | 111 360 | |
| **Current Liabilities** | | | |
| Trade payables | 60 700 | | |
| Cash at bank (Cr) | 33 030 | | |
| Loan interest payable ($3 200 – $2 400) | 800 | | |
| Other payables (Accruals) | 1 120 | (95 650) | 15 710 |
| | | | 154 910 |
| **Equity (Capital)** | | | |
| Opening balance | 110 000 | | |
| Add Net Profit for the year | 21 910 | | |
| Less Drawings | (17 000) | 114 910 | |
| Non-current liability (8% loan - repayable 31 December 2015) | | 40 000 | 154 910 |

## QUESTION 3 MAY 2011 P21 Q5

**(a)** **Manufacturing Account for the year ended 30 April 2011**

| **Raw Material Cost** | **$** | **$** |
|---|---|---|
| Opening inventory | 20 900 | |
| Purchases of raw materials | 147 200 | |
| Closing inventory | (28 100) | |
| Cost of raw materials consumed | | 140 000 |
| Direct factory wages ($85 960 + $4 040) | | 90 000 |
| Royalties | | 10 000 |
| Prime cost | | 240 000 |

| | | $ | $ |
|---|---|---|---|
| Factory overheads: | | | |
| | Indirect factory expenses | 23 450 | |
| | Rent ($30 000 × $^4/_5$) | 24 000 | |
| | Factory management salaries | 36 000 | |
| | Depreciation of plant and machinery [($75 000 – $25 000) × 20%] | 10 000 | 93 450 |
| | | | 333 450 |
| Add | Opening work in progress | 30 800 | |
| Less | Closing work in progress | (34 250) | (3 450) |
| Cost of production | | | 330 000 |

**(b) Income Statement for the year ended 30 April 2011**

| | | $ | $ |
|---|---|---|---|
| Revenue | | | 450 000 |
| Cost of Sales | | | |
| | Opening inventory of finished goods | 40 750 | |
| | Cost of production | 330 000 | |
| | | 370 750 | |
| | Closing inventory of finished goods | (42 350) | |
| Cost of sales | | | 328 400 |
| Gross profit | | | 121 600 |
| **Expenses** | | | |
| | Rent ($30 000 × $^1/_5$) | 6 000 | |
| | Office salaries | 28 500 | |
| | Advertising ($20 940 – $1 700) | 19 240 | |
| | Distribution costs | 18 650 | |
| | General office expenses ($11 300 – $2 000) | 9 300 | |
| | Loan interest ($50 000 × 6%) | 3 000 | |
| | Depreciation on office equipment [($24 000 + $2 000) × 10%] | 2 600 | |
| | Increase in provision for doubtful debts [($64 000 × 5%) – $2 400] | 800 | 88 090 |
| Profit for the year | | | 33 510 |

**(c) Balance sheet as at 30 April 2011**

| | | $ | $ | $ |
|---|---|---|---|---|
| **Non-Current Assets** | | **Cost** | **Depn. to date** | **NBV** |
| | Plant and machinery ($25 000 + $10 000) | 75 000 | 35 000 | 40 000 |
| | Office equipment ($24 000 + $2 000) ; ($9 000 + $2 600) | 26 000 | 11 600 | 14 400 |
| | | 101 000 | 46 600 | 54 400 |
| **Current Assets** | | | | |
| | Inventory: Raw materials | 28 100 | | |
| | Work in progress | 34 250 | | |
| | Finished goods | 42 350 | 104 700 | |
| | Trade receivables | 64 000 | | |
| | Less: provision for doubtful debts | (3 200) | 60 800 | |
| | Other receivables (prepaid advertising) | | 1 700 | |
| | Bank | | 4 200 | |
| | | | 171 400 | |

| | $ | $ | $ |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade payables | 61 750 | | |
| Other payables (accrued expenses) [$4 040 + ($3 000 − $1 500)] | 5 540 | 67 290 | 104 110 |
| | | | 158 510 |
| **Non-current liabilities** | | | |
| 6% loan repayable 31 December 2020 | | | 50 000 |
| | | | 108 510 |
| **Equity** | | | |
| Capital | | 100 000 | |
| Add Profit for the year | | 33 510 | |
| | | 133 510 | |
| Less Drawings | | (25 000) | 108 510 |

## QUESTION 4 NOVEMBER 2012 P21 Q3

**(a)** **Sandar Manufacturing**

**Manufacturing Account for the year ended 30 September 2012**

| Raw Materials Cost | $ | $ | $ |
|---|---|---|---|
| Opening inventory of raw materials | | 17 500 | |
| Purchases of raw materials | 82 600 | | |
| Carriage on raw materials ($12 000 × 60%) | 7 200 | 89 800 | |
| | | 107 300 | |
| Closing inventory of raw materials | | (16 300) | |
| Cost of raw materials consumed | | | 91 000 |
| Production wages | | | 75 000 |
| Royalties | | | 9 000 |
| PRIME COST | | | 175 000 |
| Factory overheads: | | | |
| Production manager's salary | | 20 500 | |
| Rent, rates and power | | 18 400 | |
| General factory expenses ($15 200 + $400) | | 15 600 | |
| Premises maintenance ($40 000 × 70%) | | 28 000 | |
| Depreciation on machinery [($120 000 – $70 000) × 15%) | | 7 500 | 90 000 |
| | | | 265 000 |
| Work in progress: at 1 October 2011 | | 24 000 | |
| at 30 September 2012 | | (29 000) | (5 000) |
| PRODUCTION COST | | | 260 000 |

**(b)** Direct cost is a cost which can be directly identifiable with reference to the product being manufactured.

**(c)** Raw materials cost, Production wages and Royalties

## QUESTION 5 NOVEMBER 2012 P22 Q5

**(a)** **Khan**

**Manufacturing Account for the year ended 31 July 2012**

| | | $ | $ |
|---|---|---|---|
| **Raw Materials Cost** | | | |
| | Inventory of raw materials at 1 August 2011 | 26 000 | |
| | Purchases of raw materials | 183 000 | |
| | Less: Inventory of raw materials at 31 July 2012 | (29 000) | |
| Cost of raw materials consumed | | | 180 000 |
| Production wages ($164 500 + $6 500) | | | 171 000 |
| Direct factory expenses | | | 38 000 |
| Prime cost | | | 389 000 |
| **Factory Overheads** | | | |
| | Indirect factory expenses | 19 700 | |
| | Rent and rates | 16 500 | |
| | Production management salaries | 63 000 | |
| | Provision for depreciation of plant and machinery | 20 800 | 120 000 |
| | | | 509 000 |
| Add | Work in progress (opening) | 36 000 | |
| Less | Work in progress (closing) | (40 000) | (4 000) |
| Production Cost | | | 505 000 |

**(b)** **Income Statement for the year ended 31 July 2012**

| | | $ | $ |
|---|---|---|---|
| Revenue | | | 680 000 |
| **Cost of sales** | | | |
| | Inventory of finished goods at 1 August 2011 | 48 000 | |
| | Production cost ($505 000 – $1 500) | 503 500 | |
| | Inventory of finished goods at 31 July 2012 | (55 000) | (496 500) |
| Gross profit | | | 183 500 |
| **Expenses** | | | |
| | Rent and rates | 5 500 | |
| | Office wages and salaries ($69 500 – $8 000) | 61 500 | |
| | Marketing expenses ($27 850 – $1 350) | 26 500 | |
| | Distribution costs | 62 000 | |
| | General office expenses | 6 700 | |
| | Loan interest ($2 100 + $700) | 2 800 | |
| | Depreciation on office equipment | 4 000 | |
| | Loss on disposal | 500 | |
| | Increase in provision for doubtful debts | 1 500 | (171 000) |
| **Profit for the year** | | | 12 500 |

**(c)** **Balance Sheet at 31 July 2012**

| | | COST ($) | DEPN ($) | NBV ($) |
|---|---|---|---|---|
| **NON-CURRENT ASSETS** | | | | |
| | Factory equipment | 160 000 | 76 800 | 83 200 |
| | Office equipment | 40 000 | 30 000 | 10 000 |
| | | 200 000 | 106 800 | 93 200 |
| **CURRENT ASSETS** | | | | |
| | Inventory: Raw materials | 29 000 | | |
| | Work in progress | 40 000 | | |
| | Finished goods | 55 000 | 124 000 | |

| | | | |
|---|---|---|---|
| Trade receivables | 75 000 | | |
| Less: provision for doubtful debts | 4 500 | 70 500 | |
| Other receivables (Prepaid marketing) | | 1 350 | |
| Bank | | 9 700 | |
| | | 205 550 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 53 550 | | |
| Other payables - accrued expenses ($6 500 + $700) | 7 200 | (60 750) | 144 800 |
| | | | 238 000 |
| **NON CURRENT LIABILITIES** 8% loan repayable 31 December 2025 | | | (35 000) |
| | | | 203 000 |
| **EQUITY** | | | |
| Capital | | 200 000 | |
| Add: Profit for the year | | 12 500 | |
| Less: Drawings ($8 000 + $1 500) | | (9 500) | 203 000 |

## QUESTION 6 — MAY 2013 P21 Q5

**(a)**

**Paul Lee**

**Manufacturing Account for the year ended 31 May 2013**

| **Raw Material Cost** | **$** | **$** | **$** |
|---|---|---|---|
| Inventory of raw materials 1 June 2012 | | 33 000 | |
| Purchases of raw materials | 133 687 | | |
| Add Transport cost ($29 400 x 65%) | 19 110 | 152 797 | |
| Inventory of raw materials 31 May 2013 | | (38 000) | |
| **Cost of raw materials consumed** | | | 147 797 |
| Direct labour ($140 600 – $56 000) x 40% | | | 33 840 |
| **Prime cost** | | | 181 637 |
| **Factory Overheads** | | | |
| Production managers' salaries | | 56 000 | |
| Indirect labour ($140 600 – $56 000) × 35% | | 29 610 | |
| Indirect factory expenses | | 18 423 | |
| Factory rent and rates ($28 000 x 80%) | | 22 400 | |
| Factory heat and light ($23 140 + $860) x 70% | | 16 800 | |
| Depreciation of machinery ($210 000 – $75 600) × 20% | | 26 880 | 170 113 |
| | | | 351 750 |
| Work in progress 1 September 2012 | | 36 000 | |
| Work in progress 31 August 2013 | | (42 600) | (6 600) |
| **Cost of production** | | | 345 150 |

**(b)** **Income statement for the year ended 31 May 2013**

| | **$** | **$** |
|---|---|---|
| Revenue | | 426 088 |
| Cost of sales | | |
| Opening inventory of finished goods | 66 444 | |
| Cost of production | 345 150 | |
| Closing inventory of finished goods | (71 200) | (340 394) |
| Gross profit | | 85 694 |

| **Expenses** | **$** | **$** |
|---|---|---|
| Bad debts | 1 000 | |
| Loan interest ($50 000 x 20%) | 3 000 | |
| Selling and administration expenses ($10 742 – $230) | 10 512 | |
| Wages ($140 600 – $56 000) × 25% | 21 150 | |
| Lighting and heating [($23 140 + $860) x 30%] | 7 200 | |
| Rent and rates ($28 000 x 20%) | 5 600 | |
| Transport ($29 400 x 35%) | 10 290 | |
| Provision for doubtful debts ($34 400 x 4%) | 1 376 | |
| Provision for depreciation of office equipment ($60 000 x 12%) | 7 200 | (67 328) |
| **Profit for the year** | | 18 366 |

**(c)** **Paul Lee**

**Statement of Financial Position (Balance Sheet) as at 31 May 2013**

| **Non-Current Assets** | **Cost ($)** | **Accumulated Depn ($)** | **Net Book Value ($)** |
|---|---|---|---|
| Factory machinery ($75 600 + $26 880) | 210 000 | 102 480 | 107 520 |
| Office equipment ($21 600 + $7 200) | 60 000 | 28 800 | 31 200 |
| | 270 000 | 131 280 | 138 720 |
| **Current Assets** | | | |
| Inventory | | | |
| Raw materials | 38 000 | | |
| Work in progress | 42 600 | | |
| Finished goods | 71 200 | 151 800 | |
| Trade receivables | 34 400 | | |
| Provision for doubtful debts ($34 400 x 4%) | (1 376) | 33 024 | |
| Other receivables (Selling & admin expenses) | | 230 | |
| | | 185 054 | |
| **Current Liabilities** | | | |
| Trade payables | 43 690 | | |
| Other payables (light & heat) | 860 | | |
| Loan interest due ($3 000 – $2 000) | 1 000 | | |
| Bank overdraft | 658 | (46 208) | 138 846 |
| | | | 277 566 |
| **Non-Current Liabilities** | | | |
| 6% Loan repayable 23 June 2018 | | | (50 000) |
| | | | 227 566 |
| **EQUITY** | | | |
| Capital | | 220 000 | |
| Add Net profit | | 18 366 | |
| Less Drawings | | (10 800) | 227 566 |

## QUESTION 7 — MAY 2014 P22 Q3 (a & b)

**(a)** **(i)** Direct costs are manufacturing costs which are directly identifiable or traceable to the product being manufactured.

**(ii)** Raw materials, Factory wages and Royalties

**(b)**

**Cadmore Limited**
**Manufacturing Account**
**For the month ended 30 April 2014**

| | | $ | $ |
|---|---|---|---|
| **Raw Material Cost** | | | |
| | Opening inventory | 10 830 | |
| | Purchases of raw materials | 80 670 | |
| | | 91 500 | |
| | Closing inventory | (12 400) | |
| Raw materials consumed | | | 79 100 |
| Factory wages | | | 60 690 |
| Royalties | | | 7 500 |
| Prime cost | | | 147 290 |
| **FACTORY OVERHEADS:** | | | |
| | Depreciation of factory machinery | 7 000 | |
| | Rent of factory building | 2 000 | |
| | Factory management salaries | 10 750 | |
| | Insurance ($ 1250 × 80%) | 1 000 | |
| | General expenses | 5 000 | 25 750 |
| | | | 173 040 |
| Add | Opening Work in progress | 12 700 | |
| Less | Closing Work in progress | (9 980) | 2 720 |
| Cost of Production | | | 175 760 |

## QUESTION 8 NOVEMBER 2014 P21 Q5

**(a)**

**Manufacturing Account**
**For the year ended 31 July 2014**

| | | $ | $ |
|---|---|---|---|
| **Raw Materials Cost** | | | |
| | Opening Inventory of raw materials | 15 000 | |
| | Purchases of raw materials | 132 500 | |
| | | 147 500 | |
| | Closing inventory of raw materials | (17 500) | |
| Cost of raw materials consumed | | | 130 000 |
| Factory wages (assumed to be direct) | | | 90 800 |
| Royalties | | | 15 000 |
| **Prime cost** | | | 235 800 |
| Factory overheads: | | | |
| | Indirect factory expenses | 12 750 | |
| | Rent ($11 000 x 80%) | 8 800 | |
| | Production managers' salaries | 38 250 | |
| | Insurance [$6200 – ($4 800 × $^1/_4$)] x 80% | 4 000 | |
| | Depreciation of machinery [($125 000 – $75 000) × 20%] | 10 000 | 73 800 |
| Total Manufacturing Costs | | | 309 600 |
| Work in progress- Opening | | 31 400 | |
| Work in progress- Closing | | (26 000) | 5 400 |
| Cost of Production | | | 315 000 |

**(b)** **Income Statement for the year ended 31 July 2014**

| | $ | $ | $ |
|---|---|---|---|
| Revenue | | | 505 000 |
| Cost of Sales | | | |
| Opening Inventory of finished goods | | 40 000 | |
| Cost of Production | 315 000 | | |
| Drawings of finished goods | (7 500) | 307 500 | |
| Closing Inventory of finished goods | | (42 500) | (305 000) |
| Gross profit | | | 200 000 |
| **EXPENSES** | | | |
| Insurance [$6200 – ($4 800 × $^{1}/_{4}$)] x 20% | | 1 000 | |
| Rent ($11 000 x 20%) | | 2 200 | |
| Office wages and salaries | | 56 000 | |
| Selling expenses | | 19 600 | |
| Distribution costs | | 31 500 | |
| Sundry office expenses ($19 800 – $1 400) | | 18 400 | |
| Loan interest ($60 000 × 8%) | | 4 800 | |
| Depreciation on office equipment ($55 000 × 10%) | | 5 500 | |
| Bad debts | | 3 000 | |
| Increase in prov. for doubtful debts [(55 000 × 4%) – 1 500] | | 700 | (142 700) |
| Profit for the year | | | 57 300 |

**(c)** **Statement of Financial Position at 31 July 2014**

| **NON-CURRENT ASSETS** | **Cost ($)** | **Accumulated Depn ($)** | **Net Book Value ($)** |
|---|---|---|---|
| Machinery ($75 000 + $10 000) | 125 000 | 85 000 | 40 000 |
| Office fixtures ($16 500 + $5 500) | 55 000 | 22 000 | 33 000 |
| | 180 000 | 107 000 | 73 000 |
| **CURRENT ASSETS** | | | |
| Inventory: | | | |
| Raw materials | 17 500 | | |
| Work in progress | 26 000 | | |
| Finished goods | 42 500 | 86 000 | |
| Trade receivables($58 000 – $3 000) | 55 000 | | |
| Less: provision for doubtful debts ($55 000 × 4%) | 2 200 | 52 800 | |
| Other receivables: Sundry office expenses prepaid | 1 400 | | |
| Prepaid insurance ($4 800 × $^{1}/_{4}$) | 1 200 | 2 600 | |
| Bank | | 27 700 | |
| | | 169 100 | |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 71 000 | | |
| Other payables – interest due ($4 800 – $3 500) | 1 300 | (72 300) | 96 800 |
| | | | 169 800 |
| **NON-CURRENT LIABILITIES** 8% loan (repayable 31 May 2024) | | | (60 000) |
| | | | 109 800 |
| **EQUITY** | | | |
| Capital | | 80 000 | |
| Add Profit for the year | | 57 300 | |
| Less Drawings ($20 000 + $7 500 ) | | (27 500) | 109 800 |

## QUESTION 9 MAY 2015 P21 Q5

**(a)** **Spiron Manufacturing**
**Manufacturing Account**
**For the year ended 30 April 2015**

| | $ | $ |
|---|---|---|
| **Direct Material Cost** | | |
| Opening inventory 1 May 2014 | 10 150 | |
| Purchases of raw material | 85 000 | |
| | 95 150 | |
| Closing inventory 30 April 2015 | (12 750) | |
| Cost of raw materials consumed | | 82 400 |
| Factory wages (assumed to be direct) | | 47 000 |
| Direct expenses | | 5 600 |
| Prime cost | | 135 000 |
| **Factory Overheads:** | | |
| Factory managers' salaries | 32 000 | |
| Indirect expenses | 9 800 | |
| Rent ($10 000 × 80%) | 8 000 | |
| Insurance ($8 000 × 80%) | 6 400 | |
| Depreciation – machinery [($80 000 – $60 000) × 25%] | 5 000 | 61 200 |
| | | 196 200 |
| Add Work in progress: 1 May 2014 | 15 000 | |
| Less Work in progress: 30 April 2015 | (16 200) | (1 200) |
| Cost of production | | 195 000 |

**(b)** **Income Statement for the year ended 30 April 2015**

| | $ | $ |
|---|---|---|
| Revenue | | 310 000 |
| Cost of Sales | | |
| Inventory of finished goods 1 May 2014 | 21 200 | |
| Cost of Production | 195 000 | |
| Purchases of finished goods | 19 000 | |
| | 235 200 | |
| Inventory of finished goods - 30 April 2015 | (18 700) | (216 500) |
| Gross profit | | 93 500 |
| **Expenses** | | |
| Office wages and salaries | 41 900 | |
| Rent ($10 000 × 20%) | 2 000 | |
| Insurance ($8 000 × 20%) | 1 600 | |
| Marketing ($12 400 – $600) | 11 800 | |
| Distribution expenses | 9 850 | |
| Financial expenses ($7 650 + $850) | 8 500 | |
| Bad debts | 1 900 | |
| Increase in prov for doubtful debts [($23 900 – $1 900) × 5%] – $400 | 700 | |
| Depreciation - office fixtures ($20 000 × 15%) | 3 000 | (81 250) |
| Profit for the year | | 12 250 |

**(c)** **Statement of Financial Position at 30 April 2015**

| **Non-Current Assets** | **Cost ($)** | **Accumulated Depn ($)** | **Net Book Value ($)** |
|---|---|---|---|
| Machinery ($60 000 + $5 000) | 80 000 | 65 000 | 15 000 |
| Office fixtures ($8 000 + $3 000) | 20 000 | 11 000 | 9 000 |
| | 100 000 | 76 000 | 24 000 |
| **Current Assets** | | | |
| Inventory: Raw materials | | 12 750 | |
| Work in progress | | 16 200 | |
| Finished goods | | 18 700 | |
| Trade receivables ($23 900 – $1 900) | 22 000 | | |
| Provision for doubtful debts ($22 000 × 5%) | (1 100) | 20 900 | |
| Other receivables (prepayments) | | 600 | |
| Bank | | 7 700 | 76 850 |
| Total assets | | | 100 850 |
| **Capital & Liabilities** | | | |
| Capital | | 90 000 | |
| Add Profit for the year | | 12 250 | |
| Less Drawings | | (16 600) | 85 650 |
| **Current Liabilities** | | | |
| Trade payables | | 14 350 | |
| Other payables - Financial expenses owing | | 850 | 15 200 |
| Total Liabilities & Capital | | | 100 850 |

## QUESTION 10 — NOVEMBER 2015 P22 Q3 (a)

**Fairview Manufacturing**
**Manufacturing Account**
**For the year ended 31 October 2015**

| **Raw Material Cost** | **$** | **$** |
|---|---|---|
| Inventory 1 November 2014 | 108 000 | |
| Purchases of raw materials | 486 000 | |
| Carriage in on raw materials ($36 000 × $^1/_2$) | 18 000 | |
| Inventory 31 October 2015 | (94 000) | |
| Cost of raw materials consumed | | 518 000 |
| Factory wages ($295 000 + $9 000) | | 304 000 |
| Direct packaging cost ($55 000 × 60%) | | 33 000 |
| Prime cost | | 855 000 |
| **Factory Overheads** | | |
| Indirect packaging cost ($55 000 × 40%) | 22 000 | |
| Rent ($38 400 × $^5/_8$) | 24 000 | |
| Management salaries | 75 600 | |
| Indirect expenses | 8 500 | |
| Depreciation – Factory equipment [($245 000 – $105 000) × 25%] | 35 000 | 165 100 |
| | | 1 020 100 |
| Add Work in progress at 1 November 2014 | 84 300 | |
| Less Work in progress at 31 October 2015 | (81 400) | 2 900 |
| Cost of Production | | 1 023 000 |

## QUESTION 11 NOVEMBER 2016 P21 Q3 (d)

**JT Manufacturing**
**Manufacturing Account for the month of August 2016**

| **Raw Material Costs** | **$** | **$** |
|---|---|---|
| Opening inventory | 3 800 | |
| Purchases | 15 600 | |
| | 19 400 | |
| Less Returns outwards | (1 200) | |
| | 18 200 | |
| Closing inventory | (5 350) | |
| Cost of raw materials consumed | | 12 850 |
| Add Factory direct wages | | 9 350 |
| Direct factory expenses | | 800 |
| **Prime cost** | | 23 000 |
| **Factory Overheads** | | |
| Rent ($9 000 × 60%) | 5 400 | |
| Factory indirect labour ($1 880 + $270) | 2 150 | |
| Factory management salaries | 14 550 | |
| Power ($4 000 × 60%) | 2 400 | |
| Depreciation on factory machinery | 6 000 | 30 500 |
| | | 53 500 |
| Add Opening work in progress | 7 000 | |
| Less Closing work in progress | (7 500) | (500) |
| Cost of Production | | 53 000 |

## QUESTION 12 NOVEMBER 2016 P22 Q5

**(a)** **Project Manufacturing**
**Manufacturing Account for the year ended 30 September 2016**

| **Raw Material Costs** | **$** | **$** |
|---|---|---|
| Opening inventory | 8 700 | |
| Add Purchases | 106 000 | |
| | 114 700 | |
| Less Closing inventory | (9 750) | |
| Cost of raw materials consumed | | 104 950 |
| Factory wages (assumed to be direct) | | 73 000 |
| Other Direct Expenses :Royalties | | 8 000 |
| Prime cost | | 185 950 |
| Factory Overheads | | |
| Factory Managers' salaries | 29 000 | |
| Premises maintenance ($11 000 × 60%) | 6 600 | |
| Rent ($16 400 × 75%) | 12 300 | |
| Insurance ($5 000 × 80%) | 4 000 | |
| Depreciation -Machinery [($115 000 – $50 000) × 20%] | 13 000 | 64 900 |
| | | 250 850 |
| Add Work in progress: Opening | 19 000 | |

| | | |
|---|---|---|
| Less Work in progress: Closing | (17 550) | 1 450 |
| Cost of production | | 252 300 |

**(b)**

**Project Manufacturing**
**Income Statement for the year ended 30 September 2016**

| | $ | $ |
|---|---|---|
| Revenue | | 380 000 |
| **Cost of Sales** | | |
| Finished Goods : Opening inventory | 34 100 | |
| Cost of production | 252 300 | |
| Purchases of finished goods | 36 000 | |
| | 322 400 | |
| Finished Goods : Closing inventory | (40 400) | |
| Cost of sales | | (282 000) |
| Gross profit | | 98 000 |
| **Other Incomes** | | |
| Commission received | | 3 000 |
| | | 101 000 |
| **Expenses** | | |
| Office wages and salaries | 50 000 | |
| Premises maintenance ($11 000 × 40%) | 4 400 | |
| Rent ($16 400 × 25%) | 4 100 | |
| Insurance ($5 000 × 20%) | 1 000 | |
| Advertising ($15 400 – $1 200) | 14 200 | |
| Administration and finance costs ($9 500 + $750) | 10 250 | |
| Increase in provision for doubtful debts [($32 000 × 5%) – $900] | 700 | |
| Depreciation – Office fixtures ($14 000 × 10%) | 1 400 | (86 050) |
| Profit for the year | | 14 950 |

**(b)**

**Project Manufacturing**
**Statement of Financial Position at 30 September 2016**

| **Non-Current Assets** | **Cost ($)** | **Depn. ($)** | **NBV($)** |
|---|---|---|---|
| Machinery ($50 000 + $13 000) | 115 000 | 63 000 | 52 000 |
| Office fixtures ($6 200 + $1 400) | 14 000 | 7 600 | 6 400 |
| | 129 000 | 70 600 | 58 400 |
| **Current Assets** | | | |
| Inventory: Raw materials | 9 750 | | |
| Work in progress | 17 550 | | |
| Finished goods | 40 400 | 67 700 | |
| Trade receivables | 32 000 | | |
| Less Provision for doubtful debts ($32 000 × 5%) | (1 600) | 30 400 | |
| Other receivables : Advertising prepaid | | 1 200 | 99 300 |
| | | | 157 700 |
| **Equity** | | | |
| Capital | | 140 000 | |

| | | | |
|---|---|---|---|
| Add Profit for the year | | 14 950 | |
| | | 154 950 | |
| Less Drawings | | (39 800) | 115 150 |
| **Current Liabilities** | | | |
| Trade payables | | 18 700 | |
| Bank overdraft | | 23 100 | |
| Other payables : Administration and finance costs owing | | 750 | 42 550 |
| | | | 157 700 |

# CHAPTER 16 COMPANY ACCOUNTS

## QUESTION 1 NOVEMBER 2009 P2 Q3

Loxton Ltd had the following capital structure on 1 September 2008.

| | |
|---|---|
| **Authorised and issued share capital** | **$** |
| 50 000 ordinary shares of $0.50 each | 25 000 |
| 100 000 10 % preference shares of $1 each | 100 000 |
| **Reserves** | |
| General reserve | 80 000 |
| Retained profit | 25 000 |
| **Debentures** | |
| 5 % Debenture repayable 31 December 2015 | 80 000 |

**REQUIRED**

**(a)** State one similarity and one difference between preference shares and debentures. **[4]**

For the year ended 31 August 2009 Loxton Ltd made a net profit of $60 000 before calculating the debenture interest. The directors made the following decisions:

**1** On 1 March 2009 to make an interim dividend payment of
$0.10 on each ordinary share
$0.05 on each preference share

**2** On 31 August 2009 to make a final dividend payment of $0.20 on each ordinary share pay the remainder of the preference dividend

**3** transfer $20 000 to the general reserve.

**REQUIRED**

**(b)** Prepare the profit and loss appropriation account of Loxton Ltd for the year ended 31 August 2009. **[9]**

**(c)** Suggest two reasons why a company might use a general reserve. **[4]**

Elodie has the following investments in Loxton Ltd:
1 500 ordinary shares of $0.50
$2 000 5 % debenture

**REQUIRED**

**(d)** Calculate Elodie's total income from Loxton Ltd for the year ended 31 August 2009. **[4]**

## QUESTION 2 SPECIMEN 2010 P2 Q5 (a to d)

The capital and reserves of Salvadore Ltd are as follows:

**Salvadore Ltd**
**Balance Sheet (extract) at 31 July 2009**

| Capital and Reserves | **Authorised** | **Called-up** |
|---|---|---|
| | **$** | **$** |
| Preference shares of $1 each | 100 000 | 40 000 |
| Ordinary shares of $0.50 each | 100 000 | 50 000 |
| | 200 000 | 90 000 |
| General reserve | | 80 000 |
| Retained profits | | 43 900 |

**REQUIRED**

**(a)** Explain the difference between authorised and called-up share capital. **[2]**

**(b)** Explain two differences between preference shares and ordinary shares. **[2]**

**(c)** Explain why a company uses a general reserve. **[1]**

**(d)** Compare the capital structure, as disclosed in a balance sheet, of a limited company with that of a partnership. **[4]**

## QUESTION 3 — MAY 2010 P21 Q5

SGC Ltd is a trading company. The following balances were extracted from the books on 30 April 2010.

| | $ |
|---|---|
| Inventory at 1 May 2009 | 48 500 |
| Raw materials (Purchases) | 178 000 |
| Raw materials (Purchase) returns | 9 000 |
| Carriage inwards | 16 500 |
| Revenue (Sales) | 370 000 |
| Office expenses | 19 750 |
| Office salaries | 59 300 |
| Property (Land and buildings) at cost | 250 000 |
| Computer equipment (cost) | 80 000 |
| Office fixtures and fittings (cost) | 40 000 |
| Provision for depreciation of computer equipment | 28 000 |
| Provision for depreciation of office fixtures and fittings | 15 000 |
| Other operating (Sundry) expenses | 9 800 |
| Advertising and marketing costs | 24 000 |
| Finance costs (Debenture interest) paid | 3 000 |
| Authorised and issued share capital | |
| 100 000 $0.50 ordinary shares | 50 000 |
| 200 000 $1.00 8% preference shares | 200 000 |
| Non-current liabilities (12% debentures repayable 31 December 2020) | 50 000 |
| General reserve | 40 000 |
| Profit and loss account 1 May 2009 | 1 300 |
| Trade receivables | 42 000 |
| Provision for doubtful debts | 1 500 |
| Trade payables | 35 500 |
| Cash (Bank) | Dr 3 450 |

**Additional information:**

**1** Inventory at 30 April 2010 was $57 000.

**2** At 30 April 2010
Office expenses, $450, were prepaid.
Office salaries, $1 800, were accrued.

**3** Depreciation is to be charged on:
computer equipment at 25% per annum using the diminishing (reducing) balance method;
office fixtures and fittings using the straight-line method at 20% on cost.

**4** The provision for doubtful debts is to be maintained at 5% of trade receivables (debtors).

**5** On 30 April 2010 the directors of SGC Ltd

Transferred $20 000 to the general reserve.

Paid the full dividend on the preference shares.

Paid an ordinary share dividend of $0.10 per share.

**REQUIRED**

**(a)** Prepare the income statement and the appropriation account of SGC Ltd for the year ended 30 April 2010. **[22]**

**(b)** Prepare the balance sheet of SGC Ltd at 30 April 2010.s **[18]**

## QUESTION 4 NOVEMBER 2010 P22 Q3 (a to f)

Harland Ltd had the following balances in its accounts after the calculation of the profit for the year ended 31 October 2010:

| | |
|---|---|
| Called up share capital: | **$** |
| 4% $1 Cumulative preference shares | 200 000 |
| $1 Ordinary shares | 400 000 |
| | **$** |
| Non-current assets | 700 000 |
| 6% Debentures | 100 000 |
| Inventory | 55 000 |
| Trade payables | 50 000 |
| Trade receivables | 105 000 |
| Profit for the year ended 31 October 2010 | 65 000 |
| Retained profit 1 November 2009 | 75 000 |
| General reserve | 110 000 |
| Bank (Dr) | 40 000 |
| Interim preference dividend paid | 5 000 |

**Additional information**

| | | |
|---|---|---|
| 1 | Authorised share capital: | **$** |
| | 4% $1 Cumulative preference shares | 250 000 |
| | $1 Ordinary shares | 500 000 |

**2** The directors have decided to:

Transfer $25 000 to the general reserve.

Pay the remainder of the cumulative preference share dividend for the year. An interim dividend of 2½% was paid on 30 April 2010.

Pay a $0.05 final dividend on the ordinary shares. No interim dividend had been paid.

**REQUIRED**

**(a)** Prepare the appropriation account for Harland Ltd for the year ended 31 October 2010. **[6]**

**(b)** Prepare the balance sheet extract for the shareholders' funds (capital and reserves) of Harland Ltd at 31 October 2010. **[5]**

**(c)** State the amount of the capital employed by Harland Ltd at 31 October 2010. **[1]**

**(d)** Explain the difference between preference shares and cumulative preference shares. **[2]**

**(e)** State one difference between ordinary shares and debentures. **[2]**

**(f)** Explain two benefits of international accounting standards. **[2]**

## QUESTION 5 NOVEMBER 2011 P22 Q3

Paulton Ltd is a company with the following capital structure:

| | Authorised share capital ($) | Issued share capital ($) |
|---|---|---|
| Ordinary shares of $1 | 100 000 | 50 000 |
| 5% Preference shares of $1 | 100 000 | 80 000 |

There were no changes to the number of shares in issue during the year.
The retained earnings brought forward on 1 May 2010 was $8 000.
During the year ended 30 April 2011, the company made a profit of $40 000.
On 30 April 2011 it was agreed to:

**1** Transfer $20 000 to the general reserve
**2** Pay the preference share dividend
**3** Pay a final dividend of $0.05 per share on the ordinary shares.

An interim dividend of $0.02 per share had been paid to the ordinary shareholders on 31 December 2010.

**REQUIRED**

**(a)** Prepare the profit and loss appropriation account for the year ended 30 April 2011. **[8]**

**(b)** Distinguish between authorised share capital and paid up share capital. **[2]**

**(c)** Explain the term reserve. **[2]**

**(d)** Suggest **one** reason why a limited company might **not** distribute all of the profit for the year as dividend. **[2]**

## QUESTION 6 MAY 2012 P22 Q3

Dang Ltd had the following balances in its books after the calculation of the profit for the year ended 31 March 2012:

| | $ |
|---|---|
| Profit for the year (before debenture interest) | 60 000 |
| Issued and called up share capital: | |
| 100 000 6% $0.50 Preference shares | 50 000 |
| 100 000 $1 Ordinary shares | 100 000 |
| 7% Debentures 31 December 2020 | 200 000 |
| General reserve | 60 000 |
| Retained profit 1 April 2011 | 21 000 |

**Additional information**

The directors decided to:

**1** transfer $25 000 to the general reserve
**2** pay the preference share dividend
**3** pay an ordinary share dividend of $0.10 per share.

**REQUIRED**

**(a)** Prepare the appropriation account for Dang Ltd for the year ended 31 March 2012. **[8]**
**(b)** Prepare balance sheet extract for the capital and reserves of Dang Ltd at 31 March 2012. **[6]**
**(c)** State **one** difference between ordinary shares and preference shares. **[2]**
**(d)** State **one** difference between preference shares and debentures. **[2]**
**(e)** State **one** reason why International Accounting Standards are used. **[2]**

## QUESTION 7 — NOVEMBER 2014 P21 Q3

Wing Limited had the following balances in its books after the calculation of the profit for the year ended 30 September 2014.

| | $ |
|---|---|
| Profit from operations (before debenture interest) | 78 000 |
| Issued and called up share capital: | |
| 50 000 8% $1 Preference shares | 50 000 |
| 80 000 $1 Ordinary shares | 80 000 |
| 6% Debentures (31 December 2025) | 100 000 |
| Interim dividend paid 31 March 2014: | |
| Preference | 2 000 |
| Ordinary | 8 000 |
| General reserve | 55 000 |
| Retained profit 1 October 2013 | 35 000 |

**Additional information**

On 30 September 2014, the directors decided to:

**1** increase the general reserve to $80 000

**2** pay the remaining preference dividend

**3**

pay a final ordinary share dividend of $0.25 per share.

**REQUIRED**

**(a)** Prepare the appropriation account for Wing Limited for the year ended 30 September 2014. **[10]**

**(b)** Prepare an extract from the statement of financial position for the capital and reserves of Wing Limited at 30 September 2014. **[6]**

**(c)** State **two** differences between ordinary shares and debentures. **[2]**

**(d)** State **one** reason for maintaining a general reserve. **[1]**

**(e)** State **one** reason why International Accounting Standards are important when preparing the financial statements of a limited company. **[1]**

## QUESTION 8 — MAY 2015 P21 Q3

Warle Limited provided the following information after the calculation of the profit for the year ended 30 April 2015.

| | $ |
|---|---|
| Profit for the year ended 30 April 2015 | 86 000 |
| Authorised share capital: | |
| $1 Ordinary shares | 100 000 |
| Called up share capital: | |
| $1 Ordinary shares | 100 000 |
| Interim dividend paid | 3 000 |
| General reserve | 20 000 |
| Retained profits 1 May 2014 | 14 000 |

**Additional information**

The directors have:

**1** transferred $50 000 to the general reserve

**2** paid a final ordinary shares dividend of $0.15 per share.

**REQUIRED**

**(a)** Prepare the statement of changes in equity for the year ended 30 April 2015. **[6]**

**(b)** Prepare the statement of financial position extract for the equity and reserves of Warle Limited at 30 April 2015. **[5]**

**(c)** State **two** differences between preference shares and debentures. **[4]**

**(d)** State **two** possible reasons why the directors of Warle Limited have transferred $50 000 to the general reserve. **[2]**

**(e)** State **two** reasons why large companies prepare their published financial statements in accordance with International Accounting Standards (IAS). **[2]**

## QUESTION 9 NOVEMBER 2016 P22 Q3

Cam Limited provided the following information.

| At 1 October 2015 | $ |
|---|---|
| Issued share capital $1 Ordinary shares | 70 000 |
| General reserve | 40 000 |
| Debentures (Repayable 2025) | 50 000 |
| Retained profits | 92 000 |
| For the year ended 30 September 2016 | |
| Profit for the year | 75 000 |
| Interim dividend paid on ordinary shares | 7 000 |

**Additional information**

1 On 1 November 2015 an additional 30 000 ordinary shares of $1 each were issued.

2 On 30 September 2016 the directors:

transferred $80 000 to the general reserve,

paid a final ordinary dividend of $0.20 per share on all issued shares.

**REQUIRED**

**(a)** Complete the statement of changes in equity for the year ended 30 September 2016.

| | Share Capital ($) | General Reserve ($) | Retained Profits ($) | Total ($) |
|---|---|---|---|---|
| Balance at 1 October 2015 | 70 000 | 40 000 | 92 000 | 202 000 |
| Share issue | | | | |
| Profit for the year | | | | |
| Transfer to general reserve | | | | |
| Dividend paid (interim) | | | | |
| Dividend paid (final) | | | | |
| Balance at 30 September 2016 | | | | |

**[8]**

**(b)** Prepare an extract from the statement of financial position showing the equity, reserves and non-current liabilities of Cam Limited at 30 September 2016. **[6]**

**(c)** Suggest two possible reasons why the directors of Cam Limited transferred $80 000 to the general reserve. **[2]**

**(d)** State **two** differences between ordinary shares and debentures. **[4]**

# CHAPTER 16 SOLUTIONS

## QUESTION 1 NOVEMBER 2009 P2 Q3

**(a)** **Similarities**

- Preference shares holders are paid dividends at a **fixed rate** whereas debenture holders are paid interest at a **fixed rate**.
- Both do not have the right to vote at companies' meetings.
- Both interest and preference dividends are paid before ordinary dividends
- Both are paid before Ordinary Shareholders upon liquidation

**Differences**

- Preference shareholders (unless redeemable) are owners, debenture holders are lenders or trade payables of the company.
- Debenture holders are paid interest irrespective of the profit/loss made by the business. Whereas payment of preference dividend is dependent on making of profit.
- Preference shareholders receive dividend, debenture holders receive interest
- Debenture interest must be paid before preference share dividend

**(b)**

**Loxton Ltd**
**Appropriation account**
**For the year ended 31 August 2009**

| | $ | $ | $ |
|---|---|---|---|
| Net profit after interest [$60 000 – ($80 000 × 5%)] | | | 56 000 |
| Preference dividend | | | |
| - interim (100 000 shares × $0.05) | 5 000 | | |
| - final [($100 000 × 10%) – $5 000] | 5 000 | 10 000 | |
| Ordinary dividend | | | |
| - interim (50 000 shares × $0.10) | 5 000 | | |
| - final (50 000 shares × $0.20) | 10 000 | 15 000 | |
| Transfer to General Reserve | | 20 000 | 45 000 |
| Retained profit for the year | | | 11 000 |
| Last year retained profit b/f | | | 25 000 |
| Unappropriated profit c/f | | | 36 000 |

**(c)** A general reserve is a form of profit retained for a non-specific purpose or to help the business to strengthen its financial position. It may also be used to cover future shareholders dividend and other business needs. It also helps in conserving cash and working capital.

**(d)**

**Calculation of Total Income for Elodie**

| | $ |
|---|---|
| Ordinary Dividends | |
| - interim dividend (1 500 shares × $0.10) | 150 |
| - final dividend (1 500 shares × $0.20) | 300 |
| Debenture interest ($2 000 × 5%) | 100 |
| Total income for Elodie | 550 |

## QUESTION 2 — SPECIMEN 2010 P2 Q5 (a to d)

**(a)** Authorised share capital is the amount a company may issue whereas called-up share capital is issued

**(b)**
- Preference shares receive a fixed dividend: ordinary share dividends can vary.
- Preference share dividend is allocated out of profit before ordinary share dividend.
- Preference shareholders do not usually have a vote but ordinary shareholders do.
- Preference shareholders have priority rights in liquidation before ordinary shareholders.

**(c)** A general reserve separates retained profits which shareholders might expect to be distributed from those which are likely to be kept long term in the company.
**OR**
By transferring funds to a general reserve the company indicates retained profits are being reinvested long term.

**(d)**
- Bother partnerships and companies may have fixed capital
- Partners also have current accounts within the capital structure
- The capital owned by each partner is shown on a partnership balance sheet but company capital is not divided between each shareholder
- Retained profits and reserves are included in the capital and reserves of a company but not a partnership
- Different types of ownership are shown in the capital structure of a company but not a partnership

## QUESTION 3 — MAY 2010 P21 Q5

**SGC Ltd**
**Income statement for the year ended 30 April 2010**

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) | | | 370 000 |
| Cost of Sales | | | |
| Opening inventory | | 48 500 | |
| Purchases | 178 000 | | |
| Less Purchase returns | (9 000) | | |
| Add Carriage inwards | 16 500 | 185 500 | |
| | | 234 000 | |
| Closing inventory | | (57 000) | |
| Cost of sales | | | 177 000 |
| Gross profit | | | 193 000 |
| **Expenses** | | | |
| Office expenses ($19 750 – $450) | | 19 300 | |
| Office salaries ($59 300 + $1 800) | | 61 100 | |
| Depreciation – Computer equipment [$80000– $28000)×25%)] | | 13 000 | |
| Office equipment ($40 000 × 20%) | | 8 000 | |
| Other operating (Sundry) expenses | | 9 800 | |
| Advertising and marketing | | 24 000 | |
| Finance costs (debenture interest) ($50 000 × 12%) | | 6 000 | |
| Increase in provision for doubtful debts [($42 000×5%)–$1500] | | 600 | 141 800 |
| Profit for the year | | | 51 200 |

| | | $ | $ |
|---|---|---|---|
| Less Appropriations: | | | |
| | Transfer to the General Reserve | 20 000 | |
| | 8% Preference dividend ($200 000 × 8%) | 16 000 | |
| | Ordinary dividend (100 000 shares @ $0.10) | 10 000 | 46 000 |
| Retained profit for the year | | | 5 200 |
| Retained profit brought forward | | | 1 300 |
| Retained profit carried forward | | | 6 500 |

**SGC Ltd**
**Balance Sheet of at 30 April 2010**

| **Non-current (fixed) assets** | **Cost ($)** | **Depr'n ($)** | **NBV ($)** |
|---|---|---|---|
| Property (Land and buildings) | 250 000 | | 250 000 |
| Computer equipment ($28 000 + $13 000) | 80 000 | 41 000 | 39 000 |
| Office fixtures and fittings ($15 000 + $8 000) | 40 000 | 23 000 | 17 000 |
| | 370 000 | 64 000 | 306 000 |
| **Current assets** | | | |
| Inventory | | 57 000 | |
| Trade receivables | 42 000 | | |
| Less: provision for doubtful debts ($42 000 × 5%) | (2 100) | 39 900 | |
| Other receivables (Prepaid office expenses) | | 450 | |
| Cash (bank) | | 3 450 | |
| | | 100 800 | 306 000 |
| **Current Liabilities** | | | |
| Trade payables | 35 500 | | |
| Other payables: (accrued office salaries) | 1 800 | | |
| Debenture interest [($50 000 × 12%) – $3 000] | 3 000 | (40 300) | 60 500 |
| | | | 366 500 |
| **Non-current liabilities:** 12% Debentures | | | (50 000) |
| | | | 316 500 |
| **Capital and Reserves** | | | |
| Share capital (authorised and issued share capital) | | | |
| 100 000 $0.50 Ordinary shares | | 50 000 | |
| 200 000 $1.00 8% preference shares | | 200 000 | |
| General reserve ($40 000 + $20 000) | | 60 000 | |
| Unappropriated profit and loss 1 May 2009 | | 6 500 | 316 500 |

## QUESTION 4 NOVEMBER 2010 P22 Q3 (a to f)

**(a)**

**Harland Ltd**
**Appropriation Account for the year ended 31 October 2010**

| | | $ | $ | $ |
|---|---|---|---|---|
| Profit for the year | | | | 65 000 |
| Less | Transfer to general reserve | | 25 000 | |
| | Preference Dividends – paid ($200 000 × 2.5%) | 5 000 | | |
| | Proposed [($200 000 × 4%) – $5 000] | 3 000 | 8 000 | |
| | Ordinary dividends proposed (400 000 shares @ 0.05) | | 20 000 | 53 000 |
| Retained profit for the year | | | | 12 000 |
| Add | Retained profit brought forward | | | 75 000 |
| Retained profit carried forward | | | | 87 000 |

**(b)** **Harland Ltd**
**Extract from Balance Sheet at 31 October 2010**

| | $ | $ |
|---|---|---|
| **Authorised Share Capital** | | |
| 4% Cumulative preference shares of $1 each | 250 000 | |
| Ordinary shares of $1 each | 500 000 | 750 000 |
| **Issued Share Capital** | | |
| 4% Cumulative preference shares of $1 each | 200 000 | |
| Ordinary shares of $1 each | 400 000 | 600 000 |
| Reserves | | |
| General reserve ($110 000 + $25 000) | 135 000 | |
| Retained profits as per "a" part | 87 000 | 222 000 |
| Shareholders' funds | | 822 000 |

**(c)**

| | $ |
|---|---|
| Share Capital and Reserves | 822 000 |
| 6% Debentures | 100 000 |
| Capital employed | 922 000 |

**(d)** If profits are not sufficient to pay full amount of dividends on **preference shares** in a particular year then the amount of unpaid dividend is not carried forward to be paid in the subsequent years. **Cumulative preference shareholders** have the right to receive any arrears of dividends in a subsequent year before any dividend is paid to ordinary shareholders.

**(e)**

| | Ordinary shares | Debentures |
|---|---|---|
| **(i)** | Shareholders are the owners of the business | Debenture holders make a non-current loan of capital to the business |
| **(ii)** | Receive dividend | Receive interest |
| **(iii)** | Dividend is not guaranteed | Interest on the loan must be paid |
| **(iv)** | Dividend is an appropriation of profit made by the directors | Interest recorded in income statement as an expense |

**(f)**
- improve comparability between financial statements
- fewer rules make information more reliable
- practice of common set of rules throughout the world
- relevant to users' needs

## QUESTION 5 NOVEMBER 2011 P22 Q3

**(a)** **Paulton Ltd**
**Appropriation Account for the year ended 30 April 2011**

| | $ | $ | $ |
|---|---|---|---|
| Profit for the year | | 40 000 | |
| Retained profits of last year | | 8 000 | 48 000 |
| Appropriations | | | |
| Transfer to General Reserves | | 20 000 | |
| Preference Dividend ($80 000 × 5%) | | 4 000 | |
| Ordinary Dividend – Interim (50 000 shares @$0.02) | 1 000 | | |
| Final (50 000 shares @$0.05) | 2 500 | 3 500 | (27 500) |
| Retained profit for the year | | | 20 500 |

**(b)** Authorised share capital is the amount of share capital which a company is permitted or allowed to issue. Paid-up share capital is that part of issued and authorised capital which has been paid by the shareholders to the company upon the call of the company directors.

**(c)** Reserves are retained profits and are created to strengthen the financial position of the business or to cover possible losses that have not yet been specifically identified.

**(d)** Companies usually retain part of their profits as reserves each year and payout only a portion of the profits as dividends. These reserves are created to strengthen the financial position of the company and can always be used to enable a dividend to be paid in a year when the company makes little or no profit.

**(e)** **1** This is due to **money measurement concept** which states that financial accounting is concerned only with the items which can be quantified and expressed in monetary terms. That's why the inclusion of the increased skill of the workforce will be normally ignored in the financial statements, even though it might be of great worth to the business of Paulton Ltd.

**2** This is due to the **consistency concept** which states that a business should be consistent in the way in which it applies the internal accounting policies. Transactions and valuation methods are treated the same way from year to year, or period to period so when the method for charging depreciation is changed from diminishing balance to straight line then it must be explained that why the method is changed, and the effect it has had on profits.

## QUESTION 6 — MAY 2012 P22 Q3

**(a)**

**Dang Ltd**

**Appropriation Account for the year ended 31 March 2012**

| | | $ | $ |
|---|---|---|---|
| Profit for the year [$60 000 – ($200 000 × 7%)] | | | 46 000 |
| Less | Transfer to the general reserve | 25 000 | |
| | Preference dividends paid ($50 000 × 6%) | 3 000 | |
| | Ordinary dividends paid (100 000 shares @ $0.10 each) | 10 000 | 38 000 |
| Retained profit for the year | | | 8 000 |
| Add retained profit b/f at 1 April 2011 | | | 21 000 |
| Retained profit c/f | | | 29 000 |

**(b)** **Balance Sheet (extract) at 31 March 2012**

| | | $ | $ |
|---|---|---|---|
| Issued Share capital | | | |
| | 100 000 6% $0.50 Preference shares | 50 000 | |
| | 100 000 $1 Ordinary shares | 100 000 | 150 000 |
| Reserves | | | |
| | General reserve ($60 000 + $25 000) | 85 000 | |
| | Retained profit ('a' part) | 29 000 | 114 000 |
| Shareholders' equity | | | 264 000 |

**(c)** **(i)** Preference shareholders are paid dividends at a **fixed rate** whereas there is **no fixed rate** to pay dividend to the ordinary shareholders.

**(ii)** Preference shareholders have no voting rights, ordinary shareholders do have voting rights.

**(iii)** Preference receive dividend first, ordinary receive dividend last.
**(iv)** Preference receive payout first on winding up, ordinary receive payment last.

**(e)**
- Preference holders are shareholders, debenture holders are long term loan creditors
- Debenture holders paid interest, preference holders receive dividend
- Debenture interest is an expense, preference dividend is an appropriation of profit.
- Debenture holders receive fixed amount of interest, preference may not receive dividend.
- Debenture holders are paid interest before payment of preference dividend.

**(f)**
- improve comparability between financial statements
- fewer rules make information more reliable
- practice of common set of rules throughout the world
- relevant to users' needs

## QUESTION 7 — NOVEMBER 2014 P21 Q3

**(a)** **Wing Limited**
**Appropriation Account for the year ended 30 September 2014**

| | $ | $ | $ |
|---|---|---|---|
| Profit for the year [$78 000 – ($100 000 × 6%)] | | | 72 000 |
| Appropriations | | | |
| Transfer to the general reserve ($80 000 – $55 000) | | 25 000 | |
| Interim dividends: Preference | 2 000 | | |
| Ordinary | 8 000 | 10 000 | |
| Final dividends: Preference [($50 000 × 8%) – $2 000] | 2 000 | | |
| Ordinary (80 000 shares @ $0.25 per share) | 20 000 | 22 000 | 57 000 |
| Retained profit for the year | | | 15 000 |
| Add Retained profit brought forward from 2011 | | | 35 000 |
| Retained profit carried forward | | | 50 000 |

**(b)** **Statement of Financial Position at 30 September 2014**

| | $ | $ |
|---|---|---|
| Issued share capital: | | |
| 50 000 8% $1 Preference shares | 50 000 | |
| 80 000 $1 Ordinary shares | 80 000 | 130 000 |
| Reserves | | |
| General reserve | 80 000 | |
| Retained profit | 50 000 | 130 000 |
| Shareholders' equity | | 260 000 |

**(c)**

| | **Ordinary shares** | **Debentures:** |
|---|---|---|
| **1** | Owners | Creditors (lenders) |
| **2** | receive dividend | receive interest |
| **3** | Dividends at varying rate | Interest at fixed rate |
| **4** | No repayment date | Repayment date |

**(d)** To strengthen the financial position of the business
To provide for unforeseen future expenses of the business

**(e)** Use of international accounting standards improve
- the ability to compare financial statements of different companies in different countries on fair basis
- reliability of financial statements produced in different countries
- understanding of financial statements produced in different countries

## QUESTION 8 MAY 2015 P21 Q3

**(a)** **Warle Limited**

**Statement of Changes in Equity for the year ended 30 April 2015**

| | Share Capital | General Reserve | Retained Profits | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance at 1 May 2014 | 100 000 | 20 000 | 14 000 | 134 000 |
| Profit for the year | | | 86 000 | 86 000 |
| Transfer to general reserve | | 50 000 | (50 000) | 0 |
| Dividend paid (interim) | | | (3 000) | (3 000) |
| Dividend paid (final) | | | (15 000) | (15 000) |
| Balance at 30 April 2015 | 100 000 | 70 000 | 32 000 | 202 000 |

**(b)** **Statement of Financial Position extract at 30 April 2015**

| | $ | $ |
|---|---|---|
| Share capital | | |
| Ordinary shares of $1 each | | 100 000 |
| **Reserves** | | |
| General reserve | 70 000 | |
| Retained profits | 32 000 | 102 000 |
| Shareholders' funds | | 202 000 |

**(c)** **Differences between Preference shares and Debentures**

| Preference shares | Debentures |
|---|---|
| Paid dividend | Paid interest |
| Part of company's equity | Loans to the company (shown as a liability) |
| Though they may be redeemable but usually have no fixed repayment date | Always have predetermined redeemable date |
| Dividend is only paid when profits are available unless shares are cumulative | Interest must be paid even if losses are incurred |

**(d)** General reserves are created to conserve working capital **or to** retain for major expenditure such as purchasing non-current assets. Profits may be 'ploughed back' for business to grow.

**(e)** **Consistency**: Accounts prepared in different countries in a consistent way.
**Reliability:** Accounting information is more reliable despite prepared in different countries
**Uniformity:** Same standard framework for preparing accounts in different countries
**Comparability:** Accounts prepared in different countries and for different industries can be compared with relative ease.

## QUESTION 9 NOVEMBER 2016 P22 Q3

**(a)** **Cam Limited**

**Statement of Changes in Equity for the year ended 30 September 2016**

| | Share Capital ($) | General Reserve ($) | Retained Profits ($) | Total ($) |
|---|---|---|---|---|
| Balance at 1 October 2015 | 70 000 | 40 000 | 92 000 | 202 000 |
| Profit for the year | | | 75 000 | 75 000 |
| Interim ordinary dividend paid | | | (7 000) | (7 000) |
| Issue of ordinary shares | 30 000 | | | 30 000 |
| Transfer to general reserve | | 80 000 | (80 000) | - |
| Dividend paid (final) (100 000 shares @ $0.20) | | | (20 000) | (20 000) |
| Balance at 30 September 2016 | 100 000 | 120 000 | 60 000 | 280 000 |

**(b) Extract from the Statement of Financial Position extract at 30 September 2016**

| | | |
|---|---|---|
| Equity and Reserves | **$** | **$** |
| Ordinary shares of $1 each | | 100 000 |
| **Reserves** | | |
| General reserve | 120 000 | |
| Retained profit | 60 000 | 180 000 |
| Total equity and shares | | 280 000 |
| **Non-current liabilities** | | |
| Debentures (Repayable 2025) | | 50 000 |
| | | 330 000 |

**(c)** General reserves are created to strengthen the financial position of the business or profits may be retained to use for future uses such as future dividend payments etc.

**(d)**

| | **Ordinary shares** | **Debentures** |
|---|---|---|
| **(i)** | Ordinary shareholders are owners of the business | Debenture holders are lenders of the business |
| **(ii)** | Payment of dividend is dependent on profits and directors' policy | Guaranteed interest |
| **(iii)** | There is no fixed rate of dividend | interest is paid at a fixed rate |
| **(iv)** | This is permanent capital for the business as there is no repayment date | Borrowed for a specific period and have to be paid back at a future date |

# CHAPTER 17 RATIO ANALYSIS

## QUESTION 1 MAY 2009 P2 Q4 (d & e)

The information below relates to the partnership of Bell and Hayward. Bell and Hayward provided the following information.

| | Year ended 30 April 2009 |
|---|---|
| | $ |
| Opening inventory | 17 000 |
| Closing inventory | 15 000 |
| Purchases | 238 000 |
| Sales | 300 000 |

**REQUIRED**

**(d)** **(i)** Calculate the rate of inventory turnover for the year ended 30 April 2009. Show your workings. **[4]**

**(ii)** Calculate the gross profit to sales percentage. Show your workings. **[4]**

The figures for the previous year ended 30 April 2008 were as follows:

| | |
|---|---|
| Rate of inventory turnover | 9 times |
| Gross profit to sales percentage | 30 % |

**REQUIRED**

**(e)** Suggest two possible reasons for the changes in the figures between 30 April 2008 and 30 April 2009. **[4]**

## QUESTION 2 NOVEMBER 2009 P2 Q4

Jamal Mohsin has been provided with some information about a general trading business, Easisell, which buys and sells goods on credit. The following information relates to the year ended 30 September 2009.

| | $ |
|---|---|
| Sales | 120 000 |
| Inventory at 1 October 2008 | 12 000 |
| Purchases | 91 000 |
| Inventory at 30 September 2009 | 28 000 |
| Expenses | 15 000 |
| Trade receivables | 30 000 |
| Trade payables | 43 000 |
| Bank overdraft | 15 000 |
| Capital | 150 000 |

**REQUIRED**

**(a)** Calculate, to two decimal places, the following ratios. Show your workings.

**(i)** Gross profit to sales percentage **[3]**

**(ii)** Rate of inventory turnover **[3]**

**(iii)** Net profit to capital percentage **[3]**

**(iv)** Working capital ratio (current ratio) **[3]**

Jamal Mohsin obtained the following ratios for a similar business:

| | | |
|---|---|---|
| **1** | Gross profit to sales percentage | 40 % |
| **2** | Rate of inventory turnover | 6 times |
| **3** | Net profit to capital percentage | 12 % |
| **4** | Working capital ratio (current ratio) | 1.8 : 1 |

**REQUIRED**

**(b)** Using the information above and your answer to **(a)** compare and comment upon the performance of Easisell under the following headings.

**(i)** Controlling inventory **[4]**

**(ii)** Net profit to capital percentage **[4]**

**(iii)** Ability to pay trade payables **[4]**

## QUESTION 3 — SPECIMEN 2010 P2 Q4 (a & b)

The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2009.

| | **$** |
|---|---|
| Sales | 174 600 |
| Opening inventory | 6 350 |
| Purchases | 89 150 |
| Closing inventory | 8 200 |
| Sundry expenses | 69 840 |
| Drawings | 6 984 |
| Current assets | 24 600 |
| Current liabilities | 16 400 |

**REQUIRED**

**(a)** Calculate, to one decimal place, the following ratios. Show your workings in the box provided.

| | | **Workings** | |
|---|---|---|---|
| **(i)** | Gross profit/sales | | % |
| **(ii)** | Net profit/sales | | % |
| **(iii)** | Rate of inventory turnover | | |
| **(iv)** | Current (working capital)ratio | | |
| **(v)** | Quick ratio (acid test) | | |

**[10]**

Jack Lightbourne's main competitor generates gross profit/sales of 100% and net profit/sales of 15%.

**REQUIRED**

**(b)** Suggest how Jack could improve his ratios for gross profit/sales and net profit/sales to a competitive level. **[3]**

## QUESTION 4 — MAY 2010 P21 Q4

Zaynah is in business buying and selling goods on credit. The following balances were extracted from her books on 30 April 2010

| | $ |
|---|---|
| Revenue (Sales) | 200 000 |
| Cost of sales | 130 000 |
| Expenses | 65 000 |

| | |
|---|---|
| Inventory 1 May 2009 | 20 000 |
| Inventory 30 April 2010 | 60 000 |
| Trade receivables | 16 000 |
| Trade payables | 35 000 |
| Loans repayable within 12 months (Bank overdraft) | 5 000 |
| Closing capital | 100 000 |

**REQUIRED**

**(a)** Calculate, to **one** decimal place, the following ratios for the year ended 30 April 2010. Clearly show **all** workings.

- **(i)** Gross profit to revenue (sales) percentage **[3]**
- **(ii)** Working capital ratio (current ratio) **[3]**
- **(iii)** Quick ratio (acid test) **[4]**
- **(iv)** Profit for the year to capital percentage **[4]**

**(b)** Comment on the following ratios at 30 April 2010:

- **(i)** Quick ratio (acid test) **[2]**
- **(ii)** Profit for the year to capital percentage. **[2]**

In the previous year, ended 30 April 2009, the business of Zaynah achieved the following ratios:

| | |
|---|---|
| Gross profit to revenue (sales) percentage | 50% |
| Working capital ratio (current ratio) | 1.7:1 |

**REQUIRED**

**(c)** Suggest **one** possible reason for the change over the year ended 30 April 2010 in the:

- **(i)** gross profit to sales percentage; [2]
- **(ii)** working capital ratio (current ratio). [2]

## QUESTION 5 — MAY 2010 P22 Q4

Paula Urn supplied the following information relating to her financial year ended 30 April 2010.

| | **$** |
|---|---|
| Revenue (sales) | 250 000 |
| Inventory 1 May 2009 | 10 000 |
| Inventory 30 April 2010 | 25 000 |
| Gross profit to sales | 40% |
| Profit for the year to sales | 8% |

**REQUIRED**

Calculate the following for the year ended 30 April 2010. Show **all** your workings.

- **(a)** Cost of sales [3]
- **(b)** Raw materials (purchases) **[4]**
- **(c)** Expenses [3]
- **(d)** Rate of inventory (rate of inventory) turnover [3]

## QUESTION 6 — NOVEMBER 2010 P22 Q4

Windy Ltd is in business buying and selling goods on credit. The following balances were taken from the books of Windy Ltd.

| | Year ended 30 September 2009 | Year ended 30 September 2010 |
|---|---|---|
| Non-current assets | 80 000 | 200 000 |
| Inventory | 55 000 | 60 000 |
| Trade receivables | 50 000 | 90 000 |
| Trade payables | 30 000 | 75 000 |
| Amount due in more than one year(long-term loan) | - | 50 000 |
| Bank | 15 000 | - |
| Bank overdraft | - | 45 000 |

**REQUIRED**

**(a)** Calculate the following. Give your answers to two decimal places. Show your workings.

- **(i)** Current ratio at 30 September 2009 and at 30 September 2010 **[4]**
- **(ii)** Quick (acid test) ratio at 30 September 2009 and at 30 September 2010 **[4]**

**(b)** Suggest one reason for the change in liquidity between 30 September 2009 and 30 September 2010. **[2]**

**(c)** Suggest four actions which Windy Ltd might take to improve its bank balance. **[8]**

## QUESTION 7 — MAY 2011 P21 Q4

George is a trader who buys and sells goods on credit. He provided the following information:

| **For the year ended 30 April** | **2010 ($)** | **2011 ($)** |
|---|---|---|
| Sales | 220 000 | 180 000 |
| Gross profit | 110 000 | 72 000 |
| Expenses | 66 000 | 63 000 |
| | | |
| **At 30 April** | **2010 ($)** | **2011 ($)** |
| Inventory | 46 000 | 35 000 |
| Capital | 160 000 | 180 000 |
| Bank | 20 000 (overdraft) | 15 000 |
| Trade receivables | 50 000 | 40 000 |
| Trade payables | 60 000 | 60 000 |

| **Ratios/percentages** | **2010** | **2011** |
|---|---|---|
| Percentage profit for the year/sales | ? | 5% |
| Percentage profit for the year/capital | ? | 5% |
| Working capital ratio (current ratio) | 1.2:1 | ? |
| Quick ratio (acid test) | 0.6:1 | ? |

**REQUIRED**

**(a)** Calculate the following to **one** decimal place.

- **(i)** Percentage profit for the year/sales for the year ended 30 April 2010 **[3]**
- **(ii)** Percentage profit for the year/capital for the year ended 30 April 2010 **[3]**
- **(iii)** Working capital ratio (current ratio) on 30 April 2011 **[3]**
- **(iv)** Quick ratio (acid test) on 30 April 2011 **[3]**

**(b)** Suggest **two** possible reasons for the change in the profit for the year between the two years. **[4]**

**(c)** Suggest **two** possible reasons for the change in bank balance in the year ended 30 April 2011. **[4]**

## QUESTION 8 — MAY 2011 P22 Q4

Mary is in business buying and selling goods on credit. The following information was available at 30 April 2011.

| | $ |
|---|---|
| Inventory 1 May 2010 | 5 500 |
| Inventory 30 April 2011 | 7 500 |
| Capital 30 April 2011 | 75 000 |
| Operating expenses for the year | 23 500 |
| Purchases for the year | 72 000 |
| Mark-up | 50% |

**REQUIRED**

**(a)** Calculate for the year ended 30 April 2011:

- **(i)** Revenue (sales) **[3]**
- **(ii)** Rate of inventory turnover (correct to **one** decimal place) **[3]**
- **(iii)** Profit for the year **[2]**
- **(iv)** Percentage profit for the year /revenue (correct to **one** decimal place) **[3]**
- **(v)** Percentage profit for the year / capital (correct to **one** decimal place). **[3]**

**(b)** Explain why businesses with a high rate of inventory turnover often have a low percentage net profit to revenue. **[2]**

**(c)** Mary is considering ways in which she might increase her rate of inventory turnover.

For each of the options below, place a (✓) to indicate whether the option would increase **or** decrease the rate of inventory turnover.

| | | **Increase rate of inventory turnover** | **Decrease rate of inventory turnover** |
|---|---|---|---|
| **(i)** | Hold a 'Sale' and reduce prices by 20%. | | |
| **(ii)** | Increase the inventory by $20 000. | | |
| **(iii)** | Raise selling prices by10%. | | |

**[3]**

## QUESTION 9 — NOVEMBER 2011 P21 Q4

The following information relates to the business of Samara, a wholesaler.

| | **$** |
|---|---|
| Revenue (sales) for year ended 30 September 2011 | 200 000 |
| Inventory 1 October 2010 | 18 000 |
| At 30 September 2011 | |
| Inventory | 36 000 |
| Trade receivables | 24 000 |
| Bank overdraft | 10 000 |
| Trade payables | 40 000 |

| | |
|---|---|
| Mark up | 25% |
| Profit for the year / sales | 6% |

**REQUIRED**

**(a)** Calculate for the year ended 30 September 2011:

- **(i)** purchases **[3]**
- **(ii)** expenses **[3]**

**(b)** Calculate at the 30 September 2011:
- **(i)** working capital ratio (current ratio), correct to **one** decimal place **[3]**
- **(ii)** quick ratio (acid test), correct to **one** decimal place. **[3]**

**(c)** Explain why the quick ratio (acid test) is a more accurate measure of the liquidity of a business than the working capital ratio (current ratio). **[3]**

**(d)** State **three** actions that Samara could take to improve his bank balance. **[3]**

## QUESTION 10 — NOVEMBER 2011 P22 Q4 (a to c)

The following information was extracted from the books of Anika.

| | $ |
|---|---|
| Revenue (sales) for the year ended 30 September 2011 | 80 000 |
| Purchases for the year ended 30 September 2011 | 58 000 |
| Inventory at 1 October 2010 | 6 000 |
| Inventory at 30 September 2011 | 8 000 |
| Bank overdraft at 30 September 2011 | 2 000 |
| Trade payables at 30 September 2011 | 14 000 |
| Trade receivables at 30 September 2011 | 16 000 |

**REQUIRED**

**(a)** Calculate the following:
- **(i)** cost of sales **[3]**
- **(ii)** rate of inventory turnover . **[3]**

**(b)**
- **(i)** Calculate the gross profit/sales percentage . **[3]**
- **(ii)** Anika's gross profit/sales percentage for the year ended 30 September 2010 was 40%. Suggest two possible reasons for the change in the gross profit/sales percentage between 30 September 2010 and 30 September 2011. **[2]**

**(c)** Calculate the working capital (current) ratio correct to one decimal place. **[3]**

## QUESTION 11 — MAY 2012 P21 Q4

Ashok provided the following information for the year ended 31 March 2012:

| | $ |
|---|---|
| Revenue (sales) | 120 000 |
| Inventory 1 April 2011 | 22 500 |
| Inventory 31 March 2012 | 26 500 |
| Gross profit/sales | 20% |
| Profit for the year/sales | 8% |

**REQUIRED**

**(a)** Calculate for the year ended 31 March 2012:
- **(i)** Cost of sales **[3]**
- **(ii)** Purchases **[3]**
- **(iii)** Expenses **[3]**

**(b)** Calculate to two decimal places the rate of inventory turnover for the year ended 31 March 2012. **[3]**

**(c)** Suggest **two** ways in which Ashok might increase his rate of inventory turnover. **[2]**

Ashok is investigating a possible error in the valuation of the closing inventory on 31 March 2012. The revised valuation may be $30 000.

**(d)** Calculate the profit for the year if the closing inventory is valued at $30 000. **[3]**

**(e)** State **three** disadvantages of holding too much inventory. **[3]**

## QUESTION 12 — MAY 2012 P22 Q4

Jones is a trader, buying and selling goods on credit. The following balances were available on 30 April 2012.

| | $ |
|---|---|
| Capital | 350 000 |
| Revenue | 200 000 |
| Expenses | 40 000 |
| Inventory 30 April 2012 | 25 000 |
| Trade payables | 50 000 |
| Trade receivables | 47 000 |
| Bank overdraft | 10 000 |
| Profit for the year/sales | 15% |

**REQUIRED**

**(a)** Calculate the cost of sales. Show your workings. **[5]**

**(b)** Calculate, to two decimal places, the following ratios:

- **(i)** Percentage profit for the year/capital **[3]**
- **(ii)** Working capital ratio (current ratio) **[3]**
- **(iii)** Quick ratio (acid test) **[3]**

Jones has been considering how he might improve his working capital ratio (current ratio).
The following proposals have been made.

**1** Obtain a long term loan from the bank, $5 000.

**2** Pay half the trade payables in exchange for a cash discount of 4%.

**3** Sell non-current assets with a net book value of $12 000 for $8 000.

**REQUIRED**

**(c)** Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio). The first item has been completed as an example.

| | **Current assets** | **Current liabilities** | **Working capital ratio** |
|---|---|---|---|
| **1** | *+$5 000* | *No effect* | *Increase* |
| **2** | | | |
| 3 | | | |

**[6]**

## QUESTION 13 — NOVEMBER 2012 P21 Q5

The trial balance of Maya, after the calculation of the gross profit, was as follows:

**Maya**
**Trial Balance at 30 September 2012**

| | Dr ($) | Cr ($) |
|---|---|---|
| Gross profit | | 120 000 |
| Sundry expenses | 57 000 | |
| Non-current assets (cost) | 400 000 | |

| | | |
|---|---|---|
| Non-current assets (provision for depreciation) | | 82 000 |
| Trade receivables | 55 000 | |
| Trade payables | | 85 000 |
| Inventory at 30 September 2012 | 125 000 | |
| Cash | 5 000 | |
| Bank loan (repayable 31 October 2012) | | 35 000 |
| Capital | | 320 000 |
| | 642 000 | 642 000 |

Additional information for the year ended 30 September 2012:

**1** Mark-up on cost of sales, 25%.

**2** Depreciation for the year on non-current assets, $15 000.

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2012:

- **(i)** Revenue (sales) **[3]**
- **(ii)** Net profit/sales percentage **[3]**
- **(iii)** Net profit/capital percentage **[3]**
- **(iv)** Quick ratio (acid test) **[3]**

**(b)** Explain to Maya why the quick ratio (acid test) is a better measure of liquidity than the working capital ratio (current ratio). **[2]**

**(c)** Comment upon the adequacy of Maya's cash for the next three months. Give **one** reason for your comment. **[3]**

**(d)** Suggest **three** ways in which Maya might increase the cash in the business. **[3]**

## QUESTION 14 NOVEMBER 2012 P22 Q4

Chow is in business buying and selling goods on credit. The following information was available:

| | $ |
|---|---|
| Cost of sales | 320 000 |
| Inventory at 1 October 2011 | 25 000 |
| Inventory at 30 September 2012 | 65 000 |
| Expenses | 60 000 |
| Trade receivables | 70 000 |
| Trade payables | 75 000 |
| Bank overdraft | 15 000 |
| Mark up | 25% |

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2012.

- **(i)** Profit for the year **[3]**
- **(ii)** Rate of turnover of inventory **[3]**
- **(iii)** Gross profit to sales percentage **[3]**
- **(iv)** Net profit to sales percentage **[3]**
- **(v)** Working capital ratio (current ratio) **[3]**

**(b)** Chow's rate of turnover of inventory last year was 4 times. Suggest **two** possible reasons for any change between the years. **[2]**

**(c)** Comment upon Chow's working capital ratio (current ratio) at 30 September 2012. **[2]**

**(d)** Suggest **one** way in which Chow could improve his liquidity. **[1]**

## QUESTION 15 MAY 2013 P21 Q2 (c to e)

Tay supplied the following information for year ended 30 April:

| | | |
|---|---|---|
| **1** | **2013** | **$** |
| | Revenue | 60 000 |
| | Cost of sales | 48 000 |
| **2** | **2012** | |
| | Revenue | 58 000 |
| | Gross profit to sales ratio | 33.3% |

**REQUIRED**

**(c)** Calculate Tay's gross profit to sales ratio for the year ended 30 April 2013. **[2]**

**(d)** Compare the gross profit to sales ratio in 2012 with your answer in **(c)** and suggest **three** possible causes for any changes that may have taken place. **[6]**

**(e)** Make **two** suggestions on how Tay may use the gross profit to sales ratio. **[4]**

## QUESTION 16 MAY 2013 P21 Q3

The following balances were extracted from the books of Alex Penn on 31 March 2013.

| | $ |
|---|---|
| Equipment (net book value) | 40 000 |
| Delivery vans (net book value) | 22 000 |
| Inventory | 10 670 |
| Trade receivables | 11 200 |
| Other receivables | 4 130 |
| Bank overdraft | 4 200 |
| Trade payables | 8 800 |
| 6% Bank loan (repayable 23 May 2016) | 15 000 |
| Capital 31 March 2013 | 70 000 |
| Drawings | 10 000 |

During the year Penn had purchased non-current assets to the value of $20 000.

**REQUIRED**

**(a)** Calculate the working capital. **[2]**

**(b)** Calculate the following to two decimal places:

- **(i)** Working capital ratio (current ratio) **[2]**
- **(ii)** Quick ratio (acid test ratio) **[2]**

For the year ended 31 March 2012 Penn's working capital ratio (current ratio) was 3:1 and his quick ratio (acid test ratio) was 1:1.

**(c)** Suggest **three** reasons why Penn's liquidity position may have changed. **[6]**

**(d)** Suggest **two** courses of action Penn could take to improve his liquidity. **[6]**

## QUESTION 17 MAY 2013 P22 Q4

Baljit provided the following information for the year ended 30 April 2013.

| | $ |
|---|---|
| Inventory 1 May 2012 | 14 841 |
| Inventory 30 April 2013 | 21 159 |
| Cost of goods sold | 90 000 |
| Administration expenses | 4 890 |
| Selling expenses | 7 485 |
| Capital employed 1 May 2012 | 101 250 |
| Mark up | 25% |

**REQUIRED**

**(a)** Calculate for the year ended 30 April 2013:

- **(i)** Sales **[2]**
- **(ii)** Purchases **[2]**
- **(iii)** Profit for the year **[2]**

**(b)** Calculate the following ratios. Comparative figures for the previous year are shown in the last column.

| | Workings | 30 April 2013 | 30 April 2012 |
|---|---|---|---|
| Gross profit margin (gross profit to sales) | | | 25% |
| Net profit margin (net profit to sales) | | | 11% |
| Rate of inventory turnover | | | 8 times / 45.6 days |
| Return on capital employed (ROCE) | | | 12% |

**[8]**

**(c)** Give **two** comments on the performance of Baljit's business over the two years. **[6]**

**(d)** Suggest **three** actions Baljit may take to improve her rate of inventory turnover. **[6]**

## QUESTION 18 NOVEMBER 2013 P22 Q 4

Shaw's accounting year ends on 30 April. The following information is supplied for 2011, 2012 and 2013.

| | 2011 ($) | 2012 ($) | 2013 ($) |
|---|---|---|---|
| Revenue (Sales) | 150 000 | 225 000 | 300 000 |
| Gross profit | 37 500 | 56 250 | 75 000 |
| Profit for year (Net profit) | 18 750 | 23 400 | 27 990 |
| Capital | 150 000 | 195 000 | 240 000 |
| Gross profit margin | 25% | 25% | ? |
| Net profit margin | 12.50% | 10.40% | ? |
| Percentage of expenses to sales | 12.50% | 14.60% | 15.67% |
| Return on capital employed | 12.5% | 12% | ? |

**REQUIRED**

**(a)** Calculate, to two decimal places, the following ratios at 30 April 2013:

Gross profit margin
Net profit margin
Return on capital employed **[3]**

**(b)** Using the ratios calculated in **(a)** comment on the profitability over the three years. **[8]**

## QUESTION 19 — NOVEMBER 2013 P21 Q4

Wenger's trial balance on 30 April 2013 was as follows:

**Trial Balance as at 30 April 2013**

| **Account** | **Debit $** | **Credit $** |
|---|---|---|
| Bank | 1 750 | |
| Capital | | 113 500 |
| Cash | 250 | |
| Inventory | 20 000 | |
| Long-term loan | | 30 000 |
| Non-current assets | 122 500 | |
| Other payables | | 6 860 |
| Other receivables | 1 400 | |
| Trade payables | | 12 140 |
| Trade receivables | 16 600 | |
| | 162 500 | 162 500 |

**REQUIRED**

**(a)** Calculate the following correct to **two** decimal places, at 30 April 2013:
Working capital (current) ratio;
Quick (acid test) ratio. **[3]**

Wenger's working capital (current) ratio and quick (acid test) ratio at 30 April 2012 were 4:1 and 2:1 respectively.

**REQUIRED**

**(b)** **(i)** Comment on the change in the ratios between 2012 and 2013. **[2]**

**(ii)** State **three** possible causes for any changes that have taken place. **[6]**

**(c)** Advise Wenger on **two** measures he may take to improve his working capital. **[4]**

## QUESTION 20 — MAY 2014 P21 Q4

Demetris is a trader, buying and selling goods on credit. The following information was available on 31 March 2014.

| | $ |
|---|---|
| Revenue | 300 000 |
| Inventory 31 March 2014 | 50 000 |
| Purchases | 170 000 |
| Capital | 100 000 |
| Bank | 5 000 Dr |
| Trade payables | 60 000 |
| Trade receivables | 11 000 |
| Gross profit/sales | 20% |

**REQUIRED**

**(a)** Calculate the:

**(i)** Cost of goods sold. **[2]**

**(ii)** Inventory at 1 April 2013. **[3]**

**(b)** Suggest **two** possible effects of holding too much inventory. **[2]**

**(c)** Calculate, to **two** decimal places, the:
- **(i)** Working capital ratio (current ratio) **[3]**
- **(ii)** Quick ratio (acid test ratio) **[3]**

**(d)** Comment upon the sufficiency of the working capital ratio (current ratio). **[2]**

During the year ended 31 March 2014, Demetris took the following actions.

1. Repaid a $40 000 long term bank loan.
2. Purchased $20 000 of non-current assets on credit.
3. Sold inventory for $20 000 on credit (cost $15 000).

**REQUIRED**

**(e)** Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio) for each of the actions **1 to 3** above. The first item has been completed as an example.

| | | **Current assets** | **Current liabilities** | **Working capital ratio (current ratio)** |
|---|---|---|---|---|
| 1 | Repaid a $40 000 long term bank loan. | *Decreased $40 000* | *No effect* | *Decreased* |
| 2 | Purchased $20 000 of non-current assets on credit. | | | |
| 3 | Sold inventory for $20 000 on credit (cost $15 000). | | | |

**[6]**

## QUESTION 21 — MAY 2014 P22 Q4

Najla provided the following information for the year ended 31 March 2014.

| | $ |
|---|---|
| Revenue | 168 000 |
| Inventory 1 April 2013 | 20 000 |
| Inventory 31 March 2014 | 16 000 |
| Purchases | 122 000 |
| Trade receivables | 24 500 |
| Trade payables | 35 000 |
| Capital | 100 000 |
| Bank | 1 500 Dr |

**REQUIRED**

**(a)** Calculate the:

Cost of goods sold
Gross profit/sales percentage
Rate of inventory turnover
Working capital ratio (current ratio) **[10]**

In the previous year, ended 31 March 2013, Najla calculated the following ratios:

Gross profit /sales percentage 20%
Rate of inventory turnover 6 times
Working capital ratio (current ratio) 1.7:1

**REQUIRED**

**(b)** Comment upon the performance of Najla under the following headings, using the information above and your answer in **(a)**.

Controlling inventory

Ability to pay trade payables **[4]**

**(c)** Suggest **two** possible reasons for the change in gross profit/sales percentage. **[2]**

Najla is considering the following proposals to improve his working capital.

**1** Sell obsolete inventory costing $1 000 for cash $500.

**2** Sell non-current assets for $3 000 cash.

**3** Allow trade receivables to pay debts of $4 000 less 5% cash discount.

**4** Bring $5 000 additional capital into the business: Motor vehicle $3 000 and cash $2 000.

**REQUIRED**

**(d)** Complete the following table showing the changes to working capital. The first proposal has been completed as an example.

| **Proposals** | **Working capital** | | **Amount of change ($)** |
|---|---|---|---|
| | **increase** | **decrease** | |
| **1** | | ✔ | *$500* |
| **2** | | | |
| **3** | | | |
| **4** | | | |

**[6]**

## QUESTION 22 NOVEMBER 2014 P21 Q4

Lai Yee provided the following information.

| | $ | |
|---|---|---|
| Profit from operations (before bank loan interest) | 36 000 | |
| Capital | 200 000 | |
| Trade payables | 50 000 | |
| Trade receivables | 45 000 | |
| 8% Bank loan (repayable 2024) | 100 000 | |
| Bank | 60 000 | Dr |
| Closing inventory | 75 000 | |
| Cost of sales | 480 000 | |
| Revenue | 600 000 | |

**REQUIRED**

**(a)** Calculate to **one** decimal place:

| **Ratio** | **Workings** | **Answer** |
|---|---|---|
| Percentage gross profit/sales | | |
| Percentage net profit/sales | | |
| Return on capital employed (ROCE) | | |
| Working capital ratio (Current ratio) | | |

**[12]**

**(b)** Comment upon the sufficiency of the working capital ratio (current ratio). **[2]**
Lai Yee is considering ways in which she might improve her return on capital employed (ROCE).

She is considering the following proposals.
1 Introduce additional capital of $10 000.
2 Repay half of the 8% bank loan.
3 Sell $20 000 non-current assets, saving $3 000 in depreciation.
4 Convert $25 000 of the 8% bank loan into a bank overdraft at 12% interest per annum.

**REQUIRED**
**(c)** Complete the following table, by placing a tick (√) in the appropriate box, to show the effect on the profit for the year and the capital employed.
The first item has been completed as an example.

| **Proposals** | **Profit for the year** | | | **Capital employed** | | |
|---|---|---|---|---|---|---|
| | **increase** | **decrease** | **no effect** | **increase** | **decrease** | **no effect** |
| **1** | | | | | | |
| **2** | | | | | | |
| **3** | | | | | | |
| **4** | | | | | | |

**[6]**

Lai Yee is also considering improving her profit for the year by:
1 revaluing her business premises to the market value of $120 000 (cost $100 000)
2 removing the provision for doubtful debts.

**REQUIRED**
**(d)** Name which accounting concept would **not** be complied with if Lai Yee implemented her proposals. **[2]**

## QUESTION 23 NOVEMBER 2014 P22 Q4

The following information relates to the business of Lili.

| | **$** |
|---|---|
| Revenue | 200 000 |
| Inventory 1 October 2013 | 15 500 |
| Inventory 30 September 2014 | 24 500 |
| | |
| Rate of inventory turnover | 8 times |
| Net profit/sales | 7% |

**REQUIRED**
**(a)** Calculate the following.

| | **Workings** | **Answer** |
|---|---|---|
| cost of sales | | |
| purchases | | |
| percentage gross profit to sales | | |
| expenses | | |
| profit for the year | | |

**[14]**

Lili's inventory of $24 500 needs to be adjusted for the following.

**1** 5 items costing $10 each had been omitted from the inventory.

**2** 10 items costing $25 each were damaged and could only be sold for $15 each.

**3** 4 items were included in the inventory at the list price of $300 each, having been marked up by 50%.

**4** 1 item costing $20 was recorded in error in the inventory as $200.

**REQUIRED**

**(b)** Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

| **Adjustment** | **Effect on inventory value** | | **Value** |
|---|---|---|---|
| | **increase** | **decrease** | **$** |
| 1 | √ | | *50* |
| 2 | | | |
| 3 | | | |
| 4 | | | |

**[6]**

## QUESTION 24 — MAY 2015 P21 Q4 (a to c)

John provided the following information for the year ended 31 March 2015.

| | $ |
|---|---|
| Revenue | 900 000 |
| Inventory 1 April 2014 | 65 000 |
| Inventory 31 March 2015 | 35 000 |
| Expenses | 105 000 |
| Owner's capital | 300 000 |
| Long term loan | 150 000 |
| Mark up | 20% |

**REQUIRED**

**(a)** Calculate for the year ended 31 March 2015:

**(i)** Cost of goods sold **[2]**

**(ii)** Profit for the year **[2]**

**(b)** Calculate the following ratios.

| | **Workings** | **31 March 2015** | **31 March 2014** |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | | | 5% |
| Rate of inventory Turnover | | | 7 times |
| Return on capital employed (ROCE) | | | 4% |

**[6]**

**(c)** Give **two** comments on the performance of John's business over the two years. **[6]**

## QUESTION 25 — MAY 2015 P22 Q4

Xever provided the following information for the year ended 31 March 2015.

| | **$** |
|---|---|
| Capital | 40 000 |
| Bank loan (repayable 1 Jan 2020) | 10 000 |

| | |
|---|---:|
| Inventory 1 April 2014 | 15 000 |
| Inventory 31 March 2015 | 35 000 |
| Cost of sales | 125 000 |
| Trade receivables | 25 000 |
| Trade payables | 70 000 |
| Bank overdraft | 30 000 |
| Mark up | 20% |
| Profit margin (profit for the year to revenue) | 5% |

**REQUIRED**

**(a)** Calculate the following for the year ended 31 March 2015.

- **(i)** Revenue **[2]**
- **(ii)** Purchases **[2]**
- **(iii)** Expenses for the year **[2]**

**(b)** Calculate the following ratios, correct to **two** decimal places. The previous year's ratios are shown in the last column.

| | Workings | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Gross profit margin (gross profit to revenue) | | | 25.61% |
| Return on capital employed (ROCE) | | | 12.00% |
| Rate of turnover of inventory | | | 2.82 times |
| Quick ratio (acid test ratio) | | | 0.91:1 |

**[8]**

**(c)** Comment on the changes to Xever's business over the two years under the following headings.

- **(i)** Profitability **[3]**
- **(ii)** Liquidity **[3]**

## QUESTION 26 NOVEMBER 2015 P21 Q4

Galenia buys and sells goods on credit. The following information was available on 30 September 2015.

| | $ |
|---|---:|
| Inventory 1 October 2014 | 11 000 |
| Inventory 30 September 2015 | 37 000 |
| Cost of goods sold | 90 000 |
| Profit for the year | 18 900 |
| Trade receivables | 14 200 |
| Trade payables | 27 000 |
| Bank | 2 800 debit |

| | |
|---|---:|
| Mark up | 40% |

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2015.

- **(i)** Revenue **[2]**
- **(ii)** Purchases **[2]**
- **(iii)** Expenses for the year **[2]**

**(b)** Calculate the following ratios to **two** decimal places. Comparative figures for the previous year are shown in the last column.

| | Workings | 30 September 2015 | 30 September 2014 |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | | | 12.13% |
| Rate of inventory turnover | | | 2.00 times |
| Working capital ratio (current ratio) | | | 2.60:1 |
| Quick ratio (acid test ratio) | | | 1.10:1 |

**[8]**

**(c)** Comment on the performance of Galenia's business over the two years under the following headings.

**(i)** Inventory turnover **[3]**

**(ii)** Ability to pay trade payables **[3]**

## QUESTION 27 NOVEMBER 2015 P22 Q4

Danish provided the following information.

For the year ended 31 July 2015

| | $ |
|---|---|
| Revenue | 380 000 |
| Purchases | 295 000 |
| Profit for the year | 35 000 |
| Gross profit margin | 25% |

At 31 July 2015

| | $ |
|---|---|
| Inventory | 65 000 |
| Trade receivables | 42 000 |
| Trade payables | 52 000 |
| Bank | 13 000 debit |
| Expenses accrued | 8 000 |

**REQUIRED**

**(a)** Calculate the following:

| | Workings | Answer |
|---|---|---|
| Inventory at 1 August 2014 | | |
| Rate of inventory turnover (to two decimal places) | | |
| Expenses paid in the year ended 31 July 2015 | | |
| Working capital ratio (current ratio) | | |
| Quick ratio (acid test ratio) | | |

**[12]**

Danish is considering the following proposals to improve his working capital.

**1** Sell excess non-current assets for $4 000

**2** Sell old inventory costing $15 000, for $9 000 cash

**3** Allow a trade receivable 5% cash discount for early payment of a debt of $10 000

**4** Pay expenses accrued of $8 000

**5** Bring additional capital into the business, motor vehicle $5 000 and cash $1 000

**REQUIRED**

**(b)** Complete the table, to show the effect on the working capital of **each** proposal. The first one has been completed as an example.

| | **Proposal** | **Working capital (Increase, decrease, no effect)** | **Amount $** |
|---|---|---|---|
| **1** | Sell excess non-current assets for $4 000 | *Increase* | *4 000* |
| **2** | Sell old inventory costing $15 000, for $9000 cash | | |
| **3** | Allow a trade receivable 5% cash discount for early payment of a debt of $10 000 | | |
| **4** | Pay expenses accrued of $8 000 | | |
| **5** | Bring additional capital into the business, motor vehicle $5 000 and cash $1 000 | | |

**[8]**

## QUESTION 28 MAY 2016 P21 & 22 Q4

Lache's accounting year ends on 31 December. The following information is available.

| | **2015($)** | **2014 ($)** |
|---|---|---|
| Revenue | 750 000 | 600 000 |
| Expenses | 200 000 | 175 000 |
| Profit for the year | 100 000 | 50 000 |
| Capital | 250 000 | 250 000 |
| Bank loan repayable 30 December 2014 | ----- | 120 000 |
| Bank loan repayable 30 December 2020 | 80 000 | ----- |
| Inventory | 60 000 | 260 000 |
| Trade receivables | 22 000 | 40 000 |
| Trade payables | 50 000 | 60 000 |
| Other receivables | 1 500 | 2 500 |
| Other payables | 8 500 | 3 500 |
| Bank | 28 000 Debit | 40 000 Credit |

**REQUIRED**

**(a)** Calculate the following ratios for 2015. Comparative figures for 2014 are shown. Your answers should be calculated to one decimal place.

| | **Workings** | **Answer** | **2014** |
|---|---|---|---|
| Gross profit to revenue (Gross profit margin) | | | 37.5% |
| Return on capital employed (ROCE) based on profit for the year | | | 20% |
| Current ratio (Working capital ratio) | | | 2.9:1 |
| Quick ratio (acid test ratio) | | | 0.4:1 |

**[12]**

**(b)** Using the ratios calculated in (a) and the information provided, comment on the:

**(i)** profitability over the two years **[4]**

**(ii)** liquidity over the two years. **[4]**

## QUESTION 29 NOVEMBER 2016 P21 Q4

Ng provided the following information for the year ended 30 September 2016.

| | $ |
|---|---|
| Cost of sales | 240 000 |
| Trade payables | 180 000 |
| Trade receivables | 120 000 |
| 8% Bank loan (repayable 2024) | 30 000 |
| Bank | 20 000 Credit |
| Closing inventory | 130 000 |
| | |
| Gross profit margin | 25% |

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2016. Comparative figures for the previous year are shown.

| | Year ended 30 September 2016 | | Year ended 30 September 2015 |
|---|---|---|---|
| | **Workings** | **Answer** | |
| Revenue | | | $220 000 |
| Working capital ratio (Current ratio) (to two decimal places) | | | 1.93:1 |
| Quick ratio (acid test ratio) (to two decimal places) | | | 1.12:1 |

**[8]**

**(b)** Comment on the liquidity position of Ng over the two years. **[3]**

On 31 October 2016 Ng had $15 000 in his business bank account. He is considering ways to further improve his working capital.

**REQUIRED**

**(c)** Complete the table showing the effect on the working capital of the following proposals.
The first item has been completed as an example.

| Proposal | Effect on | | |
|---|---|---|---|
| | **Current assets** | **Current liabilities** | **Working capital** |
| Sell $15 000 non-current assets for cash. | *+ $15 000* | *No effect* | *+$15 000* |
| Introduce additional capital of $10 000, consisting of $5000 in cash and $5000 non-current assets. | | | |
| Obtain an additional bank loan for $30 000, repayable in equal instalments over five years. | | | |
| Offer trade receivables a cash discount of 10% for quick payment. Credit customers owing $60 000 will accept this offer. | | | |

**[9]**

## QUESTION 30 NOVEMBER 2016 P22 Q4 (a & b)

Zahin is a trader, buying and selling goods on credit. The following information is available on 31 August 2016.

| | **$** |
|---|---:|
| Capital | 60 000 |
| Bank loan (repayable 2020) | 20 000 |
| Inventory 1 September 2015 | 29 000 |
| Inventory 31 August 2016 | 31 000 |
| Purchases | 170 000 |
| | |
| Percentage of gross profit to revenue (Gross profit margin) | 25% |
| Percentage of profit for the year to revenue (Profit margin) | 5% |

**REQUIRED**

**(a)** Calculate the following for the year ended 31 August 2016. Comparative figures for the previous year are shown.

| | Year ended 31 August 2016 | | Year ended 31 August 2015 |
|---|---|---|---|
| | Workings | Answer | |
| Revenue for the year | | | $200 000 |
| Percentage mark-up | | | 27% |
| Expenses for the year | | | $36 000 |
| Return on capital employed (ROCE) based on profit for the year | | | 21% |

**[10]**

**(b)** Give three comments about the performance of Zahin's business over the two years. **[6]**

# CHAPTER 17 SOLUTIONS

## QUESTION 1 — MAY 2009 P2 Q4 (d & e)

**(d)** **(i)** Inventory turnover rate $= \frac{\text{Cost of Sales}}{\text{Average Inventory}}$

$= \frac{\text{Cost of Sales}}{\text{(Opening Inventory+Closing Inventory)/2}}$

$= \frac{\$17\ 000+\$238\ 000-\$15\ 000}{(\$17\ 000+\$15\ 000)/2}$ = 15 times

Gross profit rate $= \frac{\text{Gross Profit}}{\text{Sales revenue}} \times 100$

$= \frac{\$60\ 000}{\$300\ 000} \times 100$ = 20%

**(e)** Gross profit ratio has reduced from 30% to20%. This may be due to price cuts for disposing off old inventory or to increase sales volume. This can be evidenced by looking at increase in inventory turnover rate from 9% to 15%. Sales prices may have been reduced to combat competition. There may be increase in cost of sales without corresponding increase in sales prices as a result inventory turnover rate was increased. Reduction in inventory levels or increased advertising could also be reasons for this improvement in turnover rate.

## QUESTION 2 — NOVEMBER 2009 P2 Q4

**(a)** **(i)** Gross profit to sales percentage $= \frac{\$120\ 000-(12\ 000+91\ 000-28\ 000)}{120\ 000} \times 100$

$= \frac{\$45\ 000}{120\ 000} \times 100$

= 37.50%

**(ii)** Rate of inventory turnover $= \frac{\$12\ 000+\$91\ 000-\ \$28\ 000}{(\$12\ 000+\ \$28\ 000)/2} \times 100$

$= \frac{\$75\ 000}{\$20\ 000} \times 100$

= 3.75 times

**(iii)** Net profit to capital percentage $= \frac{\$45\ 000-\$15\ 000}{\$150\ 000} \times 100$

$= \frac{\$30\ 000}{\$150\ 000} \times 100$

= 20.00%

**(iv)** Working capital (current ratio) $= \frac{\$28\ 000 + \$30\ 000}{\$43\ 000 + \$15\ 000}$

$= \frac{\$58\ 000}{\$58\ 000}$

= 1:1

**(b)** **(i)** **Controlling inventory**

Despite of low gross profit percentage Easisell has a worse turnover rate than its competitor. This may be due to abnormal increase in inventory level over the year as inventory has more than doubled in the year. The accumulation of inventories indicates slow movements in inventory items or obsolescence may be due to rapid changes in taste or fashion etc.

**(ii) Net profit to capital percentage**

Easisell's return on capital is significantly better than its competitor. This means that a greater net profit has been earned in relation to capital investment within the business. Though Easisell has a lower gross profit to sales % than its competitor but its better net profit percentage reveals that Easisell has a better and efficient control on its operating expenses.

**(iii) Ability to pay trade payables**

Easisell has a worse working capital ratio than its competitor as it is slightly better than half of the competitor. The low current ratio is mainly due to bank overdraft which will make it difficult to pay the trade payables as and when due. Delayed or no payments to trade payables may result in refusal by the trade payables to future supply of goods.

## QUESTION 3 — SPECIMEN 2010 P2 Q4 (a & b)

**(a) Jack Lightbourne**

| | | | |
|---|---|---|---|
| **(i)** | Gross profit/sales | $\frac{\$174\,600 - (\$6\,350 + \$89\,150 - \$8\,200)}{\$174\,600} \times 100$ | 50% |
| **(ii)** | Net profit/sales | $\frac{\$87\,300 - \$69\,840}{\$174\,600} \times 100$ | 10% |
| **(iii)** | Rate of inventory turnover | $\frac{\$6\,350 + \$89\,150 - \$8\,200}{(\$6\,350 + \$8\,200)/2} \times 365$ | 30.4 days |
| **(iv)** | Working capital (current) ratio | $\frac{\$24\,600}{\$16\,400}$ | 1.5 : 1 |
| **(v)** | Quick ratio (acid test) | $\frac{\$24\,600 - \$8\,200}{\$16\,400}$ | 1 : 1 |

**(b)** Increase the sales price for his goods
Buy goods more cheaply from suppliers
Reduce expenses

## QUESTION 4 — MAY 2010 P21 Q4

**(a) (i)** Gross profit to revenue (sales) percentage

$$= \frac{\text{Gross Profit}}{\text{Net sales}} \times 100$$

$$= \frac{\$200\,000 - \$130\,000}{\$200\,000} \times 100$$

$$= 35.00\%$$

**(ii)** Working capital ratio (current ratio)

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\$60\,000 + \$16\,000}{\$35\,000 + \$5\,000}$$

$$= 1.90:1$$

**(iii)** Quick ratio (acid test)

$$= \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

$$= \frac{\$16\,000}{\$35\,000 + \$5\,000}$$

$$= 0.40:1$$

**(iv)** Profit for the year to capital percentage $= \frac{\text{Profit for the year}}{\text{Capital}} \times 100$

$= \frac{\$200\ 000 - \$130\ 000 - \$65\ 0000}{\$100\ 000} \times 100$

$=$ 5.00%

**(b)** **(i)** Quick ratio is quite low at 0.4:1 especially for a business trading on credit. Increase in inventory levels are resulting in high trade payables. Due to more purchases business is facing shortage of cash to pay trade payables

**(ii)** Profit for the year to capital percentage of 5% is quite low as it makes business more risky and less profitable.

**(c)** **(i)** Reduction in selling price
Increased in purchase price without corresponding increase in sales price

**(ii)** Higher inventory levels
Difficulty in collecting from trade receivables.

## QUESTION 5 — MAY 2010 P22 Q4

**(a)** Cost of Sales = Sales – Gross Profit
= \$250 000 – \$250 000 × 40%
= \$250 000 – \$100 000
= \$150 000

**(b)** Purchases = Cost of sales + Closing Inventory – Opening Inventory
= \$150 000 + 25 000 – \$10 000
= \$165 000

**(c)** Expenses = Gross Profit – Profit for the year
= \$100 000 – \$250 000 × 8%
= \$80 000

**(d)** Inventory turnover rate $= \frac{\text{Cost of Sales}}{(\text{Opening Inventory} + \text{Closing Inventory})/2}$

$= \frac{\$150\ 000}{(\$10\ 000 + \$25\ 000)/2}$

$=$ 8.57 times

## QUESTION 6 — NOVEMBER 2010 P22 Q4

**(a)** **Current ratio** $= \frac{\text{Current Assets}}{\text{Current Liabilities}}$

30 September 2009 $= \frac{\$55\ 000 + \$50\ 000 + \$15\ 000}{\$30\ 000}$

$= \frac{\$120\ 000}{\$30\ 000} =$ 4.0:1

30 September 2010 $= \frac{\$60\ 000 + \$90\ 000}{\$75\ 000 + \$45\ 000}$

$= \frac{\$150\ 000}{\$120\ 000} =$ 1.25:1

**Liquid ratio** = $\frac{\text{Liquid Assets}}{\text{Current Liabilities}}$

30 September 2009 = $\frac{\$50\ 000+\$15\ 000}{\$30\ 000}$

= $\frac{\$65\ 000}{\$30\ 000}$ = 2.17:1

30 September 2010 = $\frac{\$90\ 000}{\$75\ 000+\$45\ 000}$ = 0.75:1

**(b)** **(i)** Purchase of non-current (fixed) assets
**(ii)** Increased inventory levels
**(iii)** More credit sales

**(c)** **(i)** Issue of more shares
**(ii)** Borrow additional long-term loans
**(iii)** Dispose off non-current assets
**(iv)** Try to extend the credit period to trade payables
**(v)** Reduce inventory levels

## QUESTION 7 MAY 2011 P21 Q4

**(a)** **(i)** Profit for the year/sales percentage = $\frac{\text{Profit for the year}}{\text{Net Sales Revenue}} \times 100$

= $\frac{\$44\ 000}{\$220\ 000} \times 100$

= 20.00%

**(ii)** Profit for the year/capital percentage = $\frac{\text{Profit for the year}}{\text{Capital}} \times 100$

= $\frac{\$110\ 000-\$66\ 000}{\$160\ 000} \times 100$

= 27.50%

**(iii)** Working capital (current )ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

= $\frac{\$35\ 000+\$40\ 000+\$15\ 000}{\$60\ 000}$

= 1.50:1

**(iv)** Quick ratio (acid test) = $\frac{\text{Current Assets}-\text{Inventory}}{\text{Current Liabilities}}$

= $\frac{\$40\ 000+\$15\ 000}{\$60\ 000}$

= 0.9:1

**(b)** Reduction in sales revenue by $40 000 resulted in decrease in Gross profit ratio from 50% to 40%. On the other hand operating expenses have reduced, but not sufficient to increase profit for the year ratio.

**(c)**
- New cash capital investment by owner
- Improved collection from trade receivables
- Reduction in inventory perhaps due to low purchases
- Reduction in expenses.

## QUESTION 8 MAY 2011 P22 Q4

**(a)** **(i)** **Calculation of Revenue**

| | $ |
|---|---|
| Opening inventory | 5 500 |
| Purchases | 72 000 |
| Closing inventory | (7 500) |
| Cost of sales | 70 000 |
| Gross profit ($70 000 × 50%) | 35 000 |
| Revenue (sales) for the year | 105 000 |

**(ii)** Inventory turnover rate $= \dfrac{\text{Cost of Sales}}{\text{Average Inventory}}$

$= \dfrac{\$70\ 000}{(\$5\ 500+\$7\ 500)/2}$

= 10.8 times

**(iii)** Profit for the year ($) = Gross Profit – Operating expenses

= $35 000 – $23 500

= $11 500

**(iv)** Profit for the year /Revenue (%) $= \dfrac{\text{Profit for the year}}{\text{Net sales}} \times 100$

$= \dfrac{\$11\ 500}{\$105\ 000} \times 100$

= 11%

**(v)** Profit for the year / Capital (%) $= \dfrac{\text{Profit for the year}}{\text{Capital}} \times 100$

$= \dfrac{\$11\ 500}{\$75\ 000} \times 100$

= 15.3%

**(b)** In order to increase sales volume and higher turnover rate the sellers usually reduce their profit margins by charging a low selling price or through extensive advertising.

**(c)**

| | | Increase rate of inventory turnover | Decrease rate of inventory turnover |
|---|---|---|---|
| **(i)** | Hold a 'Sale' and reduce prices by 20%. | ✓ | |
| **(ii)** | Increase the inventory by $20 000. | | ✓ |
| **(iii)** | Raise selling prices by 10%. | | ✓ |

## QUESTION 9 NOVEMBER 2011 P21 Q4

**(a)** **(i)**

| | $ |
|---|---|
| Opening Inventory | 18 000 |
| Purchases (balancing figure) | 178 000 |
| | 196 000 |
| Closing Inventory | (36 000) |
| Cost of Sales [$200 000 – ($200 000 × $^{25}/_{125}$) | 160 000 |
| **(ii)** Gross profit ($160 000 × 25%) | $40 000 |
| Profit for the year ($200 000 × 6%) | (12 000) |
| Expenses | 28 000 |

**(iii)** Working capital ratio (current ratio) $= \dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

$= \dfrac{\$36\ 000+\$24\ 000}{\$10\ 000+\$40\ 000}$

$=$ 1.20:1

**(iv)** Quick ratio (acid test) $= \dfrac{\text{Current Assets}-\text{Inventory}}{\text{Current Liabilities}}$

$= \dfrac{\$24\ 000}{\$50\ 000}$

$=$ 0.5:1

**(c)** The quick ratio (acid test) includes liquid assets only. It excludes inventory in the calculation which is the least liquid current asset as it may take a long time to sell. Moreover if it is sold on credit then credit customers may take even more time to pay cash.

.

**(d)**
- More sales on cash basis.
- Offering cash discounts to trade receivables for receive early cash payments.
- Injection of more capital
- Reduction in drawings.
- Reduction in expenses.
- Disposal of surplus non-current assets.
- Borrowing new loan.

## QUESTION 10 — NOVEMBER 2011 P22 Q4 (a to c)

**(a)** **(i)** Cost of sales = Opening Inventory + Purchases – Closing Inventory

= \$6 000 + 58 000 – \$8 000

= \$56 000

**(ii)** Inventory turnover rate $= \dfrac{\text{Cost of Sales}}{(\text{Opening Inventory}+\text{Closing Inventory})/2}$

$= \dfrac{\$56\ 000}{(\$6\ 000+\$8\ 000)/2}$

$=$ 8 times

**(b)** **(i)** Gross profit /Sales (%) $= \dfrac{\text{Gross Profit}}{\text{Net sales}} \times 100$

$= \dfrac{\$80\ 000-\$56\ 000}{\$80\ 000} \times 100$

$=$ 30%

**(ii)** Gross profit /Sales (%) has reduced from 40% to30%. This may be due to reduction in sales price to increase sales volume or for disposing off old inventory. There may be increase in cost of sales without corresponding increase in sales prices as a result inventory turnover rate was increased.

**(c)** Working capital (current ratio) $= \dfrac{\$8\ 000 + \$16\ 000}{\$2\ 000 + \$14\ 000}$

$= \dfrac{\$24\ 000}{\$16\ 000}$

$=$ 1.50:1

## QUESTION 11 — MAY 2012 P21 Q4

**(a)** **(i)** Cost of Sales = Sales – Gross Profit
= \$120 000– (\$120 000 × 20%)
= \$120 000 – \$24 000
= \$96 000

**(ii)** Purchases = Cost of sales + Closing inventory – Opening inventory
= \$96 000 + \$26 500 – \$22 500
= \$100 000

**(iii)** Expenses = Gross Profit – Profit for the year
= (\$120 000 × 20%) – (\$120 000 × 8%)
= \$24 000 – \$9 600
= \$14 400

**(b)** Inventory turnover rate $= \frac{\text{Cost of Sales}}{(\text{Opening Inventory}+\text{Closing Inventory})/2}$

$= \frac{\$96\ 000}{(\$22\ 500+\$26\ 500)/2}$

$= \frac{\$96\ 000}{\$24\ 500}$

= 3.92 times

**(c)** Inventory turnover rate may be increased by
- reducing sale prices;
- advertising and other promotions;
- reducing the inventory to an optimum level provided it does not result in inventory outs;
- offering cash discounts to encourage sales.

| **(d)** | | **\$** |
|---|---|---|
| | Existing profit | 9 600 |
| | Add Increase in inventory (\$30 000 – \$26 500) | 3 500 |
| | Revised profit | 13 100 |

**(e)**
- High carrying and storage costs
- Risk of obsolescence
- Increased interest expense paid on capital tied up in huge inventories
- More money tied up in stock
- Risk of theft
- Deterioration of inventory

## QUESTION 12 — MAY 2012 P22 Q4

**(a)** **Statement to calculate the cost of sales**

| | **\$** |
|---|---|
| Revenue | 200 000 |
| Cost of sales (\$200 000 – \$70 000) | 130 000 |
| Gross profit (\$30 000 + \$40 000) | 70 000 |
| Expenses | 40 000 |
| Profit for the year (\$200 000 × 15%) | 30 000 |

**(b)** **(i)** Profit for the year/capital (percentage)= $\frac{\$30\ 000}{\$350\ 000} \times 100$ = 8.57%

**(ii)** Working capital ratio (current ratio) = $\frac{\$25\ 000+\$47\ 000}{\$50\ 000+\$10\ 000}$ = 1.2:1

**(iii)** Quick ratio (acid test) = $\frac{\$47\ 000}{\$60\ 000}$ = 0.78:1

| **(c)** | **Current assets** | **Current liabilities** | **Working capital (current) ratio** |
|---|---|---|---|
| **1** | +$5 000 | No effect | Increase |
| **2** | –$24 000 | –$25 000 | Increase |
| **3** | +$8 000 | No effect | Increase |

## QUESTION 13 NOVEMBER 2012 P21 Q5

**(a)** **(i)** Revenue (Sales) = Cost of Sales + Gross Profit

= $\left(\frac{\$120\ 000}{25\%}\right)$ + $120 000

= $600 000

**(ii)** Profit for the year /Revenue (%) = $\frac{\text{Profit for the year}}{\text{Net sales}} \times 100$

= $\frac{\$120\ 000-\$57\ 000-\$11\ 000}{\$600\ 000} \times 100$

= $\frac{\$48\ 000}{\$600\ 000} \times 100$

= 8%

**(iii)** Profit for the year / Capital (%) = $\frac{\text{Profit for the year}}{\text{Capital}} \times 100$

= $\frac{\$48\ 000}{\$320\ 000} \times 100$

= 15%

**(iv)** Quick ratio (acid test ratio) = $\frac{\text{Current Assets excluding inventory}}{\text{Current Liabilities}}$

= $\frac{\$55\ 000+\$5\ 000}{\$85\ 000+\$35\ 000}$

= 0.50:1

**(b)** Quick ratio (acid test) excludes inventory from the calculation as it is the least liquid current asset. Moreover inventory is not very easy to sell it and is difficult to convert it into cash within a short period of time.

**(c)** As Maya has to repay the $35 000 loan within a month so she needs sufficient amount of cash to pay this loan and to meet its working capital needs. The current cash balance of $5 000 seems insufficient in this regard.

**(d)**
- Injection of more capital by the owner
- Arranging a long term loan
- Try to get extended payment period from the suppliers
- Press trade receivables for swift payment through offering them a cash discount
- Sell some inventory for cash or offer trade discounts on cash sales
- Sale of surplus non-current assets

## QUESTION 14 NOVEMBER 2012 P22 Q4

(a) (i) Revenue (Sales) = Cost of Sales + Gross Profit

$$= \left(\frac{\$120\ 000}{25\%}\right) + \$120\ 000$$

$$= \$600\ 000$$

(ii) Inventory turnover rate

$$= \frac{\text{Cost of Sales}}{\text{Average Invemtory}}$$

$$= \frac{\$320\ 000}{(\$25\ 000+\$65\ 000)/2}$$

$$= 7.1 \text{ times}$$

(ii) Gross profit/sales percentage

$$= \frac{\text{Gross Profit}}{\text{Net sales}} \times 100$$

$$= \frac{\$80\ 000}{\$400\ 000} \times 100$$

$$= 20\%$$

(iii) Net profit to sales percentage

$$= \frac{\text{Profit for the year}}{\text{Net Sales}} \times 100$$

$$= \frac{\$20\ 000}{\$400\ 000} \times 100$$

$$= 15\%$$

(iv) Working capital (current) ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$= \frac{\$65\ 000+\$70\ 000}{\$75\ 000+\$15\ 000}$$

$$= 1.50:1$$

**(b)** Reduced mark-up/selling price on goods Increased advertising and market awareness Improved quality of the goods purchased Improved the range of goods for sale

**(c)** The ratio is below the recommended 2:1, but is within an acceptable range.

**(d)** Sell surplus non-current assets
Obtain long term loan Introduce additional capital

## QUESTION 15 MAY 2013 P21 Q2 (c to e)

**(c)** Gross profit to sales ratio

$$= \frac{\text{Gross profit}}{\text{Revenue (sales)}} \times 100$$

$$= \frac{\$60\ 000-\$48\ 000}{\$60\ 000} \times 100$$

$$= 20\%$$

**(d)** Gross profit ratio has fallen from 33.3% to 20% in 2013. Though there is an increase in sales revenue by \$2 000 (3.45%) but the decrease in gross profit ratio implies that an increase in sales in absolute terms does not guarantee a rise in profitability of sales.
The following could be the reasons for decrease in gross profit ratio.

- A decrease in selling price without any or relatively low proportionate decrease in cost of sales
- An increase in cost of sales without any or relatively low increase in selling price
- Over valuation of opening inventory
- Under valuation of closing inventory

**(e)**
- It shows the gross profit earned in proportion to sales revenue
- To Help a business to determine that how well it has performed in terms of its trading operations.
- To compare the trading performance of current year with previous years
- To compare the trading performance with other like businesses within same industry

## QUESTION 16 MAY 2013 P21 Q3

**(a)** **Statement to calculate working capital**

| **Current Assets** | **$** | **$** |
|---|---|---|
| Inventory | 10 670 | |
| Trade receivables | 11 200 | |
| Other receivables | 4 130 | 26 000 |
| **Current Liabilities** | | |
| Trade payables | 8 800 | |
| Bank overdraft | 4 200 | (13 000) |
| Working capital | | 13 000 |

**(b)** **(i)** Working capital (Current) ratio $= \frac{\text{Current assets}}{\text{Current liabilities}}$

$= \frac{\$26\ 000}{\$13\ 000}$

$=$ 2:1

**(ii)** Quick ratio (acid test) $= \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$

$= \frac{\$26\ 000 - \$10\ 760}{\$13\ 000}$

$=$ 1.17:1

**(c)**
- Purchase of non-current assets amounting to $20 000
- Cash withdrawals amounting to $10 000
- Bank overdraft amounting to $4 200 used in part settlement of non-current assets
- Accumulation of trade receivables due to delayed payments
- Fall in cash sales

**(d)**
- Injection of more capital by the owner
- Arranging a long term loan
- Try to get extended payment period from the suppliers
- Press trade receivables for swift payment through offering them a cash discount
- Sell some inventory for cash or offer trade discounts on cash sales
- Sale of surplus non-current assets
- Reduction in drawings

## QUESTION 17 MAY 2013 P22 Q4

**(a)** **(i)** **Sales** = Cost of Sales + Gross Profit

= [$90 000 + ($90 000 × 25%)]

= $112 500

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **(ii)** | **Purchases** | = | Cost of sales | + | Closing inventory | – | Opening Chemistry |
| | | = | $90 000 | + | $21 159 | – | $14 841 |
| | | = | $96 318 | | | | |
| **(iii)** | **Profit** | = | Sales | – | Cost of Sales | – | Expenses |
| | | = | $112 500 | – | $90 000 | – | ($4 890+ $7 485) |
| | | = | $10 125 | | | | |

**(b)**

| | Workings | 30 April 2013 | 30 April 2012 |
|---|---|---|---|
| Gross profit margin (gross profit/ sales) | $\frac{\text{Gross profit}}{\text{Revenue (sales)}} \times 100$ | | |
| | $\frac{\$22\ 500}{\$112\ 500} \times 100$ | 20% | 25% |
| Net profit margin (Net profit / sales) | $\frac{\text{Profit for the year}}{\text{Revenue (sales)}} \times 100$ | | |
| | $\frac{\$10\ 125}{\$112\ 500} \times 100$ | 9% | 11% |
| Rate of inventory turnover | $\frac{\text{Cost of Sales}}{\text{Average Inventory}}$ | | |
| | $\frac{\$90\ 000}{(\$14\ 841+\$21\ 159)\div 2}$ | 5 times | 8 times |
| Return on capital employed (ROCE) | $\frac{\text{Profit for the year}}{\text{Capital Employed}} \times 100$ | | |
| | $\frac{\$10\ 125}{\$101\ 250} \times 100$ | 10% | 12% |

**(c)** Profitability was higher in 2012 compared to 2013.
The gross profit margin has fallen from 25% in 2012 to 20% in 2013.
The net profit margin has increased to 11% for 2012 which was higher than 9% of 2013.
The return on capital employed was 2% better in 2012 than 2013 (12% compared to 10%).
The rate of inventory turnover has fallen from 8 times in 2012 to 5 times in 2013.
It takes 73 days to turn over inventory in 2013 compared to 45.6 days in 2012.

**(d)** Reduce inventory levels by cutting purchases
Promote sales by offering cash discounts
Reduce mark up from 25%
Sales promotions

## QUESTION 18 — NOVEMBER 2013 P22 Q 4

**(a)**

| | | |
|---|---|---|
| Gross profit/sales | $\frac{\$75\ 000}{\$300\ 000} \times 100$ | 25.00% |
| Net profit/sales | $\frac{\$27\ 990}{\$300\ 000} \times 100$ | 9.33% |
| Return on capital employed | $\frac{\$27\ 900}{\$240\ 000} \times 100$ | 11.66% |

**(b)** Though Gross profit has increased in monetary terms but Gross profit/sales (margin) has remained constant showing a consistent performance on trading activities.
Like Gross profit the amount of net profit has also increased in monetary terms but Net profit margin has fallen despite an increase in sales. This shows increase in operating expenses at a faster rate than sales.

Return on capital employed has also decreased marginally indicating that business was unable to fully utilize the amount of capital employed within the business.

## QUESTION 19 — NOVEMBER 2013 P21 Q4

**(a)** Working capital (current) ratio

$$= \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$= \frac{\$20\,000+\$16\,600+\$1\,400+\$1\,750+\$250}{\$19\,000}$$

$$= \frac{\$40\,000}{\$19\,000}$$

$$= 2.11:1$$

Quick ratio (acid test)

$$= \frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$$

$$= \frac{\$40\,000 - \$20\,000}{\$19\,000}$$

$$= 1.05:1$$

**(b)** **(i)** The working capital (current) ratio has fallen from 4:1 in 2012 to 2.10:1 in 2013. The quick (acid test) ratio has fallen from 2:1 in 2012 to 1.05:1 in 2013. The liquidity ratios show business is less liquid in 2013 than in 2012. Both ratios are though decreasing but are within acceptable parameters i.e. the working capital (current) ratio is slightly better than acceptable parameters i.e. 2:1 and the quick (acid test) ratio is also slightly better than acceptable parameters i.e. 1:1.

**(ii)** Reduction in liquidity ratios may be due to the following

- A loss in 2013
- Purchase of new non-current assets
- Drawings by the owner for personal use
- Repayment of long-term loan
- Decrease in rate of inventory turnover
- Increase in collection period for trade receivables
- Reduction in payment period for trade payables

**(c)**

- Sale of surplus non-current assets
- Injection of additional capital within the business
- Reduction in personal cash and stock drawings

## QUESTION 20 — MAY 2014 P21 Q4

**(a)** **(i)**

| | | | | |
|---|---|---|---|---|
| Gross Profit | = | Sales | – | Cost of Sales |
| Cost of Sales | = | Sales | – | Gross Profit |
| | = | $300 000 | | $300 000 × 20% |
| | = | $240 000 | | |

**(ii)**

| | $ |
|---|---|
| Opening inventory | 120 000 |
| Purchases | 170 000 |
| | 290 000 |
| **Closing inventory at 1 April 2013. (balancing figure)** | **(50 000)** |
| Cost of Sales | 240 000 |

**(b)**
- High carrying cost
- More chances of Inventory becoming obsolete
- Deterioration/damage of inventory
- Higher risk of theft or pilferage
- Liquidity issues due to tying up of liquid resources in inventory.

**(c)** **(i)** Working capital ratio (current ratio)

$$= \frac{\$50\,000 + 11000 + 5000}{60\,000}$$

$$= \frac{66\,000}{60\,000}$$

$$= 1.1{:}1$$

**(ii)** Quick ratio (acid test ratio)

$$= \frac{\$11\,000 + 5\,000}{60\,000}$$

$$= \frac{\$16\,000}{60\,000}$$

$$= 0.27{:}1$$

**(d)** The working capital ratio (current ratio) is low compared to the yardstick of 2:1. This may be mainly due to a high level of trade payables

**(e)**

| | | **Current assets** | **Current liabilities** | **Working capital (current) ratio** |
|---|---|---|---|---|
| **1** | Repaid a $40 000 long term bank loan. | *Decreased $40 000* | *No effect* | *Decreased* |
| **2** | Purchased $20 000 of non-current assets on credit. | No effect | Increased $20 000 | Decreased |
| **3** | Sold inventory for $20 000 on credit (cost $15 000). | Increased $5 000 | No effect | Increased |

## QUESTION 21 MAY 2014 P22 Q4

**(a)** **Calculation of Cost of Sales**

| | $ |
|---|---|
| Opening inventory | 20 000 |
| Add Purchases | 122 000 |
| | 142 000 |
| Less Closing inventory | (16 000) |
| Cost of Sales | 126 000 |

Gross profit/sales (%) = $\frac{\text{Gross Profit}}{\text{Revenue}} \times 100$

= $\frac{\$168\,000 - \$126\,000}{\$168\,000} \times 100$

= 25%

Rate of mentor turnover = $\frac{\text{Cost of sale}}{\text{Average inventory}}$

= $\frac{\$126\,000}{(\$20\,000+\$16\,000)/2}$

= 7 times

Working capital (current) ratio = $\frac{\text{Current Asset}}{\text{Current liabilities}}$

= $\frac{\$16\,000 + \$24\,500 + \$1\,500}{\$35\,000}$

= 1.2:1

**(b)** Najla was well able to control her inventory level as her closing inventory is lower than opening inventory. As a result, the inventory turnover rate has improved from 6 to 7 times.
Najla's ability to pay her trade payables has deteriorated as her working capital (current) ratio has reduced from 1:7:1 to 1.2:1. Moreover her trade payables are more than the total liquid assets ($24 500 + $1 500). In addition, her bank balance is also very low.

**(c)** Increase in selling prices, reduction in purchase prices and more sales of higher margin items etc.

**(d)**

| **Proposals** | **Working capital** | | **Amount of change ($)** |
|---|---|---|---|
| | **increase** | **decrease** | |
| **1** | | ✓ | *$500* ($1 000 – $500) |
| **2** | ✓ | | $3 000 |
| **3** | | ✓ | $200 ($4 000 × 5%) |
| **4** | ✓ | | $2 000 |

## QUESTION 22 NOVEMBER 2014 P21 Q4

| **Ratio** | **Workings** | **Answer** |
|---|---|---|
| Percentage gross profit/sales | $\frac{\$600\,000-\$480\,000}{\$600\,000} \times 100$ | 20% |
| Percentage net profit/sales | $\frac{\$36\,000-(\$100\,000 \times 8\%)}{\$600\,000} \times 100$ | 4.7% |
| Return on capital employed (ROCE) | $\frac{\$36\,000}{\$200\,000+\$100\,000} \times 100$ | 12% |
| Working capital ratio (Current ratio) | $\frac{\$75\,000+\$45\,000+\$60\,000}{\$50\,000}$ | 3.6:1 |

**(b)** The usual accepted standard of an ideal current ratio is 2:1.The current ratio (working capital ratio) of Lai Yee is higher than it ought to be. The too high ratio reveals the overinvestment within working capital funds more than actually required.

**(c)**

| Proposals | Profit for the year | | | Capital employed | | |
|---|---|---|---|---|---|---|
| | increase | decrease | no effect | increase | decrease | no effect |
| 1 | | | ✓ | ✓ | | |
| 2 | ✓ | | | | ✓ | |
| 3 | ✓ | | | | | ✓ |
| 4 | | ✓ | | | ✓ | |

**(d)** Proposal 1 Historical cost
Proposal 2 Prudence

## QUESTION 23 NOVEMBER 2014 P22 Q4

| (a) | Workings | Answer |
|---|---|---|
| Cost of sales | $\frac{\$15\ 500 + \$24\ 500}{2}$ x 8 | $160 000 |
| Purchases | $160 000 + $24 500 – $15 500 | $169 000 |
| Percentage gross profit to sales | $\frac{\$200\ 000 - \$160\ 000}{\$200\ 000} \times 100$ | 20% |
| Expenses | [$200 000 x (20% – 7%)] | $26 000 |
| Net profit | $200 000 x 7% | $14 000 |

**(b)**

| Adjustment | Effect on inventory value | | Value |
|---|---|---|---|
| | increase | decrease | |
| 1 | ✓ | | *$50* |
| 2 | | ✓ | $100 (10 units @ $10) |
| 3 | | ✓ | $400 (4 units @ $100) |
| 4 | | ✓ | $180 ($200 – $20) |

## QUESTION 24 MAY 2015 P21 Q4 (a to c)

**(a)** **(i)**

| | | | | |
|---|---|---|---|---|
| Cost of goods sold | = | Sales | – | Gross profit |
| X | = | $900 000 | – | 0.20x |
| 1.20x | = | $900 000 | | |
| X | = | $750 000 | | |

**(ii)**

| | | | | |
|---|---|---|---|---|
| Profit for the year | = | Gross Profit | – | Expenses |
| | = | ($750 000 × 20%) | – | ($105 000 |
| | = | $45 000 | | |

**(b)**

| | Workings | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | $\frac{\$45\ 000 \times 100}{\$900\ 000}$ | 5% | 5% |
| Rate of inventory turnover | $\frac{\$750\ 000}{(\$65\ 000+\$35\ 000)/2}$ | 15 times | 7 times |
| Return on capital employed (ROCE) | $\frac{\$45\ 000}{\$300\ 000+\$150\ 000}$ | 10% | 4% |

**(c)** The net profit margin has remained unchanged at 5%. It reveals consistent performance of the business. It also signifies that cost of sales and expenses as a proportion of sales have remained unchanged.

Rate of inventory turnover has increased substantially. This shows that business was able to increase the frequency with which inventory is turned into sales. There was also a reduction in inventory level and is under control

Return on capital employed has improved. It signifies more efficient use of long-term funds in 2015. This could also be due to higher total amount of profits.

## QUESTION 25 MAY 2015 P22 Q4

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(a)** | **(i)** | Sales | = | Cost of sales | + | Gross profit | | |
| | | | = | \$125 000 | + | (\$125 000 × 20%) | | |
| | | | | \$150 000 | | | | |
| | **(ii)** | Purchases | = | Cost of sales | + | Closing inventory | – | Opening inventory |
| | | | = | \$125 000 | + | \$35 000 | – | \$15 000 |
| | | | = | \$145 000 | | | | |
| | **(iii)** | Expenses | = | Gross Profit | – | Profit for the year | | |
| | | | = | (\$125 000 × 20%) | – | (\$150 000 × 5%) | | |
| | | | = | \$17 500 | | | | |

| **(b)** | **Workings** | **31 March 2015** | **31 March 2014** |
|---|---|---|---|
| Gross profit margin (gross profit to revenue) | $\frac{\$25\ 000}{\$150\ 000} \times 100$ | 16.67% | 25.61% |
| Return on capital employed (ROCE) | $\frac{\$7\ 500}{\$40\ 000+\$10\ 000} \times 100$ | 15.00% | 12.00% |
| Rate of turnover of Inventory | $\frac{\$125\ 000}{(\$15\ 000+\$35\ 000)/2}$ | 5.00 times | 2.82 times |
| Quick ratio (acid test ratio) | $\frac{\$25\ 000}{\$70\ 000+\$30\ 000}$ | 0.25:1 | 0.91:1 |

**(c)** **Profitability**

Gross profit margin has deteriorated from 25.61% to 16.67%, whereas ROCE has improved during the same period. Selling prices may have been cut to increase sales volume resulting in higher inventory turnover rate. Better ROCE may also indicate that expenses have been better controlled in 2015.

**Liquidity**

Quick or liquid ratio has deteriorated to a very low level. The inventory levels have significantly increased in the year. Trade payables are very high but due to bank overdraft of \$30 000; no cash is available to pay trade payables. This may result in the risk of bankruptcy because of not paying to trade payables.

## QUESTION 26 NOVEMBER 2015 P21 Q4

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(a)** | **(i)** | Sales | = | Cost of sales | + | Gross profit | | |
| | | | = | \$90 000 | + | (\$90 000 × 40%) | | |
| | | | | \$126 000 | | | | |
| | **(ii)** | Purchases | = | Cost of sales | + | Closing inventory | – | Opening inventory |
| | | | = | \$90 000 | + | \$37 000 | – | \$11 000 |
| | | | = | \$116 000 | | | | |
| | **(iii)** | Expenses | = | Gross Profit | – | Profit for the year | | |
| | | | = | (\$90 000 × 40%) | – | \$18 900 | | |
| | | | = | \$17 100 | | | | |

**(b)**

| | Workings | 30 Sept 2015 | 30 Sept 2014 |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | $\frac{\$18\,900}{\$126\,000} \times 100$ | 15.00% | 12.13% |
| Rate of inventory turnover | $\frac{\$90\,000}{(\$11\,000 + \$37\,000)/2}$ | 3.75 times | 2.00 times |
| Working capital ratio (current ratio) | $\frac{\$37\,000 + \$14\,200 + \$2\,800}{\$27\,000}$ | 2.00:1 | 2.60:1 |
| Quick ratio (acid test ratio) | $\frac{\$14\,200 + \$2\,800}{27\,000}$ | 0.63:1 | 1.10:1 |

**(c)** **(i)** Inventory turnover has increased from2 times to 3.75 times. It reveals that inventory is being sold at a faster rate. This is perhaps due to substantial increase in inventory levels as closing inventory is $26 000 more than the opening inventory. There should be an optimum inventory level keeping in view the sales demands.

**(ii)** Both liquidity ratios have fallen in the year**.** Although the current ratio is at the benchmark level of 2:1, but the quality of current assets does not seem to be good as almost 69% of the current assets comprise of inventory (which is considered as the least liquid current asset). Quick ratio is lower than the yardstick of 1:1 but is still at an acceptable level. However, the cash position looks very weak; so unless business has consistent and regular cash flow from inventories and trade receivables, it may face problems in paying off its trade payables as and when they fall due.

## QUESTION 27 NOVEMBER 2015 P22 Q4

**(a)**

| | Workings | | Answer |
|---|---|---|---|
| Inventory at 1 August 2014 | Cost of sales [$380 000 – ($380 000 × 25%)]+ Closing inventory ($65 000) – Purchases ($295 000) | = | $55 000 |
| Rate of inventory turnover | $\frac{\$285\,000}{[\$55\,000\ (a) + \$65\,000)/2}$ | = | 4.75 times |
| Expenses paid for the year | Gross profit ($380 000 × 25%) – Profit for the year ($35 000) = Expenses ($60 000) – Accrued ($8 000) | = | $52 000 |
| Working capital (current) ratio | $\frac{\$65\,000 + \$42\,000 + \$13\,000}{\$52\,000 + \$8\,000}$ | = | 2:1 |
| Quick ratio (acid test ratio) | $\frac{\$42\,000 + \$13\,000}{\$52\,000 + \$8\,000}$ | = | 0.92:1 |

**(b)**

| | Proposal | Working capital (Increase, decrease, no effect) | Amount $ |
|---|---|---|---|
| **1** | Sell excess non-current assets for $4 000 | *Increase* | *4 000* |
| **2** | Sell old inventory costing $15 000, for $9 000 cash | Decrease | 6 000 |
| **3** | Allow a trade receivable 5% cash discount for early payment of a debt of $10 000 | Decrease | 500 |
| **4** | Pay expenses accrued of $8 000 | No effect | Nil |
| **5** | Bring additional capital into the business, motor vehicle $5 000 and cash $1 000 | increase | 1 000 |

## QUESTION 28 MAY 2016 P21 & 22 Q4

| | Workings | Answer | 2014 |
|---|---|---|---|
| Gross profit/sales percentage | $\frac{\$100\ 000 + \$200\ 000}{\$750\ 000}$ x 100 | 40% | 37.5% |
| Return on capital employed (ROCE) | $\frac{\$100\ 000}{\$250\ 000 + \$80\ 000}$ x 100 | 30.3% | 20% |
| Working capital ratio (current ratio) | $\frac{\$60\ 000+\$22\ 000+\$1\ 500+\$28\ 000}{\$50\ 000 +\$8\ 500}$ | 1.9:1 | 2.9:1 |
| Quick ratio (acid test ratio) | $\frac{\$22\ 000+\$1\ 500+\$28\ 000}{\$50\ 000 +\$8\ 500}$ | 0.9:1 | 0.4:1 |

**(b)** **(i)** **Profitability**

There has been an improvement in 'Gross profit to sales ratio' in 2016. This may be due to increase in selling prices or more efficient/bulk buying.

The ROCE has significantly increased in 2016 from 20% to 30.3%. Lache controlled his expenses in a better way in 2016.

The profit for the year has doubled in 2016 with the increase in long term capital employed of the business.

**(ii)** **Liquidity**

Despite the Working capital ratio has reduced, the liquidity of the business has improved as can be seen in the improvement of quick ratio from a critical level of 0.4 to 0.9 which is good from short term solvency's point of view.

Inventory level has significantly reduced indicating the reduction in Inventory holding period which is favourable sign for the business.

Trade receivables have also reduced revealing early collection from them.

Negative bank balance has converted into a positive bank balance indicating better ability of the business to meet working requirements of the business.

## QUESTION 29 NOVEMBER 2016 P21 Q4

**(a)**

| Ratio | Workings | Answer | Year ended 30 September 2015 |
|---|---|---|---|
| Revenue | $\frac{\$240\ 000 \times 100}{75}$ | 320 000 | $220 000 |
| Working capital ratio (Current ratio) | $\frac{\$120\ 000+ \$130\ 000}{\$180\ 000+\$20\ 000}$ | 1.25:1 | 1.93:1 |
| Quick ratio (acid test ratio) | $\frac{\$120\ 000}{\$180\ 000+\$20\ 000}$ | 0.60:1 | 1.12:1 |

**(b)** There has been significant increase in revenue in 2016. Though increase in revenue usually brings more profits for the business but may also result in liquidity issues. This is due to increase in working capital requirements as can be seen in high levels of inventory, trade receivables and trade payables with negative bank balance.

Working capital ratio has deteriorated from an acceptable level of 1.93:1 to below par level of 1.25:1.

Quick ratio has also deteriorated to 0.60:1 which is again below the accepted 'yardstick' for liquidity. This indicates poor ability of the business to meet its current obligations in due course of time as the business had no cash to pay expenses and trade payables.

**(c)**

| Proposal | Effect on Current assets | Effect on Current liabilities | Effect on Working capital |
|---|---|---|---|
| Sell $15 000 non-current assets for cash. | *+ $15 000* | *No effect* | *+$15 000* |
| Introduce additional capital of $10 000, consisting of $5 000 in cash and $5 000 non-current assets. | +$5 000 | No effect | +$5 000 |
| Obtain an additional bank loan for $30 000, repayable in equal instalments over five years. | +$30 000 | +$6 000 ($^1/_5$) | +$24 000 |
| Offer trade receivables a cash discount of 10% for quick payment. Credit customers owing $60 000 will accept this offer. | –$6 000 | No effect | –$6 000 |

## QUESTION 30 NOVEMBER 2016 P22 Q4 (a & b)

**(a)**

| | Workings | Answer | Comparative figures for previous year |
|---|---|---|---|
| Revenue for the year | $\frac{\$168\ 000\ (\text{W 1}) \times 100}{75}$ | $224 000 | $200 000 |
| Percentage mark up | $\frac{\$56\ 000\ (\text{W 2})}{\$168\ 000\ (\text{W 1})} \times 100$ | 33.33% | 27% |
| Expenses for the year | $56 000 (W 1) – $11 200 (W 3) Or $224 000 (Revenue) × 20% (25% – 5%) | $44 800 | 36 000 |
| Return on capital employed (ROCE) | $\frac{\$11\ 200\ (\text{W 3})}{\$60\ 000+\$20\ 000} \times 100$ | 14% | 21% |

**WORKINGS**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **(W 1)** | Cost of Sales | = | Opening Inventory | + | Purchases | – | Closing Inventory |
| | | = | $29 000 | + | $170 000 | – | $31 000 |
| | | = | $168 000 | | | | |
| **(W 2)** | Gross Profit | = | Revenue (Sales) | – | Cost of Sales | | |
| | | = | $224 000 ('a' part) | – | $168 000 (W 1) | | |
| | | = | $56 000 | | | | |
| **(W 3)** | Profit for the year | = | Revenue (Sales) | × | 5% | | |
| | | = | $224 000 ('a' part) | × | 5% | | |
| | | = | $11 200 | | | | |

**(b)** Revenue has increased by 12% in 2016 despite increase in mark-up percentage. This may be due to intensive sales and marketing efforts.

The percentage mark-up has also increased in 2016, this may be due to increase in sales prices or decrease in buying costs.

There has been an increase in operating expenses both in value and in proportion to revenue indicating higher sales and administrative expenses

The return on capital employed (ROCE) has decreased in the current year, this may be due to proportionately higher expenses or increase in capital employed in current year which has not yet been fully used up.

# MAY 2014 - PAPER 21

## QUESTION 1

Akma received the following bank statement on 30 April 2014:

| Date | Details | Debit $ | Credit $ | Balance $ |
|---|---|---|---|---|
| 1 April | Balance | 88 | | 614 Dr |
| 2 April | Cheque – Stanning | | | 702 Dr |
| 10 April | Cash receipt | | 1204 | 502 Cr |
| 12 April | Cheque – Chong | 640 | | 138 Dr |
| 18 April | Paying in – Trinity Stores | | 780 | 642 Cr |
| 20 April | Cheque – Pang | 94 | | 548 Cr |
| 22 April | Charges | 16 | | 532 Cr |
| 25 April | MDA Electricity – S.O. | 104 | | 428 Cr |
| 28 April | Dividend receipt | | 41 | 469 Cr |

Akma compared the bank statement with her cash book.

**REQUIRED**

**(a)** Bring the cash book of Akma up to date. Balance the cash book and bring down the balance.

**Cash Book (bank columns)**

| | | $ | | | $ |
|---|---|---|---|---|---|
| 8 April | Sales | 1204 | 1 April | Balance b/d | 614 |
| 18 April | Trinity Stores | 780 | 2 April | Stanning | 88 |
| 23 April | Xain | 73 | 8 April | Chong | 640 |
| 24 April | Li Ye | 37 | 23 April | Zaine | 59 |
| | | | 27 April | Pang | 94 |

**[5]**

**(b)** Prepare the bank reconciliation statement at 30 April 2014. **[4]**

**(c)** State the meaning of the accounting abbreviation S.O. **[1]**

On 1 April, Trinity Stores owed Akma $800. During the month of April, Akma recorded the following transactions with Trinity Stores.

**8 April** Akma supplied goods to Trinity Stores with a list price of $900, less 20% trade discount.
**10 April** Trinity Stores returned goods supplied by Akma on 8 April with a list price of $100.
**18 April** Trinity Stores paid the balance due on 1 April less 2½% cash discount.

**REQUIRED**

**(d)** Prepare the account of Trinity Stores in the books of Akma. Balance the account and bring down the balance. **[6]**

**(e)** Name the document that Akma would issue to Trinity Stores on 10 April. **[1]**

**(f)** State **two** reasons why Akma might give Trinity Stores trade discount. **[2]**

## QUESTION 2

Ghani is preparing his financial statements. He provided the following information.

| | | | |
|---|---|---|---|
| 1 April 2013 | Balances b/d | Insurance | $500 Dr |
| | | Commission receivable | $250 Cr |

Cash book entries 1 April 2013 to 31 March 2014:

| | |
|---|---|
| Insurance paid by cheque | $4 000 |
| Commission received by cheque | $1 200 |

On 31 March 2014:

1 Insurance of $150 was prepaid

2 Commission receivable of $200 was due to Ghani.

**REQUIRED**

**(a)** Prepare the following ledger accounts, for the year ended 31 March 2014, showing the transfer to the income statement. Balance the accounts and bring down the balances. **[8]**

On reviewing his purchases account, Ghani found the following errors.

**1.** Goods purchased for cash, $450, had **not** been recorded in the books.

**2.** Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590.

**3.** A purchase of a motor vehicle, $6 000, had been recorded in the purchases account.

**4.** Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account.

**REQUIRED**

**(b)** Prepare journal entries to correct the errors in **1 to 4** above. Narratives are **not** required. **[6]**

**(c)** Complete the table below naming the type of error and the effect on the gross profit of correcting the error. The first item has been completed as an example.

| | | **Type of error** | **Effect on gross Profit** |
|---|---|---|---|
| **1** | Goods purchased for cash, $450, had not been recorded in the books. | *Omission* | *Decrease $450* |
| **2** | Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590. | | |
| **3** | A purchase of a motor vehicle, $6 000, had been recorded in the purchases account. | | |
| **4** | Goods purchased from Y Li, $820, had been credited to the purchases account and debited to Y Li's account. | | |

**[6]**

## QUESTION 3

The Millennium Social Club provides a meeting place for members. The club also runs a café for the sale of refreshments.

The treasurer of the Millennium Social Club does not maintain a full set of double entry records, but has produced the following information for the year ended 30 April 2014.

**Receipts and Payments Account for the year ended 30 April 2014**

| Receipts | $ | Payments | $ |
|---|---|---|---|
| Balance b/d | 2 250 | General expenses | 7 600 |
| Subscriptions | 5 800 | Rent | 4 000 |
| Café takings | 41 000 | Payments to café suppliers | 12 400 |
| Donations | 3 100 | Wages & taxes of café manager | 14 000 |
| | | Heat and light | 1 000 |
| | | Bank loan | 2 800 |
| | | Purchase of equipment and fixtures | 700 |
| | | Balance c/d | 9 650 |
| | 52 150 | | 52 150 |
| Balance b/d | 9 650 | | |

**Additional information**

**1** Balances at:

| | 1 May 2013 | 30 April 2014 |
|---|---|---|
| | $ | $ |
| Subscriptions in advance | 750 | 400 |
| Subscriptions in arrears | — | 600 |
| Trade payables for café supplies | 1 250 | 1 100 |
| Inventory of café supplies | 930 | 790 |
| Heat and light due | 520 | 720 |
| Equipment and fixtures (at valuation) | 11 200 | 10 100 |
| 8% Bank loan | 10 000 | ? |
| Café manager's wages and employment taxes due | — | ? |

**2** The café manager's wages and employment taxes for the month of April 2014 were outstanding. In April 2014 she had worked a total of 180 hours.

160 hours were paid at $6 per hour
20 hours were paid at time and a half

Employee's tax and social security of $240 would be deducted from the gross pay.
The Millennium Social Club would pay 10% of the café manager's gross pay as an employer's contribution to social security.

**3** The 8% bank loan repayment included the interest due for the year.
**4** Half of the heat and light relates to the café.
**5** Half of the equipment and fixtures are used in the café.

**REQUIRED**

**(a)** Calculate the café manager's net pay for April 2014 **[3]**

**(b)** Prepare the café income statement for the year ended 30 April 2014. **[7]**

**(c)** Prepare the income and expenditure account for the year ended 30 April 2014. **[10]**

## QUESTION 4

Demetris is a trader, buying and selling goods on credit. The following information was available on 31 March 2014.

| | $ |
|---|---|
| Revenue | 300 000 |
| Inventory 31 March 2014 | 50 000 |
| Purchases | 170 000 |
| Capital | 100 000 |
| Bank | 5 000 Dr |
| Trade payables | 60 000 |
| Trade receivables | 11 000 |
| | |
| Gross profit/sales | 20% |

**REQUIRED**

**(a)** Calculate the:

**(i)** Cost of goods sold. **[2]**

**(ii)** Inventory at 1 April 2013. **[3]**

**(b)** Suggest **two** possible effects of holding too much inventory. **[2]**

**(c)** Calculate, to **two** decimal places, the:

**(i)** Working capital ratio (current ratio) **[3]**

**(ii)** Quick ratio (acid test ratio) **[3]**

**(d)** Comment upon the sufficiency of the working capital ratio (current ratio). **[2]**

During the year ended 31 March 2014, Demetris took the following actions.

1 Repaid a $40 000 long term bank loan.

2 Purchased $20 000 of non-current assets on credit.

3 Sold inventory for $20 000 on credit (cost $15 000).

**REQUIRED**

**(e)** Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio) for each of the actions **1 to 3** above. The first item has been completed as an example.

| | | Current assets | Current liabilities | Working capital ratio (current ratio) |
|---|---|---|---|---|
| 1 | Repaid a $40 000 long term bank loan. | *Decreased $40 000* | *No effect* | *Decreased* |
| 2 | Purchased $20 000 of non- | | | |

| | | | | |
|---|---|---|---|---|
| | current assets on credit. | | | |
| 3 | Sold inventory for $20 000 on credit (cost $15 000). | | | |

**[6]**

## QUESTION 5

Chan and Fong are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 5% per annum and is charged on drawings at the rate of 5% per annum. Fong receives a salary of $10 000 per annum. The following balances were extracted from the books on 30 April 2014.

| | $ | |
|---|---|---|
| Revenue | 480 500 | |
| Inventory at 1 May 2013 | 47 700 | |
| Purchases | 209 000 | |
| Returns from customers | 11 800 | |
| Returns to suppliers | 10 500 | |
| Land and buildings (cost) | 250 000 | |
| Motor vehicles (cost) | 45 000 | |
| Fixtures and fittings (cost) | 28 000 | |
| Provisions for depreciation: | | |
| Motor vehicles | 25 000 | |
| Fixtures and fittings | 12 000 | |
| Office expenses | 36 500 | |
| Motor vehicle expenses | 13 600 | |
| Selling expenses | 30 800 | |
| Wages and salaries | 80 000 | |
| Heat and light | 4 750 | |
| Bank loan interest paid | 9 000 | |
| Capital accounts: | | |
| Chan | 60 000 | |
| Fong | 40 000 | |
| Current accounts: | | |
| Chan | 1 500 | Cr |
| Fong | 4 000 | Cr |
| Drawings | | |
| Chan | 6 000 | |
| Fong | 10 000 | |
| 8% Loan repayable 30 March 2016 | 200 000 | |
| Trade receivables | 55 000 | |
| Provision for doubtful debts | 2 100 | |
| Trade payables | 36 050 | |
| Bank | 34 500 | Dr |

**Additional information**

**1** Inventory at 30 April 2014, $38 350.

**2** The motor vehicle expenses are to be apportioned one quarter to collecting goods for resale and three quarters to delivery of goods to customers.

**3** At 30 April 2014:

- **(i)** Heat and light, $750, was accrued
- **(ii)** Office expenses, $4 000, were prepaid.

**4** Half of Fong's $10 000 salary had been paid to him and posted to the wages and salaries account.

**5** Fixtures and fittings costing $2 000 purchased by cheque on 20 April 2014 had not been recorded in the books.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year:

- **(i)** Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
- **(ii)** Fixtures and fittings at the rate of 10% using the straight-line method.

**7** Trade receivables contains a debt of $7 500, which is considered irrecoverable. The provision for doubtful debts is to be maintained at 6%.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 April 2014. **[22]**

**(b)** Prepare the current accounts for the year ended 30 April 2014. **[4]**

**(c)** Prepare the statement of financial position at 30 April 2014. **[14]**

# MAY 2014 - PAPER 22

## QUESTION 1

**(a)** **(i)** Explain the difference between book-keeping and accounting. **[2]**

**(ii)** Explain the accounting entity principle. **[2]**

Fashran sells goods to Hajar. On 1 April Hajar owed Fashran $2 100. The following transactions occurred in April 2014.

| | |
|---|---|
| 5 April | Fashran sold goods on credit to Hajar, list price $2 000, less 20% trade discount. |
| 7 April | Hajar returned goods purchased on the 5 April, list price $240. |
| 18 April | Hajar paid the balance of her account at 1 April and was allowed 2% cash discount. |

**REQUIRED**

**(b)** Prepare the account of Hajar in the ledger of Fashran for April 2014. Balance the account and bring down the balance. **[5]**

**(c)** Name the document that Fashran will issue on the following dates:

| Date | | Document |
|---|---|---|
| 5 April | Fashran sold goods on credit to Hajar | |
| 7 April | Hajar returned goods to Fashran purchased on the 5 April | |
| 30 April | Fashran issues a summary of Hajar's account for the month of April | |

**[3]**

**(d)** State the sub division of the ledger in which the account of Hajar would appear. **[1]**

The following balances were extracted from the books of Fashran on 30 April 2014.

| | $ |
|---|---|
| Trade payables | 6 450 |
| Trade receivables | 9 230 |
| Revenue | 68 400 |
| Purchases | 29 800 |
| Inventory 1 May 2013 | 5 100 |
| Expenses | 22 350 |
| Bank overdraft | 830 |
| Non-current assets | 24 000 |
| Provision for depreciation – Non-current assets | 7 800 |

**REQUIRED**

**(e)** Prepare the trial balance showing Fashran's capital at 30 April 2014. **[5]**

## QUESTION 2

On 1 April 2014, Yee's sales ledger control account showed the following balances: $20 450 debit and $600 credit.

During April the following transactions were recorded:

| | $ |
|---|---|
| Credit sales | 50 500 |
| Cash sales | 10 000 |
| Returns from credit customers | 700 |
| Receipts from credit customers | 48 600 |
| Refunds to credit customers | 750 |
| Discount allowed | 1 200 |
| Bad debt written off | 800 |

On 1 May 2014, Yee's sales ledger control account showed a credit balance of $180. The debit balance is to be determined.

**REQUIRED**

**(a)** Prepare the sales ledger control account for the month of April 2014. Balance the account and bring down the balances. **[7]**

On inspection of her ledger, Yee discovered the following errors:

**1** A cheque received from D Moy, $450, had been posted to the account of D Kay.

**2** An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970.

**3** Discount received, $45, had been debited to the discount received account and credited to F Tay.

**4** Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.

**REQUIRED**

**(b)** Prepare the journal entries to correct the errors in **1 to 4** above. Narratives are **not** required. **[8]**

**(c)** Complete the following table to name the type of error in **1 to 4** given above. The first item has been completed as an example.

| | | **Type of error** |
|---|---|---|
| **1** | A cheque received from D Moy, $450, had been posted to the account of D Kay. | *Commission* |
| **2** | An invoice for goods received, costing $790, had been recorded in the purchases journal as $970. | |
| **3** | Discount received, $45, had been debited to the discount received account and credited to F Tay. | |
| **4** | Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account. | |

**[3]**

**(d)** State **two** reasons why a suspense account would be used. **[2]**

## QUESTION 3

Cadmore Limited is a manufacturing business. The following information is available for the month of April 2014.

| Inventory at 1 April 2014: | $ |
|---|---|
| Raw materials | 10 830 |
| Work in progress | 12 700 |
| Finished goods | 25 800 |
| Factory wages | 60 690 |
| Office wages | 24 750 |
| Purchases of raw materials | 80 670 |
| Depreciation of factory machinery | 7 000 |
| Depreciation of office equipment | 5 000 |
| Rent of factory building | 2 000 |
| Rent of office building | 1 000 |
| Royalties | 7 500 |
| Factory management salaries | 10 750 |
| Office management salaries | 32 000 |
| Revenue | 290 450 |
| Insurance | 1 250 |
| General expenses | 8 000 |

**Additional information**

**1** Inventory at 30 April 2014:

| | |
|---|---|
| Raw materials | $12 400 |
| Work in progress | $9 980 |
| Finished goods | $24 700 |

**2** Insurance is to be apportioned 80% to the factory, 20% to the office.

**3** General expenses: $5 000 relate to the factory and $3 000 to the office.

**REQUIRED**

**(a)** **(i)** Explain the term direct cost. **[1]**

**(ii)** State **two** direct costs incurred by Cadmore Limited. **[2]**

**(b)** Prepare the manufacturing account of Cadmore Limited for the month ended 30 April 2014. **[11]**

One of the factory workers of Cadmore Limited worked a total of 220 hours in April 2014.

160 hours were paid at $8 per hour
40 hours were paid at time and a half
20 hours were paid at double time

Tax and social security of $240 was deducted from the factory worker's gross pay.

**REQUIRED**

**(c)** Calculate the factory worker's net pay for April 2014. **[3]**

Cadmore Limited must pay an additional 10% of the factory worker's gross pay for employer's tax and social security contributions.

**REQUIRED**

**(d)** Calculate the total employee's and employer's tax and social security payment to the tax authorities for the factory worker in April 2014. **[3]**

## QUESTION 4

Najla provided the following information for the year ended 31 March 2014.

| | $ |
|---|---|
| Revenue | 168 000 |
| Inventory 1 April 2013 | 20 000 |
| Inventory 31 March 2014 | 16 000 |
| Purchases | 122 000 |
| Trade receivables | 24 500 |
| Trade payables | 35 000 |
| Capital | 100 000 |
| Bank | 1 500 Dr |

**REQUIRED**

**(a)** Calculate the:

Cost of goods sold
Gross profit/sales percentage
Rate of inventory turnover
Working capital ratio (current ratio) **[10]**

In the previous year, ended 31 March 2013, Najla calculated the following ratios:

Gross profit /sales percentage 20%
Rate of inventory turnover 6 times
Working capital ratio (current ratio) 1.7:1

**REQUIRED**

**(b)** Comment upon the performance of Najla under the following headings, using the information above and your answer in **(a)**.

Controlling inventory
Ability to pay trade payables **[4]**

**(c)** Suggest **two** possible reasons for the change in gross profit/sales percentage. **[2]**

Najla is considering the following proposals to improve his working capital.

**1** Sell obsolete inventory costing $1 000 for cash $500.
**2** Sell non-current assets for $3 000 cash.
**3** Allow trade receivables to pay debts of $4 000 less 5% cash discount.
**4** Bring $5 000 additional capital into the business: Motor vehicle $3 000 and cash $2 000.

**REQUIRED**

**(d)** Complete the following table showing the changes to working capital. The first proposal has been completed as an example.

| Proposals | Working capital | | Amount of change ($) |
|---|---|---|---|
| | increase | decrease | |
| 1 | | ✔ | *$500* |
| 2 | | | |
| 3 | | | |
| 4 | | | |

**[6]**

## QUESTION 5

Franco is in business as a sole trader. The following balances were extracted from his books on 31 January 2014.

| | $ | |
|---|---|---|
| Land and buildings (cost) | 150 000 | |
| Fixtures and fittings (cost) | 30 000 | |
| Computer equipment (cost) | 70 000 | |
| Provisions for depreciation: | | |
| Land and buildings | 20 000 | |
| Fixtures and fittings | 13 500 | |
| Computer equipment | 34 000 | |
| Disposal account | 500 | Cr |
| 8% Bank loan (repayable 30 April 2020) | 100 000 | |
| Bank | 17 430 | Dr |
| Trade receivables | 45 000 | |
| Trade payables | 37 650 | |
| Provision for doubtful debts | 1 400 | |
| Revenue | 362 500 | |
| Purchases | 172 400 | |
| Returns inwards | 7 200 | |
| Returns outwards | 8 800 | |
| Inventory at 1 February 2013 | 17 970 | |
| Distribution expenses | 16 300 | |
| Insurance | 5 900 | |
| Light and heat | 7 850 | |
| Wages and salaries | 69 500 | |
| Marketing expenses | 31 000 | |
| General expenses | 9 200 | |
| Commission received | 11 400 | |
| Drawings | 20 000 | |
| Capital | 80 000 | |

**Additional information at 31 January 2014**

**1** Inventory was valued at $15 600.

**2** Wages and salaries includes $15 000 drawings by Franco.
3 Marketing expenses, $6 750, were prepaid.
**4** No interest had been paid on the bank loan.
**5** Computer equipment costing $8 000 was purchased by cheque on 25 January 2014. No entries had been made in the books.
**6** Depreciation policy is as follows:
  **(i)** The buildings are depreciated at the rate of 2% per annum using the straight line method. Land and buildings consists of land, cost $50 000, and buildings, cost $100 000. No depreciation is charged on the land.
  **(ii)** Fixtures and fittings at the rate of 15% per annum using the straight line method.
  **(iii)** Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.
**7** Trade receivables, $3 000, were considered irrecoverable. A provision for doubtful debts of 5% is to be maintained.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 31 January 2014. **[24]**
**(b)** Prepare the statement of financial position at 31 January 2014. **[16]**

# NOVEMBER 2014 - PAPER 21

## QUESTION 1

Adil's transactions in August 2014 included the following.

| | |
|---|---|
| August 2 | Purchased goods on credit from Tiara, $1 500, less 20% trade discount. |
| August 5 | Returned goods to Tiara, list price $300. |
| August 7 | Paid a cheque to Tiara, $500, after deducting $6 cash discount. |
| August 9 | Sold non-current assets on credit to D Costa, at book value, $4 000. |

**REQUIRED**

**(a)** Complete the following table for the above transactions. The first item has been completed as an example.

| Date | Source document | Book of prime entry | Effect on owner's capital |
|---|---|---|---|
| August 2 | *Purchase invoice* | *Purchases journal* | *No effect* |
| August 5 | | | |
| August 7 | | | |
| August 9 | | | |

**[9]**

**(b)** State the sub division of the ledger containing each of the following accounts:

| Account | Sub division of the ledger |
|---|---|
| Purchases | |
| Tiara | |
| Non-current assets | |
| D Costa | |

**[4]**

On 31 August 2014 Adil had the following balances in his books. He was aware that there were some book-keeping errors and that the trial balance would not balance.

| | $ |
|---|---|
| Non-current assets | 9 500 |
| Trade payables | 8 500 |
| Trade receivables | 7 250 |
| Inventory | 3 850 |
| Bank overdraft | 1 600 |
| Purchases | 14 400 |
| Revenue | 22 000 |
| Bank loan | 2 000 |
| Capital | 3 000 |

**REQUIRED**

**(c)** Complete the trial balance at 31 August 2014, balancing the trial balance by the use of an appropriate account. **[5]**

## QUESTION 2

The following information relates to the delivery vehicles of Swift Limited.

| | |
|---|---|
| 1 July 2012 | Purchased delivery vehicle 1 for $15 000. |
| 1 July 2013 | Purchased delivery vehicle 2 for $20 000. |
| 30 June 2014 | Disposed of delivery vehicle 1 and received a cheque for $8 000. |

Depreciation is charged at the rate of 20% using the diminishing (reducing) balance method.

**REQUIRED**

**(a)** State **two** causes of depreciation of a delivery vehicle. **[2]**

**(b)** Complete the following table to show the depreciation charged for the years ended 30 June 2013 and 30 June 2014.

| **Year ended** | **Delivery vehicle 1** | **Delivery vehicle 2** | **Total for year** |
|---|---|---|---|
| | **$** | **$** | **$** |
| 30 June 2013 | | | |
| 30 June 2014 | | | |
| Total | | | |

**[3]**

**(c)** Prepare the provision for depreciation of delivery vehicles account for the year ended 30 June 2014. Balance the account and bring down the balance. **[4]**

**(d)** Prepare the journal entries to record the disposal of delivery vehicle 1. Narratives are **not** required. **[6]**

**(e)** Prepare an extract from the statement of financial position at 30 June 2014, showing the delivery vehicles. **[2]**

Swift Limited are considering the following expenditure on delivery vehicle 2.

1 Replacement tyres
2 A new trailer
3 An annual maintenance service.

**REQUIRED**

**(f)** State whether each of the items 1, 2 and 3 above is capital expenditure or revenue expenditure. **[3]**

## QUESTION 3

Wing Limited had the following balances in its books after the calculation of the profit for the year ended 30 September 2014.

| | $ |
|---|---|
| Profit from operations (before debenture interest) | 78 000 |
| Issued and called up share capital: | |
| 50 000 8% $1 Preference shares | 50 000 |
| 80 000 $1 Ordinary shares | 80 000 |
| 6% Debentures (31 December 2025) | 100 000 |
| Interim dividend paid 31 March 2014: | |
| Preference | 2 000 |
| Ordinary | 8 000 |
| General reserve | 55 000 |
| Retained profit 1 October 2013 | 35 000 |

**Additional information**

On 30 September 2014, the directors decided to:

**1** increase the general reserve to $80 000

**2** pay the remaining preference dividend

**3**

pay a final ordinary share dividend of $0.25 per share.

**REQUIRED**

**(a)** Prepare the appropriation account for Wing Limited for the year ended 30 September 2014. **[10]**

**(b)** Prepare an extract from the statement of financial position for the capital and reserves of Wing Limited at 30 September 2014. **[6]**

**(c)** State **two** differences between ordinary shares and debentures. **[2]**

**(d)** State **one** reason for maintaining a general reserve. **[1]**

**(e)** State **one** reason why International Accounting Standards are important when preparing the financial statements of a limited company. **[1]**

## QUESTION 4

Lai Yee provided the following information.

| | $ | |
|---|---|---|
| Profit from operations (before bank loan interest) | 36 000 | |
| Capital | 200 000 | |
| Trade payables | 50 000 | |
| Trade receivables | 45 000 | |
| 8% Bank loan (repayable 2024) | 100 000 | |
| Bank | 60 000 | Dr |
| Closing inventory | 75 000 | |
| Cost of sales | 480 000 | |
| Revenue | 600 000 | |

**REQUIRED**

**(a)** Calculate to **one** decimal place:

| Ratio | Workings | Answer |
|---|---|---|
| Percentage gross profit/sales | | |
| Percentage net profit/sales | | |
| Return on capital employed (ROCE) | | |
| Working capital ratio (Current ratio) | | |

**[12]**

**(b)** Comment upon the sufficiency of the working capital ratio (current ratio). **[2]**

Lai Yee is considering ways in which she might improve her return on capital employed (ROCE).

She is considering the following proposals.

1 Introduce additional capital of $10 000.
2 Repay half of the 8% bank loan.
3 Sell $20 000 non-current assets, saving $3 000 in depreciation.
4 Convert $25 000 of the 8% bank loan into a bank overdraft at 12% interest per annum.

**REQUIRED**

**(c)** Complete the following table, by placing a tick (√) in the appropriate box, to show the effect on the profit for the year and the capital employed.
The first item has been completed as an example.

| **Proposals** | **Profit for the year** | | | **Capital employed** | | |
|---|---|---|---|---|---|---|
| | **increase** | **decrease** | **no effect** | **increase** | **decrease** | **no effect** |
| **1** | | | | | | |
| **2** | | | | | | |
| **3** | | | | | | |
| **4** | | | | | | |

**[6]**

Lai Yee is also considering improving her profit for the year by:

1 revaluing her business premises to the market value of $120 000 (cost $100 000)
2 removing the provision for doubtful debts.

**REQUIRED**

**(d)** Name which accounting concept would **not** be complied with if Lai Yee implemented her proposals. **[2]**

## QUESTION 5

Nikolas is a manufacturer. The following balances were extracted from his books on 31 July 2014.

| | **$** |
|---|---|
| Capital | 80 000 |
| Drawings | 20 000 |

| | | |
|---|---|---|
| Machinery (cost) | 125 000 | |
| Office fixtures (cost) | 55 000 | |
| Provisions for depreciation: | | |
| Machinery | 75 000 | |
| Office fixtures | 16 500 | |
| Bank | 27 700 | Dr |
| Purchases of raw materials | 132 500 | |
| Inventory at 1 August 2013: | | |
| Raw materials | 15 000 | |
| Work in progress | 31 400 | |
| Finished goods | 40 000 | |
| Revenue | 505 000 | |
| Royalties | 15 000 | |
| Indirect factory expenses | 12 750 | |
| Factory wages | 90 800 | |
| Insurance | 6 200 | |
| Rent | 11 000 | |
| Production managers' salaries | 38 250 | |
| Office wages and salaries | 56 000 | |
| Selling expenses | 19 600 | |
| Distribution costs | 31 500 | |
| Sundry office expenses | 19 800 | |
| 8% Loan (repayable 31 May 2024) | 60 000 | |
| Loan interest paid | 3 500 | |
| Provision for doubtful debts | 1 500 | |
| Trade receivables | 58 000 | |
| Trade payables | 71 000 | |

Additional information at 31 July 2014

**1** Inventory was valued as follows:

| | **$** |
|---|---|
| Raw materials | 17 500 |
| Work in progress | 26 000 |
| Finished goods | 42 500 |

**2** Sundry office expenses prepaid $1 400.

**3** Insurance included a payment of $4 800 for the year ended 31 October 2014.

**4** Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

**5** Depreciation is to be charged as follows:

**(i)** machinery at 20% per annum using the diminishing (reducing) balance method

**(ii)** office fixtures at 10% using the straight-line method.

**6** Nikolas took $7 500 of finished goods for his own use.

**7** A debt of $3 000 was considered irrecoverable. A provision for doubtful debts is to be maintained at 4%.

**REQUIRED**

| | | |
|---|---|---|
| **(a)** | Prepare the manufacturing account for the year ended 31 July 2014. | **[14]** |
| **(b)** | Prepare the income statement for the year ended 31 July 2014. | **[13]** |
| **(c)** | Prepare the statement of financial position at 31 July 2014. | **[13]** |

# NOVEMBER 2014 - PAPER 22

## QUESTION 1

Maria had the following assets and liabilities on 1 May 2014.

| | $ | |
|---|---|---|
| Inventory | 1 950 | |
| Amount payable – Midland Telecoms | 400 | |
| Bank | 550 | Dr |
| 5% Bank loan (repayable 30 April 2018) | 2 500 | |
| Fixtures and fittings | 1 500 | |

**REQUIRED**

**(a)** Calculate the following.

**(i)** Owner's capital **[1]**

**(ii)** Capital employed **[1]**

The following related to the purchase of telephone services for the three months to 31 July 2014.

| | |
|---|---|
| 31 May | Paid Midland Telecoms' balance on 1 May 2014 by cheque. |
| 26 June | Received a telephone bill from Midland Telecoms $1 200. |
| 15 July | Paid telephone bill received on 26 June by cheque less 2% cash discount. |
| 31 July | Prepared an income statement for the three months to 31 July 2014. It was estimated that $130 was owing. |

**REQUIRED**

**(b)** Prepare the following ledger accounts for the three months to 31 July 2014.

**(i)** Midland Telecoms account **[5]**

**(ii)** Telephone expenses account **[4]**

**(c)** Name and explain the accounting concept applied in estimating the telephone expenses owing on 31 July 2014. **[3]**

The following were some of the transactions which took place in July.

| | |
|---|---|
| 5 July | Purchased inventory on credit. |
| 10 July | Goods returned by a credit customer. |
| 20 July | Paid wages in cash. |
| 25 July | Disposed of fixtures and fittings on credit. |

**REQUIRED**

**(d)** Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

| | **Source document** | **Book of prime entry** |
|---|---|---|
| 5 July | *Purchase invoice* | *Purchases journal* |
| 10 July | | |
| 20 July | | |

| | | |
|---|---|---|
| 25 July | | |

**[6]**

## QUESTION 2

Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. He purchased a motor van on that date, the details are as follows.

| | |
|---|---|
| Purchase price | $9 600 |
| Life of motor van | 3 years |
| Residual value | $1 200 |

Ajib is undecided whether to use the straight-line method or diminishing (reducing) balance method to depreciate the motor van.
If Ajib uses the diminishing (reducing) balance method the annual rate of depreciation charged would be 50%.

**REQUIRED**

**(a)** Explain the term depreciation. **[2]**

**(b)** Complete the following table to show the depreciation to be charged for the years ended 30 September 2015, 2016 and 2017 using the straight-line method and the diminishing (reducing) balance method. **[6]**

**(c)** State **one** advantage of Ajib using the straight-line method when depreciating the motor van. **[1]**

**(d)** State **one** advantage of Ajib using the diminishing (reducing) balance method when depreciating the motor van. **[1]**

Ajib is considering:

| | |
|---|---|
| Proposal 1 | Charging the total purchase price of the motor van to the 2015 income statement. |
| Proposal 2 | Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017. |

**REQUIRED**

**(e)** Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals. **[6]**

Ajib also incurred the following expenditure.

**1** Delivery of motor van from manufacturer
**2** Fuel for motor van
**3** Signwriting his business name on the motor van
**4** Motor van insurance

**REQUIRED**

**(f)** State whether each of the items above is capital expenditure or revenue expenditure. **[4]**

## QUESTION 3

Basir is the owner of the Korner Café. He does not maintain full double entry books, but has provided the following information for the year ended 30 September 2014.

**Bank Account**

| | $ | | $ |
|---|---|---|---|
| Balance b/d | 4 000 | Rent of café | 5 500 |
| Takings banked | 43 200 | Payments to credit suppliers | 17 800 |
| | | Operating expenses | 13 600 |
| | | Fixtures and fittings | 450 |
| | | Bank loan interest | 250 |
| | | Balance c/d | 9 600 |
| | 47 200 | | 47 200 |
| Balance b/d | 9 600 | | |

**Additional information**

**1** All takings were in cash and were banked on the same day with the exception of:

| | $ |
|---|---|
| Staff wages | 14 900 |
| Drawings | 8 000 |
| Cash purchases | 950 |

**2**

| Balances at: | 1 October 2013 | 30 September 2014 |
|---|---|---|
| | $ | $ |
| Trade payables | 1 150 | 1 430 |
| Inventory | 350 | 720 |
| Rent of café prepaid | 500 | – |
| Rent of café accrued | – | 1 000 |
| 7 % Bank loan | 5 000 | 5 000 |
| Bank loan interest accrued | – | 100 |
| Fixtures and fittings (at valuation) | 2 250 | 2 200 |

**REQUIRED**

**(a)** State **two** advantages of maintaining full double entry records. **[2]**

**(b)** Calculate the total purchases for the year ended 30 September 2014. **[5]**

**(c)** Calculate the revenue for the year ended 30 September 2014. **[3]**

**(d)** Prepare the income statement for the year ended 30 September 2014. **[10]**

## QUESTION 4

The following information relates to the business of Lili.

| | $ |
|---|---|
| Revenue | 200 000 |
| Inventory 1 October 2013 | 15 500 |
| Inventory 30 September 2014 | 24 500 |
| | |
| Rate of inventory turnover | 8 times |
| Net profit/sales | 7% |

**REQUIRED**

**(a)** Calculate the following.

| | Workings | Answer |
|---|---|---|
| cost of sales | | |
| purchases | | |
| percentage gross profit to sales | | |
| expenses | | |
| profit for the year | | |

**[14]**

Lili's inventory of $24 500 needs to be adjusted for the following.

**1** 5 items costing $10 each had been omitted from the inventory.

**2** 10 items costing $25 each were damaged and could only be sold for $15 each.

**3** 4 items were included in the inventory at the list price of $300 each, having been marked up by 50%.

**4** 1 item costing $20 was recorded in error in the inventory as $200.

**REQUIRED**

**(b)** Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

| **Adjustment** | **Effect on inventory value** | | **Value** |
|---|---|---|---|
| | **increase** | **decrease** | **$** |
| 1 | √ | | *50* |
| 2 | | | |
| 3 | | | |
| 4 | | | |

**[6]**

## QUESTION 5

Darius and Edgar are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is allowed at the rate of 5% per annum. Edgar is entitled to a salary of $12 000 per annum. The following balances were extracted from the books on 31 July 2014.

| | $ |
|---|---|
| Leasehold buildings (cost) | 75 000 |
| Motor vehicles (cost) | 40 000 |
| Fixtures and fittings (cost) | 25 000 |
| Provisions for depreciation: | |
| Leasehold buildings | 18 000 |
| Motor vehicles | 10 000 |
| Fixtures and fittings | 15 000 |
| Trade payables | 55 900 |
| Trade receivables | 39 500 |
| Provision for doubtful debts | 1 900 |
| 8% Bank loan (repayable 31 March 2015) | 40 000 |
| Bank interest paid | 1 600 |

| | | |
|---|---|---|
| Bank | 31 400 | Dr |
| Capital accounts: | | |
| Darius | 40 000 | |
| Edgar | 40 000 | |
| Current accounts at 1 August 2013: | | |
| Darius | 500 | Cr |
| Edgar | 900 | Cr |
| Drawings: | | |
| Darius | 12 000 | |
| Edgar | 12 000 | |
| Purchases | 148 300 | |
| Revenue | 256 000 | |
| Returns inwards | 5 200 | |
| Inventory at 1 August 2013 | 25 800 | |
| Heat and light | 7 600 | |
| Other operating expenses | 6 350 | |
| Wages and salaries | 28 950 | |
| Motor vehicle expenses | 11 000 | |
| Rent receivable | 3 500 | |
| Rent payable | 12 000 | |

**Additional information at 31 July 2014**

**1** Inventory was valued at $34 100.

**2** Other operating expenses prepaid $1 800.

**3** Rent receivable of $1 500 was outstanding.

**4** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** an appropriate amount is to be charged on the leasehold buildings which are held on a 25 year lease
- **(ii)** motor vehicles at the rate of 30% per annum using the diminishing (reducing) balance method
- **(iii)** fixtures and fittings at the rate of 10% per annum using the straight-line method.

**5** Trade receivables of $4 500 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

**6** On 31 January 2014 the partners had agreed to allow Edgar to increase his capital by $20 000. Edgar paid a cheque into the partnership bank account on that date.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 31 July 2014. **[23]**

**(b)** Prepare the current accounts for the year ended 31 July 2014. **[4]**

**(c)** Prepare the statement of financial position at 31 July 2014. **[13]**

# MAY 2015 - PAPER 21

## QUESTION 1

Mira prepared a trial balance using the following information on 31 March 2015. The trial balance failed to balance.

| | $ |
|---|---|
| Office fixtures (at cost) | 18 000 |
| Office fixtures provision for depreciation | 7 200 |
| Trade payables | 5 400 |
| General expenses (prepaid) | 1 520 |
| Trade receivables | 3 700 |
| Inventory | 7 800 |
| Bank overdraft | 2 600 |
| Capital | 16 000 |

**REQUIRED**

**(a)** Prepare the trial balance at 31 March 2015, including an appropriate balancing entry. **[4]**

On inspecting the books, Mira found the following errors:

**1** A payment for general expenses, $750, had been correctly entered in the bank account, but had been recorded in the general expenses account as $570.

**2** General expenses, $1 000, had been recorded in the office fixtures account.

**REQUIRED**

**(b)** Prepare the entries in the general journal to correct items 1 & 2. Narratives are **not** required. **[4]**

The following were some of the transactions completed in April 2015.

**April 9** Sold goods on credit to Yash.

**April 11** Yash returned goods sold on 9 April as they were damaged.

**April 14** Paid wages by cheque.

**April 19** Purchased office fixtures on credit from Equip Limited.

**REQUIRED**

**(c)** Complete the following table. The first item has been completed as an example.

| Date | Transaction | Source Document | Book of prime entry | Account Debited | Account Credited |
|---|---|---|---|---|---|
| April 9 | Sold goods on credit to Yash. | *Sales invoice* | *Sales journal* | *Yash* | *Sales* |
| April 11 | Yash returned goods sold on 9 April as damaged. | | | | |
| April 14 | Paid wages by cheque. | | | | |
| April 19 | Purchased office fixtures on credit from Equip Limited. | | | | |

**[12]**

## QUESTION 2

The following information was obtained from the books of Arden.

| | | $ |
|---|---|---|
| 1 February 2015 | Trade receivables balance | 14 900 Dr |
| | Trade payables balance | 17 160 Cr |
| | | |
| 28 February 2015 | Cheques received from trade receivables | 45 800 |
| | Cheque from trade receivable later dishonoured | 200 |
| | Cheques paid to trade payables | 32 500 |
| | Discount allowed | 2 700 |
| | Discount received | 910 |
| | Purchases returns | 3 800 |
| | Bad debts | 1 800 |
| | Cash sales | 10 500 |
| 1 March 2015 | Trade receivables balance | 12 600 Dr |
| | Trade payables balance | 8 450 Cr |

**REQUIRED**

**(a)** Prepare the purchases ledger control account showing the credit purchases made in the month of February 2015. **[6]**

**(b)** Prepare the sales ledger control account showing the credit sales made for the month of February 2015. **[7]**

**Additional information**

| **1** | Payments for February | $ |
|---|---|---|
| | Wages | 15 200 |
| | General expenses | 7 900 |

| **2** | **Balances at** | **1 February 2015** | **28 February 2015** |
|---|---|---|---|
| | | **$** | **$** |
| | Inventory | 9 350 | 8 650 |
| | Non-current assets (at valuation) | 18 000 | 17 200 |
| | General expenses owing | 2 300 | 1 600 |

**REQUIRED**

**(c)** Prepare the income statement for the month ended 28 February 2015. **[6]**

**(d)** State **two** benefits to Arden of using Information Communication Technology (ICT) in his bookkeeping and accounting. **[2]**

## QUESTION 3

Warle Limited provided the following information after the calculation of the profit for the year ended 30 April 2015.

| | $ |
|---|---|
| Profit for the year ended 30 April 2015 | 86 000 |
| Authorised share capital: | |
| $1 Ordinary shares | 100 000 |
| Called up share capital: | |
| $1 Ordinary shares | 100 000 |
| Interim dividend paid | 3 000 |
| General reserve | 20 000 |
| Retained profits 1 May 2014 | 14 000 |

**Additional information**
The directors have:

**1** transferred $50 000 to the general reserve
**2** paid a final ordinary shares dividend of $0.15 per share.

**REQUIRED**

**(a)** Prepare the statement of changes in equity for the year ended 30 April 2015. **[6]**

**(b)** Prepare the statement of financial position extract for the equity and reserves of Warle Limited at 30 April 2015. **[5]**

**(c)** State **two** differences between preference shares and debentures. **[4]**

**(d)** State **two** possible reasons why the directors of Warle Limited have transferred $50 000 to the general reserve. **[2]**

**(e)** State **two** reasons why large companies prepare their published financial statements in accordance with International Accounting Standards (IAS). **[2]**

## QUESTION 4

John provided the following information for the year ended 31 March 2015.

| | $ |
|---|---|
| Revenue | 900 000 |
| Inventory 1 April 2014 | 65 000 |
| Inventory 31 March 2015 | 35 000 |
| Expenses | 105 000 |
| Owner's capital | 300 000 |
| Long term loan | 150 000 |
| Mark up | 20% |

**REQUIRED**

**(a)** Calculate for the year ended 31 March 2015:

**(i)** Cost of goods sold **[2]**

**(ii)** Profit for the year **[2]**

**(b)** Calculate the following ratios.

| | Workings | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | | | 5% |
| Rate of inventory Turnover | | | 7 times |
| Return on capital employed (ROCE) | | | 4% |

**[6]**

**(c)** Give **two** comments on the performance of John's business over the two years. **[6]**

John is considering the following proposals to improve his profit for the year.

**1** Change the depreciation methods for non-current assets.
**2** Remove the provision for doubtful debts from the financial statements.
**3** Value the inventory at market price.
**4** Place a value on the skill of the workforce in the financial statements.
**5** Exclude expenses owing from the income statement.

**REQUIRED**

**(d)** Name the accounting principle/concept which would **not** be complied with if each proposal was implemented. The first one has been completed as an example.

| | **Proposal** | **Accounting principle/concept** |
|---|---|---|
| **1** | Change the depreciation methods for non-current Assets | *Consistency* |
| **2** | Remove the provision for doubtful debts from the financial statements | |
| **3** | Value the inventory at market price | |
| **4** | Place a value on the skill of the workforce in the financial statements | |
| **5** | Exclude expenses owing from the income statement | |

**[4]**

## QUESTION 5

The following balances were extracted from the books of Spiron Manufacturing on 30 April 2015.

| | $ |
|---|---|
| Factory machinery (cost) | 80 000 |
| Office fixtures (cost) | 20 000 |
| Provision for depreciation | |
| Factory machinery | 60 000 |
| Office fixtures | 8 000 |
| Purchases of raw materials | 85 000 |
| Inventory at 1 May 2014 | |
| Raw materials | 10 150 |
| Work in progress | 15 000 |
| Finished goods | 21 200 |
| Revenue | 310 000 |
| Purchases of finished goods | 19 000 |
| Factory managers' salaries | 32 000 |
| Office wages and salaries | 41 900 |
| Direct factory expenses | 5 600 |
| Indirect factory expenses | 9 800 |
| Factory wages | 47 000 |
| Rent | 10 000 |

| | |
|---|---:|
| Insurance | 8 000 |
| Marketing expenses | 12 400 |
| Distribution costs | 9 850 |
| Financial expenses | 7 650 |
| Provision for doubtful debts | 400 |
| Trade receivables | 23 900 |
| Trade payables | 14 350 |
| Bank | 7 700 Dr |
| Capital | 90 000 |
| Drawings | 16 600 |

Additional information at 30 April 2015

**1** Inventory was valued as follows:

| | $ |
|---|---|
| Raw materials | 12 750 |
| Work in progress | 16 200 |
| Finished goods | 18 700 |

**2** Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

**3** Financial expenses owing were $850.

**4** Marketing expenses of $600 were prepaid.

**5** Depreciation is to be charged as follows:

**(i)** Factory machinery at 25% per annum using the diminishing (reducing) balance method

**(ii)** Office fixtures at 15% using the straight-line method.

**6** A debt of $1 900 was considered irrecoverable. A provision for doubtful debts is to be maintained at 5%.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 30 April 2015. Show clearly the prime cost and the cost of production. **[13]**

**(b)** Prepare the income statement for the year ended 30 April 2015. **[15]**

**(c)** Prepare the statement of financial position at 30 April 2015. **[12]**

# MAY 2015 - PAPER 22

## QUESTION 1

The following balances were available from the books of Priya on 1 April 2015.

| | $ |
|---|---|
| Putil | 3 000 credit |
| Wages | 1 750 debit |

The following transactions took place in April 2015.

**April 5** Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount
**April 8** Bought goods on credit from Putil, $800, less 20% trade discount
**April 19** Paid wages in cash $450
**April 23** Returned goods, list price $200, purchased on 5 April
**April 26** Sold a non-current asset at book value, $2 000, on credit

**REQUIRED**

**(a)** Complete the following table. The first item has been completed as an example. Where the owner's capital is not affected, write 'No effect'.

| Date | Transaction | Source document | Book of prime entry | Effect on owner's capital ($) |
|---|---|---|---|---|
| **April 5** | Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount | ***Cheque Counterfoil*** | ***Cash book*** | ***+30*** |
| **April 8** | Bought goods on credit from Putil, $800, less 20% trade discount | | | |
| **April 19** | Paid wages in cash $450 | | | |
| **April 23** | Returned goods, list price $200, purchased on 8 April | | | |
| **April 26** | Sold a non-current asset at book value, $2000, on credit | | | |

**[12]**

**(b)** Prepare the account of Putil for the month of April 2015. Balance the account and bring down the balance on 1 May 2015. **[5]**

Priya prepared her income statement on 30 April 2015. She calculated that wages, $150, were prepaid at that date.

**REQUIRED**

**(c)** Prepare the wages account for the month of April 2015 including the transfer to the income statement. Balance the account and bring down the balance on 1 May 2015. **[3]**

## QUESTION 2

Atto Electrical had the following non-current assets on 31 March 2013.

| | Net book value ($) |
|---|---|
| Premises (cost $50 000) | 48 000 |
| Motor vehicles (cost $16 000) | 12 000 |
| Computers | 6 000 |

Atto Electrical has the following depreciation policy.

Premises are depreciated at the rate of 2% per annum by straight-line method.
Motor vehicles are depreciated at the rate of 25% per annum by diminishing (reducing) balance method.
Computers are depreciated by revaluation method.

A full year's depreciation is charged on all non-current assets owned at the end of the financial year.

**Additional information**

**1** There were no purchases or sales of non-current assets during the year ended 31 March 2014.

**2** The following purchases of non-current assets were made during the year ended 31 March 2015. Payments were made by cheque.

| | $ |
|---|---|
| Premises | 30 000 |
| Motor vehicles | 9 000 |
| Computers | 3 200 |

**3** Computers were valued as follows:

| | $ |
|---|---|
| 31 March 2014 | 4 200 |
| 31 March 2015 | 6 000 |

**REQUIRED**

**(a)** Explain the term depreciation. **[2]**

**(b)** State **one** cause of depreciation of a computer. **[1]**

**(c)** Complete the table to show the depreciation to be charged to the income statement for each of the years ended 31 March 2014 and 31 March 2015.

| | **Year ended 31 March 2014**<br>**$** | **Year ended 31 March 2015**<br>**$** |
|---|---|---|
| Premises | | |
| Motor vehicles | | |
| Computers | | |

**[6]**

**(d)** Prepare the following ledger accounts for **each** of the years ended 31 March 2014 and 31 March 2015. Balance the accounts and bring down the balances on 1 April.

Motor vehicles account **[4]**
Motor vehicles provision for depreciation account **[5]**

**(e)** Identify which **two** of the following accounting principles/concepts support the charging of depreciation in an accounting year.

Accruals/Matching
Dual aspect
Going concern
Materiality
Money measurement **[2]**

## QUESTION 3

The following information is available for the Axton Chess Club.

**Receipts and Payments Account for the year ended 31 March 2015**

| | $ | | $ |
|---|---|---|---|
| Balance b/d 1 April 2014 | 230 | Rent of clubroom | 2 000 |
| Subscriptions | 3 260 | Treasurer's salary | 250 |
| Competition entry fees received | 1 580 | Purchase of fixtures and equipment | 1 100 |
| Donations | 350 | Competition prizes | 750 |
| Balance c/d 31 March 2015 | 1 930 | Travelling expenses | 1 900 |
| | | Other operating expenses | 1 350 |
| | 7 350 | | 7 350 |
| | | Balance b/d 1 April 2015 | 1 930 |

**Additional information**

| **1** Balances at: | **1 April 2014** | **31 March 2015** |
|---|---|---|
| | **$** | **$** |
| Subscriptions in advance | – | 450 |
| Subscriptions in arrears | 530 | 750 |
| Fixtures and equipment (valuation) | 4 000 | 4 400 |
| Rent of clubroom prepaid | – | 50 |
| Rent of clubroom accrued | 70 | – |
| Other operating expenses accrued | 190 | 20 |
| Accumulated fund | 4 500 | ? |

**2** $280 of the subscriptions in arrears on 1 April 2014 were subsequently received.
**3** Subscriptions not paid after 12 months were considered irrecoverable.

**REQUIRED**

**(a)** Prepare the subscriptions account for the year ended 31 March 2015, showing the transfer to the income and expenditure account. Balance the account and bring down the balances on 1 April 2015. **[5]**

**(b)** Prepare the income and expenditure account for the year ended 31 March 2015. **[8]**

**(c)** Prepare the statement of financial position at 31 March 2015. **[7]**

## QUESTION 4

Xever provided the following information for the year ended 31 March 2015.

| | $ |
|---|---|
| Capital | 40 000 |
| Bank loan (repayable 1 Jan 2020) | 10 000 |
| Inventory 1 April 2014 | 15 000 |
| Inventory 31 March 2015 | 35 000 |
| Cost of sales | 125 000 |
| Trade receivables | 25 000 |
| Trade payables | 70 000 |
| Bank overdraft | 30 000 |
| | |
| Mark up | 20% |
| Profit margin (profit for the year to revenue) | 5% |

**REQUIRED**

**(a)** Calculate the following for the year ended 31 March 2015.

**(i)** Revenue **[2]**

**(ii)** Purchases **[2]**

**(iii)** Expenses for the year **[2]**

**(b)** Calculate the following ratios, correct to **two** decimal places. The previous year's ratios are shown in the last column.

| | Workings | 31 March 2015 | 31 March 2014 |
|---|---|---|---|
| Gross profit margin (gross profit to revenue) | | | 25.61% |
| Return on capital employed (ROCE) | | | 12.00% |
| Rate of turnover of inventory | | | 2.82 times |
| Quick ratio (acid test ratio) | | | 0.91:1 |

**[8]**

**(c)** Comment on the changes to Xever's business over the two years under the following headings.

**(i)** Profitability **[3]**

**(ii)** Liquidity **[3]**

## QUESTION 5

Farah and Hana are in partnership. The partnership agreement states that they share profits and losses equally. Interest on capital is allowed at the rate of 4% per annum. Interest is charged on drawings made during the year at the rate of 5% per annum. No salaries are paid to the partners.

The following balances were extracted from the books on 30 April 2015.

| | $ |
|---|---|
| Premises (cost) | 60 000 |
| Delivery vehicles (cost) | 30 000 |
| Office fixtures (cost) | 15 000 |
| Provisions for depreciation | |
| Premises | 3 600 |
| Delivery vehicles | 10 000 |
| Office fixtures | 11 000 |
| Trade payables | 7 900 |
| Trade receivables | 18 750 |
| Provision for doubtful debts | 500 |
| Bank overdraft | 12 200 |
| Capital accounts: Farah | 50 000 |
| Hana | 30 000 |
| Current accounts at 1 May 2014: Farah | 3 250 Cr |
| Hana | 1 850 Cr |
| Drawings: Farah | 6 000 |
| Hana | 6 000 |

| | |
|---|---|
| Purchases | 81 250 |
| Revenue | 190 000 |
| Returns inwards | 8 600 |
| Inventory at 1 May 2014 | 15 600 |
| Advertising expenses | 11 000 |
| Wages and salaries | 31 450 |
| Delivery vehicle expenses | 14 900 |
| Heat and light | 9 750 |
| Other operating expenses | 12 000 |

**Additional information**

The following information was available 30 April 2015.

**1** Inventory was valued at $13 650.

**2** Advertising expenses prepaid were $800.

**3** Heat and light $150 was outstanding.

**4** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

Premises at the rate of 2% on cost per annum

Delivery vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

Office fixtures at the rate of 10% per annum using the straight-line method.

**5** The provision for doubtful debts is to be maintained at 4%.

**6** A cheque payment of $550, made to a credit supplier on 15 April, had not been recorded in the books.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 April 2015. **[18]**

**(b)** Prepare the current accounts for the year ended 30 April 2015. **[7]**

**(c)** Prepare the statement of financial position at 30 April 2015. **[15]**

# NOVEMBER 2015 - PAPER 21

## QUESTION 1

The following balances were taken from the books of Krul Limited on 1 July 2015.

| | $ |
|---|---|
| Carston Garages account | 200 credit |
| Motor van expenses account | 3 200 debit |

The following transactions took place in July 2015.

**July 12** Paid Carston Garages their outstanding balance by cheque, deducting 3% cash discount
**July 15** Purchased fuel for the motor van, on credit, from Carston Garages, $120
**July 23** Paid motor van repairs by cheque, $200
**July 26** Purchased new motor van tyres from Carston Garages on credit, $400, less 15% trade discount

**Additional information**

**1** Krul Limited prepared financial statements on 31 July 2015.
**2** Motor van expenses, $125, were accrued on 31 July 2015.

**REQUIRED**

**(a)** Prepare the Carston Garages account for the year ended 31 July 2015. Balance the account and bring down the balance on 1 August 2015. **[5]**

**(b)** Prepare the motor van expenses account for the year ended 31 July 2015. Make the transfer to the income statement. Balance the account and bring down the balance on 1 August 2015. **[5]**

**(c)** Name the subdivision of the ledger containing **each** of the following accounts.

| Account | Subdivision of the ledger |
|---|---|
| Sales | |
| T Wong (credit customer) | |

**[2]**

**(d)** Explain **each** of the following accounting terms.
**(i)** Revenue expenditure **[2]**
**(ii)** Capital receipt **[2]**

**(e)** Indicate by placing a tick (✓) whether each of the following transactions is revenue expenditure, revenue receipt, capital expenditure or capital receipt.

| Transaction | Revenue expenditure | Revenue receipt | Capital expenditure | Capital receipt |
|---|---|---|---|---|
| Sale of motor van | | | | |
| Purchase new motor van tyres | | | | |
| Cash discount received | | | | |
| Purchase a new motor van | | | | |

**[4]**

## QUESTION 2

Martino's trial balance at 30 September 2015 did not agree and a suspense account was opened.
The following errors were discovered.

**1** The total of the purchases journal had been undercast by $950.
**2** Discount received, $85, had been debited to the discount received account.
**3** A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.
**4** A purchase of office fixtures, $2 300, had been recorded in the general expenses account.

**REQUIRED**

**(a)** Show the entries in the general journal to correct items 1 to 4. Narratives are **not** required. **[8]**

**(b)** Prepare the suspense account at 30 September 2015 showing the original difference on the trial balance. **[4]**

**(c)** Complete the following table to show the effect on the profit for the year of **correcting** each error.
The first item has been completed as an example.

| | **Error** | **Increase/Decrease/ No effect** | **Amount $** |
|---|---|---|---|
| **1** | The total of the purchases journal had been undercast by $950. | *Decrease* | *950* |
| **2** | Discount received, $85, had been debited to the discount received account. | | |
| **3** | A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570. | | |
| **4** | A purchase of office fixtures, $2 300, had been recorded in the general expenses account. | | |

**[6]**

**(d)** Explain why an error of commission would **not** be revealed by the trial balance. **[2]**

## QUESTION 3

Aina and Barry are in partnership. The partnership agreement states the following:

Interest is charged on drawings at the rate of 6% per annum
Interest is paid on capital at the rate of 4% per annum
Interest is paid on partners' loans at the rate of 5% per annum
Barry receives a salary of $8 000 per annum
Profits and losses are shared $^3/_5$ Aina and $^2/_5$ Barry.

The following information was available on 1 May 2014.

| | | **$** | |
|---|---|---|---|
| Capital account | Aina | 50 000 | |
| | Barry | 20 000 | |
| Current account | Aina | 800 | debit |
| | Barry | 6 500 | credit |
| Loan to partnership | Barry | 40 000 | |

Additional information for the year ended 30 April 2015

**1** Barry increased his capital in the partnership by $20 000 on 1 November 2014.

**2** Drawings during the year were:

| | $ |
|---|---|
| Aina | 7 500 |
| Barry | 10 000 |

**3** Profit for the year before loan interest was $19 800.

**REQUIRED**

**(a)** Prepare the appropriation account of the partnership for the year ended 30 April 2015. **[8]**

**(b)** Prepare the current accounts of the partners for the year ended 30 April 2015. Balance the accounts and bring down the balances on 1 May 2015. **[6]**

**(c)** State **two** advantages of a partnership. **[2]**

**Additional information**

Aina and Barry are considering ways to improve the profit for the year of the business. They suggest the following changes.

**1** Remove the provision for doubtful debts from the income statement.

**2** Increase the value of the premises from cost to the current market value.

**3** Reduce the depreciation rate on computers from 30% to 10% per annum.

**4** Record expenses paid without adjustment for amounts owing.

**REQUIRED**

**(d)** Name the accounting principle/concept which would **not** be complied with if Aina and Barry implemented the suggestions.

| | **Suggestions** | **Accounting principle/concept** |
|---|---|---|
| **1** | Remove the provision for doubtful debts from the income statement. | |
| **2** | Increase the value of the premises from cost to the current market value. | |
| **3** | Reduce the depreciation rate on computers from 30% to 10% per annum. | |
| **4** | Record expenses paid without adjustment for amounts owing. | |

**[4]**

## QUESTION 4

Galenia buys and sells goods on credit. The following information was available on 30 September 2015.

| | $ |
|---|---|
| Inventory 1 October 2014 | 11 000 |
| Inventory 30 September 2015 | 37 000 |
| Cost of goods sold | 90 000 |
| Profit for the year | 18 900 |
| Trade receivables | 14 200 |
| Trade payables | 27 000 |
| Bank | 2 800 debit |

| | |
|---|---|
| Mark up | 40% |

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2015.

**(i)** Revenue **[2]**

**(ii)** Purchases **[2]**

**(iii)** Expenses for the year **[2]**

**(b)** Calculate the following ratios to **two** decimal places. Comparative figures for the previous year are shown in the last column.

| | Workings | 30 September 2015 | 30 September 2014 |
|---|---|---|---|
| Profit margin (profit for the year to revenue) | | | 12.13% |
| Rate of inventory turnover | | | 2.00 times |
| Working capital ratio (current ratio) | | | 2.60:1 |
| Quick ratio (acid test ratio) | | | 1.10:1 |

**[8]**

**(c)** Comment on the performance of Galenia's business over the two years under the following headings.

**(i)** Inventory turnover **[3]**

**(ii)** Ability to pay trade payables **[3]**

## QUESTION 5

Cheng is a sole trader. The following balances were extracted from his books on 30 September 2015.

| | $ |
|---|---|
| Revenue | 315 000 |
| Purchases | 165 000 |
| Returns outwards | 2 600 |
| Wages and salaries | 34 800 |
| Motor vehicle expenses | 17 200 |
| Commission receivable | 12 500 |
| Rent | 15 000 |
| Provision for doubtful debts | 1 000 |
| 6% Bank loan (repayable 30 June 2019) | 30 000 |
| Bank interest paid | 1 200 |
| Inventory at 1 October 2014 | 36 800 |
| Heat and light | 6 500 |
| Other operating expenses | 7 100 |
| Cash and bank | 19 500 debit |
| Trade payables | 25 000 |
| Trade receivables | 34 000 |
| Capital | 15 000 |
| Drawings | 18 000 |
| Motor vehicles (cost) | 50 000 |
| Fixtures and fittings (cost) | 24 000 |
| Provision for depreciation: | |
| Motor vehicles | 10 000 |
| Fixtures and fittings | 18 000 |

Additional information at 30 September 2015

**1** On 26 September 2015 goods had been purchased for $3 000 cash. The transaction had not been recorded in the books.

**2** Inventory was valued at $29 980.

**3** The rent included a payment of $6 000 for the six months ending 31 December 2015.

**4** Other operating expenses accrued $1 100.

**5** Commission receivable of $2 500 was outstanding.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method
- **(ii)** Fixtures and fittings at the rate of 15% per annum, using the straight-line method.

**7** Trade receivables of $2 000 are irrecoverable. The provision for doubtful debts is to be maintained at 5% on the remaining trade receivables.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2015. **[22]**

**(b)** Prepare the statement of financial position at 30 September 2015. **[18]**

# NOVEMBER 2015 - PAPER 22

## QUESTION 1

The following extract was taken from Abbie's cash book on 30 September 2015.

**Cash Book (Bank Columns)**

| **2015** | | **$** | **2015** | | **$** |
|---|---|---|---|---|---|
| Sept 01 | Balance b/d | 290 | Sept 08 | Husna | 102 |
| 09 | L Lee | 475 | 17 | Yang Stores | 849 |
| 15 | Ng | 150 | 23 | Lam | 364 |
| 21 | JG Supplies | 980 | 26 | Xevera | 500 |
| 29 | Sampson | 625 | 30 | Balance c/d | 705 |
| | | 2 520 | | | 2 520 |
| Oct 01 | Balance b/d | 705 | | | |

Abbie received the following bank statement on 1 October 2015.

| **Date** | **Details** | **Debit** | **Credit** | **Balance** |
|---|---|---|---|---|
| **2015** | | **$** | **$** | **$** |
| Sept 01 | Balance | | | 290 Cr |
| 09 | L Lee | | 475 | 765 Cr |
| 10 | Husna | 102 | | 663 Cr |
| 15 | Ng | | 150 | 813 Cr |
| 22 | JG Supplies | | 980 | 1793 Cr |
| 23 | Bank charges | 35 | | 1758 Cr |
| 24 | Ng – Dishonoured | 150 | | 1608 Cr |
| 25 | YJ Electric | 250 | | 1358 Cr |

Abbie compared the bank statement with her cash book.

**REQUIRED**

**(a)** Bring Abbie's cash book up to date. Balance the cash book and bring down the balance on 1 October 2015. **[4]**

**(b)** Prepare the bank reconciliation statement at 1 October 2015. **[5]**

Abbie supplied the following information related to a credit customer, Izzat.

**October 1** Balance owed by Izzat to Abbie $750
**5** Sold goods on credit to Izzat, $1 800, less 20% trade discount
**6** Izzat returned goods, list price $350
**21** Received a cheque from Izzat, $800
**22** The remaining balance on Izzat's account was written off as irrecoverable.

**REQUIRED**

**(c)** **(i)** Name the subdivision of the ledger containing Izzat's account. **[1]**
**(ii)** Name the document issued by Abbie to Izzat on 5 October 2015. **[1]**

**(d)** Prepare the account of Izzat in the books of Abbie. **[5]**

**(e)** Prepare the general journal entry for the transaction on 22 October. A narrative **is** required. **[3]**

**(f)** State **three** benefits to Abbie of using Information Communication Technology (ICT) to record her transactions. **[3]**

## QUESTION 2

The following information is available from the books of Yana for August 2015.

| | $ |
|---|---|
| Trade receivables at 1 August 2015 | 27 520 |
| Credit sales | 32 400 |
| Cash sales | 19 970 |
| Sales returns from credit customers | 1 700 |
| Cheques received from credit customers | 40 150 |
| Discount allowed | 780 |
| Bad debts written off | 2 900 |
| Interest charged on overdue accounts | 600 |

**REQUIRED**

**(a)** Prepare the sales ledger control account for August. Balance the account and bring down the balance on 1 September 2015. **[8]**

After preparing the sales ledger control account, Yana discovered the following errors.

**1** Goods sold on credit to Tong, $560, had not been recorded in the books.

**2** Proceeds of sale of fixtures and fittings, $800, had been recorded as cash sales.

**3** Discount allowed to R Biggs, $56, had been debited to his account and credited to the discount allowed account.

**4** A sale of goods to Mia, $75, had been recorded in the account of Mason.

**REQUIRED**

**(b)** Name the type of error in each of 1–4. Error 1 has been completed as an example. **[3]**

**(c)** Prepare the general journal entries to correct the errors in 1–4. Narratives are **not** required. **[8]**

**(d)** State **one** reason why a trader may use a suspense account. **[1]**

## QUESTION 3

The following balances were extracted from the books of Fairview Manufacturing on 31 October 2015.

| | $ |
|---|---|
| Purchases of raw materials | 486 000 |
| Purchases of finished goods | 74 000 |
| Carriage inwards | 36 000 |
| Factory wages | 295 000 |
| Office wages | 75 000 |
| Factory packaging cost | 55 000 |
| Rent | 38 400 |
| Factory management salaries | 75 600 |
| Office management salaries | 50 000 |
| Factory indirect expenses | 8 500 |
| Office expenses | 15 000 |
| Factory equipment (at cost) | 245 000 |
| Office equipment (at cost) | 60 000 |
| Provisions for depreciation: | |
| Factory equipment | 105 000 |
| Office equipment | 20 000 |

| | |
|---|---|
| Inventory 1 November 2014: | |
| Raw materials | 108 000 |
| Work in progress | 84 300 |
| Finished goods | 150 000 |

**Additional information**

**1** Inventory at 31 October 2015

| | $ |
|---|---|
| Raw materials | 94 000 |
| Work in progress | 81 400 |
| Finished goods | 160 000 |

**2** Half of the carriage inwards is for raw materials and half for finished goods.
**3** Factory wages owing are $9 000.
**4** 60% of factory packaging costs are direct and 40% indirect.
**5** Rent is allocated to the factory and the office on the basis of floor area occupied:
Factory 5000 sq m and Office 3000 sq m
**6** Factory equipment and office equipment are both depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

**REQUIRED**
**(a)** Prepare the manufacturing account for the year ended 31 October 2015. **[13]**

Hong works in the office of Fairview Manufacturing. For the month of March she was paid for 140 hours at $6 per hour and 28 hours at time and a quarter. Deductions from gross pay were $250 tax and social security and $60 for pension contributions.

**REQUIRED**
**(b)** Calculate the net pay of Hong for the month of October 2015. **[4]**
**(c)** Name the document that Hong will receive which details the calculation of her net pay. **[1]**

## QUESTION 4

Danish provided the following information.
For the year ended 31 July 2015

| | **$** |
|---|---|
| Revenue | 380 000 |
| Purchases | 295 000 |
| Profit for the year | 35 000 |
| Gross profit margin | 25% |

At 31 July 2015

| | **$** |
|---|---|
| Inventory | 65 000 |
| Trade receivables | 42 000 |
| Trade payables | 52 000 |
| Bank | 13 000 debit |
| Expenses accrued | 8 000 |

**REQUIRED**

**(a)** Calculate the following:

| | **Workings** | **Answer** |
|---|---|---|
| Inventory at 1 August 2014 | | |
| Rate of inventory turnover (to two decimal places) | | |
| Expenses paid in the year ended 31 July 2015 | | |
| Working capital ratio (current ratio) | | |
| Quick ratio (acid test ratio) | | |

**[12]**

Danish is considering the following proposals to improve his working capital.

**1** Sell excess non-current assets for $4 000
**2** Sell old inventory costing $15 000, for $9 000 cash
**3** Allow a trade receivable 5% cash discount for early payment of a debt of $10 000
**4** Pay expenses accrued of $8 000
**5** Bring additional capital into the business, motor vehicle $5 000 and cash $1 000

**REQUIRED**

**(b)** Complete the table, to show the effect on the working capital of **each** proposal. The first one has been completed as an example.

| | **Proposal** | **Working capital (Increase, decrease, no effect)** | **Amount $** |
|---|---|---|---|
| **1** | Sell excess non-current assets for $4 000 | *Increase* | *4 000* |
| **2** | Sell old inventory costing $15 000, for $9000 cash | | |
| **3** | Allow a trade receivable 5% cash discount for early payment of a debt of $10 000 | | |
| **4** | Pay expenses accrued of $8 000 | | |
| **5** | Bring additional capital into the business, motor vehicle $5 000 and cash $1 000 | | |

**[8]**

## QUESTION 5

Ning is a sole trader. The following balances were extracted from his books on 30 September 2015.

| | **$** |
|---|---|
| Revenue | 248 200 |
| Purchases | 104 750 |
| Returns inwards | 7 850 |
| Carriage inwards | 3 400 |
| Advertising expenses | 10 800 |
| Distribution expenses | 17 200 |
| Electricity | 4 230 |
| Discount received | 8 250 |
| Wages and salaries | 35 000 |
| Insurance | 5 000 |

| | |
|---|---|
| Commission received | 5 900 |
| Loss on disposal | 2 270 |
| Leasehold premises (cost) | 80 000 |
| Computer equipment (at cost) | 75 000 |
| Fixtures and fittings (cost) | 30 000 |
| Provisions for depreciation: | |
| Leasehold premises | 20 000 |
| Computer equipment | 23 000 |
| Fixtures and fittings | 17 500 |
| Bank | 5 300 credit |
| 8% Bank loan | 50 000 |
| Bank loan interest paid | 3 000 |
| Trade receivables | 44 400 |
| Trade payables | 38 700 |
| Provision for doubtful debts | 1 500 |
| Inventory at 1 October 2014 | 20 450 |
| Capital at 1 October 2014 | 50 000 |
| Drawings | 25 000 |

Additional information at 30 September 2015

**1** Inventory was valued at $17 300.

**2** Distribution expenses accrued were $2 600.

**3** Advertising expenses includes an advertising campaign costing $1 500 which runs from 1 August to 31 December 2015.

**4** The 8% Bank loan is repayable in 5 equal payments on 1 October each year.

**5** The depreciation policy is as follows.

- **(i)** The lease on the premises is for 20 years. An appropriate amount should be charged each year.
- **(ii)** Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.
- **(iii)** Fixtures and fittings at the rate of 10% per annum using the straight-line method.
  No depreciation is charged in the year of disposal.

**6** Trade receivables, $6 400, are irrecoverable. A provision for doubtful debts of 5% is to be maintained.

**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2015. **[23]**

**(b)** Prepare the statement of financial position at 30 September 2015. **[17]**

# MAY 2016 - PAPER 21 & P22

## QUESTION 1

Faara had the following assets and liabilities on 1 May 2015.

| | $ |
|---|---|
| Inventory | 2 850 |
| Trade receivable – Jaafar | 600 |
| Other payables – Electricity | 200 |
| Bank | 450 Credit |
| 5% Bank loan (30 September 2020) | 5 000 |
| Motor vehicle | 4 500 |

**REQUIRED**

**(a)** Calculate Faara's capital. **[1]**

The following transactions related to the account of Jaafar for the month ended 31 May 2015.

May 04 Sold goods to Jaafar, list price $1 500, allowed 15% trade discount.
05 Jaafar returned goods purchased on 4 May, list price $120.
16 Jaafar paid the amount owing on 1 May by cheque and was allowed 2% cash discount.

**REQUIRED**

**(b)** Prepare the ledger account of Jaafar for the month of May 2015. Balance the account and bring down the balance on 1 June 2015. **[6]**

**(c)** State two possible reasons why Faara allowed trade discount to Jaafar. **[2]**

The following information related to the electricity account for the month ended 31 May 2015.

May 17 Paid for electricity by cheque $440
31 Prepared the income statement. It was estimated that $55 was owed for electricity at that date.

**REQUIRED**

**(d)** Prepare the electricity account for the month of May 2015. Balance the account and bring down the balance on 1 June 2015. **[4]**

**(e)** Name the accounting concept applied to the calculation of electricity expense when preparing the income statement at 31 May 2015. **[1]**

**(f)** Complete the following table for the transactions shown. Name the source document prepared by Faara and the book of prime entry used, and state the effect of the transaction on her capital. The first item has been completed as an example. **[6]**

| | | **Source document** | **Book of prime entry** | **Effect on owner's capital ($)** |
|---|---|---|---|---|
| May 9 | Sold goods on credit for $900, (cost $600) | *Sales invoice* | *Sales journal* | *+300* |
| 14 | Customer returned goods, bought by him on 9 May for $300. | | | |
| 21 | Paid wages in cash $150. | | | |

## QUESTION 2

The following balances were recorded in the books of Sofea on 1 March 2015.

| | $ |
|---|---|
| Motor vehicles account (at cost) | 50 000 |
| Motor vehicles - Provision for depreciation account | 18 400 |

**1** On 31 May 2015 a motor vehicle costing $16 000 and with an accumulated depreciation of $7000 was sold for $8 400.

2 On 30 June 2015 a motor vehicle costing $20 000 was purchased on credit.

**3** The depreciation policy of Sofea is as follows:
Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.
A full year's depreciation is charged in the year of purchase.
No depreciation is charged in the year of sale.

**REQUIRED**

**(a)** State the meaning of the accounting term depreciation. **[2]**

**(b)** Identify by ticking the appropriate box (✓) whether each statement about depreciation is true or false. The first one has been completed as an example.

| Statement | Statement | False |
|---|---|---|
| ***There is only one method of charging depreciation.*** | | ✓ |
| **Depreciation is the cash set aside for non-current asset replacement.** | | |
| **Depreciation is an application of the going concern concept.** | | |

**[2]**

**(c)** Calculate the:

**(i)** profit or loss on the sale of the motor vehicle on 31 May 2015. **[1]**

**(ii)** motor vehicles depreciation charge for the year ended 29 February 2016. **[2]**

**(d)** Prepare the motor vehicles provision for depreciation account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016. **[5]**

Sofea provided the following information about her trade receivables.

**1** On 28 February 2016 Wade Designs, which owed Sofea $5 100, was declared bankrupt.
A cheque for $1 800 was received. The balance of the debt was irrecoverable.

**2** On 29 February 2016 the remaining trade receivables were:

| Age of debt (Months) | Amount ($) | Provision for doubtful debts percentage (%) |
|---|---|---|
| Up to 1 month | 18 000 | 2 |
| 1 to 3 months | 12 200 | 5 |
| 3 to 6 months | 3 300 | 10 |
| Over 6 months | 2 200 | 20 |
| | 35 700 | |

On 1 March 2015 the provision for doubtful debts account was $2 050.

**REQUIRED**

**(e)** Prepare the general journal to record the entries for Wade Designs on 28 February 2016. A narrative is not required. **[3]**

**(f)** Calculate the provision for doubtful debts on 29 February 2016. **[1]**

**(g)** Prepare the provision for doubtful debts account for the year ended 29 February 2016. **[3]**

**(h)** Name one accounting concept applied by Sofea in providing for doubtful debts. **[1]**

## QUESTION 3

Alif is a trader. He does not maintain a full set of accounting records but the following information is available.

**1. Summarised bank transactions for the year ended 31 March 2016**

| **Receipts** | **$** | **Payments** | **$** |
|---|---|---|---|
| Trade receivables | 32 000 | Trade payables | 29 000 |
| Cash sales banked | 7 400 | Purchase of equipment | 2 500 |
| Interest receivable | 600 | Rent | 8 000 |
| | | Other operating expenses | 6 500 |

**2**

All cash sales were banked on the day of receipt with the exception of the following which were paid out of cash receipts.

| | **$** |
|---|---|
| Wages | 9 000 |
| Drawings | 11 500 |

**3**

| **Balances at:** | **1 April 2015** | **31 March 2016** |
|---|---|---|
| | **$** | **$** |
| Equipment (net book value) | 11 000 | 10 500 |
| Inventory | 12 000 | 11 500 |
| Trade receivables | 17 600 | 18 350 |
| Trade payables | 9 750 | 7 950 |
| Wages owing | 300 | 450 |
| Rent prepaid | 500 | 700 |
| Bank | 3 950 | ? |
| Capital | 35 000 | ? |

**REQUIRED**

**(a)** Calculate, for the year ended 31 March 2016, the value of the following:

- **(i)** revenue (sales) **[4]**
- **(ii)** purchases. **[2]**

**(b)** Prepare the income statement for the year ended 31 March 2016. **[8]**

**(c)** Prepare the statement of financial position at 31 March 2016. **[6]**

## QUESTION 4

Lache's accounting year ends on 31 December. The following information is available.

| | **2015** | **2014** |
|---|---|---|
| | **$** | **$** |
| Revenue | 750 000 | 600 000 |
| Expenses | 200 000 | 175 000 |
| Profit for the year | 100 000 | 50 000 |
| Capital | 250 000 | 250 000 |
| Bank loan repayable 30 December 2014 | ----- | 120 000 |
| Bank loan repayable 30 December 2020 | 80 000 | ----- |
| Inventory | 60 000 | 260 000 |
| Trade receivables | 22 000 | 40 000 |
| Trade payables | 50 000 | 60 000 |
| Other receivables | 1 500 | 2 500 |
| Other payables | 8 500 | 3 500 |
| Bank | 28 000 Debit | 40 000 Credit |

**REQUIRED**

**(a)** Calculate the following ratios for 2015. Comparative figures for 2014 are shown. Your answers should be calculated to one decimal place.

| | **Workings** | **Answer** | **2014** |
|---|---|---|---|
| Gross profit to revenue<br>(Gross profit margin) | | | 37.5% |
| Return on capital employed (ROCE)<br>based on profit for the year | | | 20% |
| Current ratio<br>(Working capital ratio) | | | 2.9:1 |
| Quick ratio<br>(acid test ratio) | | | 0.4:1 |

**[12]**

**(b)** Using the ratios calculated in (a) and the information provided, comment on the:

**(i)** profitability over the two years **[4]**

**(ii)** liquidity over the two years. **[4]**

## QUESTION 5

Suria is in business as a sole trader. The following balances were extracted from her books on 31 March 2016.

| | **$** |
|---|---|
| Revenue | 287 000 |
| Purchases | 143 800 |
| Returns inwards | 3 150 |

| | | |
|---|---|---|
| Inventory at 1 April 2015 | 15 340 | |
| Capital | 70 000 | |
| Drawings | 28 000 | |
| Leasehold premises at cost (25 year lease) | 100 000 | |
| Computers at cost | 44 000 | |
| Office furniture at cost | 15 500 | |
| Provisions for depreciation: | | |
| Leasehold premises | 7 000 | |
| Computers | 16 600 | |
| Office furniture | 12 000 | |
| Wages and salaries | 26 500 | |
| Computer maintenance | 12 200 | |
| Commission receivable | 4 900 | |
| Rent and rates | 10 000 | |
| Provision for doubtful debts | 910 | |
| 6% Bank loan (repayable 30 June 2016) | 40 000 | |
| Bank interest paid | 1 500 | |
| Heat and light | 7 300 | |
| Advertising | 12 600 | |
| General expenses | 8 700 | |
| Cash and bank | 520 | Debit |
| Trade payables | 18 600 | |
| Trade receivables | 27 900 | |

**Additional information at 31 March 2016**

**1** Inventory was valued at $17 990.

**2** Commission receivable of $1 400 was outstanding.

**3** Advertising included a payment of $5 700 for a series of advertisements being published in the six months ending 31 July 2016.

**4** General expenses accrued were $2 400.

**5** A computer costing $8 000 had been recorded in the computer maintenance account.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
- **(i)** an appropriate amount on the leasehold premises.
- **(ii)** computers at the rate of 25% per annum using the diminishing (reducing) balance method
- **(iii)** office furniture at the rate of 10% per annum using the straight-line method.

**7** Trade receivables of $1 900 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

**REQUIRED**

**(a)** Prepare the income statement of Suria for the year ended 31 March 2016. **[24]**

**(b)** Prepare the statement of financial position at 31 March 2016. **[16]**

# NOVEMBER 2016 - PAPER 21

## QUESTION 1

Gabi is in business buying and selling goods on credit. The following details relate to the account of her customer, Kacela, for the month of September 2016.

| | | | $ |
|---|---|---|---|
| September | 1 | Opening balance owed by Kacela to Gabi | 900 |
| | 9 | Invoice sent to Kacela | 730 |
| | 14 | Credit note sent to Kacela | 25 |
| | 30 | Cheque received and banked by Gabi | 860 |
| | 30 | Discount allowed by Gabi | 40 |

**REQUIRED**

**(a)** Prepare the account of Kacela in the books of Gabi. Balance the account and bring down the balance on 1 October. **[6]**

**(b)** Name the sub-division of Gabi's ledger which will contain the account of Kacela. **[1]**

On 30 September 2016 the balance on the bank account in the books of Gabi was $450 debit.
Gabi received a bank statement for September 2016. The differences between the bank account and the bank statement were as follows:

**1** A cheque for $50 paid to J Simpson had not been presented for payment.
**2** Bank charges, $230, had been charged to Gabi's account but were not recorded in Gabi's books.
**3** The bank had received a dividend payment, $120, which was not recorded in Gabi's books.
**4** The cheque received from Kacela, $860, was not recorded on the bank statement.

**REQUIRED**

**(c)** Update the bank account of Gabi. Balance the account and bring down the updated balance on 1 October . **[3]**

**(d)** Prepare the bank reconciliation statement on 1 October 2016. Start with the updated bank account balance. **[4]**

**(e)** Complete the table for the transactions shown. Name the source document and the book of prime entry used by Gabi. The first item has been completed as an example.

| | **Source document** | **Book of prime entry** |
|---|---|---|
| Sold goods on credit | Sales invoice | Sales journal |
| Paid wages in cash | | |
| Purchased office fixtures on credit | | |
| Goods returned by a credit customer | | |

**[6]**

## QUESTION 2

Valda prepares a monthly control account for her sales ledger.
The following information relates to the month of August 2016.

| | **Debit** | **Credit** |
|---|---|---|
| | **$** | **$** |
| Sales ledger control account balances 1 August 2016 | 18 410 | 720 |
| Sales ledger control account balances 1 September 2016 | ? | 580 |

| | $ |
|---|---|
| Cheques received | 40 500 |
| Dishonoured cheque (included in cheques received) | 800 |
| Cash sales | 8 950 |
| Discount allowed | 970 |
| Bad debt written off | 2 750 |
| Credit sales | 39 600 |
| Returns inwards | 3 900 |

**REQUIRED**

**(a)** Prepare the sales ledger control account for the month of August 2016. Balance the account and bring down the balances on 1 September. **[8]**

**(b)** State two reasons for preparing control accounts. **[2]**

Valda later found the following errors in her books.

**1** A cheque received from Fatin, $930, had been correctly entered in the cash book but had been credited to the account of Martin.

**2** The total of the discount allowed column in the cash book, $970, had been credited to the discount received account.

**3** Returns inwards of $390 had been correctly recorded in Ann's account, but had been recorded as $930 in the returns inwards account.

**REQUIRED**

**(c)** Name the type of error that Valda made by crediting Martin's account. **[1]**

**(d)** Prepare the general journal entries to correct errors 1, 2 and 3. Narratives are not required. **[7]**

Valda is considering the use of Information and Communications Technology (ICT) to prepare her books of account.

**REQUIRED**

**(e)** State **two** benefits to Valda of using Information and Communications Technology (ICT). **[2]**

## QUESTION 3

The following is an extract from the wages book of JT Manufacturing for August 2016 showing the wages paid to factory indirect labour.

**Wages book**

| **Employee** | **Hours worked** | **Rate per hour** | **Tax** | **Employee's social security contribution** | **Employer's social security contribution** | **Voluntary Contributions** | **Net pay** |
|---|---|---|---|---|---|---|---|
| | | | | **$** | **$** | **$** | **$** |
| Nazim | 160 | $5 | 210 | 80 | 120 | 0 | ? |
| Pabla | 180 | $6 | 250 | 110 | 150 | 50 | ? |
| Total | 340 | | 460 | 190 | 270 | 50 | |

**REQUIRED**

**(a)** Give **one** example of a voluntary contribution. **[1]**

**(b)** Calculate the net pay for:

Nazim **[3]**

Pabla **[3]**

**(c)** Calculate the total wages cost for factory indirect labour. **[3]**

The following balances were extracted from the books of JT Manufacturing for the month of August 2016.

| | |
|---|---|
| **Inventory at 1 August 2016** | $ |
| Raw materials | 3 800 |
| Work in progress | 7 000 |
| Purchases of raw materials | 15 600 |
| Raw materials returns outward | 1 200 |
| Rent | 9 000 |
| Direct factory expenses | 800 |
| Factory direct wages | 9 350 |
| Factory indirect labour [calculated in part(c) ] | ? |
| Factory management salaries | 14 550 |
| Office wages and salaries | 32 450 |
| Power | 4 000 |
| Depreciation on factory machinery | 6 000 |
| Depreciation on office computers | 9 000 |

**Additional information at 31 August 2016**

**1** Inventory

| | **$** |
|---|---|
| Raw materials | 5 350 |
| Work in progress | 7 500 |

**2** Rent and power are to be apportioned: 60% to the factory, 40% to the office.

**REQUIRED**

**(d)** Prepare the manufacturing account of JT Manufacturing for the month ended 31 August 2016. **[10]**

## QUESTION 4

Ng provided the following information for the year ended 30 September 2016.

| | **$** |
|---|---|
| Cost of sales | 240 000 |
| Trade payables | 180 000 |
| Trade receivables | 120 000 |
| 8% Bank loan (repayable 2024) | 30 000 |
| Bank | 20 000 Credit |
| Closing inventory | 130 000 |
| | |
| Gross profit margin | 25% |

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2016. Comparative figures for the previous year are shown.

| | Year ended 30 September 2016 | | Year ended 30 September 2015 |
|---|---|---|---|
| | Workings | Answer | |
| Revenue | | | $220 000 |
| Working capital ratio (Current ratio) (to two decimal places) | | | 1.93:1 |
| Quick ratio (acid test ratio) (to two decimal places) | | | 1.12:1 |

**[8]**

**(b)** Comment on the liquidity position of Ng over the two years. **[3]**

On 31 October 2016 Ng had $15 000 in his business bank account. He is considering ways to further improve his working capital.

**REQUIRED**

**(c)** Complete the table showing the effect on the working capital of the following proposals. The first item has been completed as an example.

| Proposal | Effect on | | |
|---|---|---|---|
| | Current assets | Current liabilities | Working capital |
| Sell $15 000 non-current assets for cash. | *+ $15 000* | *No effect* | *+$15 000* |
| Introduce additional capital of $10 000, consisting of $5000 in cash and $5000 non-current assets. | | | |
| Obtain an additional bank loan for $30 000, repayable in equal instalments over five years. | | | |
| Offer trade receivables a cash discount of 10% for quick payment. Credit customers owing $60 000 will accept this offer. | | | |

**[9]**

## QUESTION 5

Li and Yang are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 4% per annum and is charged on drawings at the rate of 10% per annum.
Partners are entitled to annual salaries, Li $8 000 and Yang $5 000.

The following balances were extracted from the books on 30 September 2016.

| | $ |
|---|---|
| Capital accounts | |
| Li | 50 000 |
| Yang | 50 000 |
| Current accounts | |
| Li | 4 300 Credit |
| Yang | 2 900 Credit |
| Drawings | |
| Li | 15 000 |
| Yang | 9 000 |
| Land and buildings (cost) | 200 000 |
| Computing equipment (cost) | 60 000 |
| Office fixtures (cost) | 35 000 |

| | |
|---|---|
| Provisions for depreciation | |
| Land and buildings | 22 000 |
| Computing equipment | 20 000 |
| Office fixtures | 10 000 |
| Provision for doubtful debts | 2 000 |
| Revenue | 625 000 |
| Inventory at 1 October 2015 | 52 600 |
| Purchases | 295 000 |
| Returns from customers | 15 750 |
| Returns to supplier | 4 850 |
| General expenses | 27 500 |
| Heat and light | 5 300 |
| Marketing expenses | 41 000 |
| Wages and salaries | 153 000 |
| Administration expenses | 16 800 |
| 5% Bank loan (repayable 2021) | 120 000 |
| Bank loan interest paid | 4 000 |
| Trade receivables | 69 200 |
| Trade payables | 62 500 |
| Bank | 25 600 Credit |

**Additional information**

**1** Inventory at 30 September 2016 was $57 900.

**2** A sale of goods made on credit on 26 September, $2 800, had not been recorded in the books.

**3** At 30 September 2016 marketing expenses, $1 100, were accrued whereas administration expenses $250, were prepaid.

**4** The partners' salaries had been paid to Li and Yang. These had been posted to the wages and salaries account.

**5** Office fixtures costing $5 000 and with an accumulated depreciation of $3 000 had been sold for $2 000. A cheque was received on 20 August 2016. No entries had been recorded in the books.

**6** Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

- **(i)** buildings at the rate of 2% per annum. The buildings have a cost of $100 000. No depreciation is charged on land.
- **(ii)** computing equipment at the rate of 30% per annum using the diminishing (reducing) balance method.
- **(iii)** office fixtures at the rate of 20% per annum using the straight-line method.

**7** Trade receivables include a debt of $4 000 which is considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

**REQUIRED**

**(a)** Prepare the income statement and appropriation account for the year ended 30 September 2016. **[19]**

**(b)** Prepare the current accounts for the year ended 30 September 2016. Balance the accounts and bring down the balances on 1 October 2016. **[5]**

**(c)** Prepare the statement of financial position at 30 September 2016. **[16]**

# NOVEMBER 2016 - PAPER 22

## QUESTION 1

The following balances remained in the books of Fabio at 30 June 2016. He was aware that there were some book-keeping errors and that the trial balance would not balance.

| | $ |
|---|---|
| Motor vehicle | 9 500 |
| Trade payables | 8 500 |
| Inventory | 4 850 |
| Revenue (Sales) | 22 000 |
| Purchases | 14 400 |
| Bank loan | 2 000 |
| Bank overdraft | 1 630 |
| Trade receivables | 7 250 |
| Capital | 3 000 |

**REQUIRED**

**(a)** Complete the trial balance at 30 June 2016, balancing the trial balance by the use of an appropriate account. **[4]**

On inspection of his books, Fabio located the following errors.

**1** A sale of goods, $850, had been correctly recorded in the account of a credit customer, but had been recorded in the revenue (sales) account as $580.

**2** A purchase of goods, $700, had been correctly entered in the account of a credit supplier, but had been credited to the purchases account.

**REQUIRED**

**(b)** Prepare the general journal entries to correct errors 1 and 2. Narratives are **not** required. **[4]**

**(c)** Complete the following table for each of Fabio's transactions in July 2016. If the capital is not affected write 'No effect'. The first transaction has been completed as an example.

| **Transaction** | **Book of prime entry** | **Account to be debited** | **Account to be credited** | **Effect on capital $** |
|---|---|---|---|---|
| Sold goods costing $900 on credit to Noah for the list price of $1 500. | *Sales Journal* | *Noah* | *Revenue (Sales)* | *+$600* |
| Noah returned goods with a list price of $100 | | | | |
| Paid Sophie a cheque for $610. | | | | |
| A debt, $230, owed by Zain was written off. | | | | |

**[12]**

## QUESTION 2

Lyana is preparing her financial statements. She provides the following information.

1 October 2015 Rent receivable account $2 500 Credit

The bank account contained the following entries.

| **Receipts** | |
|---|---|
| 31 December 2015 | Rent received by cheque $6 700 |
| 30 April 2016 | Rent received by cheque $3 100 |
| **Payments** | |
| 31 January 2016 | Refund for overpayment of rent receivable $700 |

**Additional information**
The rent receivable amounts to $12 000 a year.

**REQUIRED**

**(a)** Prepare the rent receivable account for the year ended 30 September 2016. Make the transfer to the income statement and bring down the balance on 1 October 2016. **[5]**

After preparing the draft income statement, which showed a profit for the year of $24 000, Lyana discovered some errors.

**REQUIRED**

**(b)** Complete the following table showing the effect on the profit for the year of correcting each error. Calculate the revised profit for the year.

| | **Increase** | **Decrease** | **Net** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Profit for the year | | | 24 000 |
| Purchases of $500 had not been recorded in the books. | | | |
| Goods, $800, had been counted twice in the closing inventory. | | | |
| No adjustment had been made for prepaid insurance $950. | | | |
| Discount allowed, $1600, had been added to gross profit. | | | |
| Equipment costing $15 000 (accumulated depreciation $6600) had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%. | | | |
| Commission receivable, $400, had been omitted from the draft income statement. | | | |
| | | | |
| Revised profit for the year | | | |

**[8]**

**(c)** Define the term 'revenue receipt'. **[2]**

**(d)** Complete the following table by inserting a (✓) showing whether **each** transaction is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt. The first one has been completed as an example.

| **Transaction** | **Revenue** | | **Capital** | |
|---|---|---|---|---|
| | **Expenditure** | **Receipt** | **Expenditure** | **Receipt** |
| Sold office computer | | | | ✓ |
| Received interest on deposit account | | | | |
| Took out a 5-year bank Loan | | | | |
| Paid property insurance | | | | |
| Bought motor vehicle to deliver goods | | | | |
| Received commission | | | | |

**[5]**

## QUESTION 3

Cam Limited provided the following information.

| | |
|---|---|
| At 1 October 2015 | **$** |
| Issued share capital $1 Ordinary shares | 70 000 |
| General reserve | 40 000 |
| Debentures (Repayable 2025) | 50 000 |
| Retained profits | 92 000 |
| For the year ended 30 September 2016 | |
| Profit for the year | 75 000 |
| Interim dividend paid on ordinary shares | 7 000 |

**Additional information**

**1** On 1 November 2015 an additional 30 000 ordinary shares of $1 each were issued.

**2** On 30 September 2016 the directors:
transferred $80 000 to the general reserve,
paid a final ordinary dividend of $0.20 per share on all issued shares.

**REQUIRED**

**(a)** Complete the statement of changes in equity for the year ended 30 September 2016.

| | **Share Capital $** | **General Reserve $** | **Retained Profits $** | **Total $** |
|---|---|---|---|---|
| Balance at 1 October 2015 | 70 000 | 40 000 | 92 000 | 202 000 |
| Share issue | | | | |
| Profit for the year | | | | |
| Transfer to general reserve | | | | |
| Dividend paid (interim) | | | | |
| Dividend paid (final) | | | | |
| Balance at 30 September 2016 | | | | |

**[8]**

**(b)** Prepare an extract from the statement of financial position showing the equity, reserves and non-current liabilities of Cam Limited at 30 September 2016. **[6]**

**(c)** Suggest two possible reasons why the directors of Cam Limited transferred $80 000 to the general reserve. **[2]**

**(d)** State **two** differences between ordinary shares and debentures. **[4]**

## QUESTION 4

Zahin is a trader, buying and selling goods on credit. The following information is available on 31 August 2016.

| | **$** |
|---|---|
| Capital | 60 000 |
| Bank loan (repayable 2020) | 20 000 |
| Inventory 1 September 2015 | 29 000 |
| Inventory 31 August 2016 | 31 000 |
| Purchases | 170 000 |

| | |
|---|---|
| Percentage of gross profit to revenue (Gross profit margin) | 25% |
| Percentage of profit for the year to revenue (Profit margin) | 5% |

**REQUIRED**

**(a)** Calculate the following for the year ended 31 August 2016. Comparative figures for the previous year are shown.

| | Year ended 31 August 2016 | | Year ended 31 August 2015 |
|---|---|---|---|
| | Workings | Answer | |
| Revenue for the year | | | $200 000 |
| Percentage mark-up | | | 27% |
| Expenses for the year | | | $36 000 |
| Return on capital employed (ROCE) based on profit for the year | | | 21% |

**[10]**

**(b)** Give three comments about the performance of Zahin's business over the two years. **[6]**

Zahin is considering changes to his accounting policies.

**REQUIRED**

**(c)** Complete the table naming one principle or concept which has not been complied with if each proposed action is implemented. The first item has been completed as an example.

| **Proposed action** | **Principle or concept** |
|---|---|
| Revalue his premises, recording the increase in market value as a profit | *Historic cost* |
| Include a value for business reputation in his income statement | |
| Record his drawings in the income Statement | |
| Stop charging depreciation on non-current assets for the year | |
| Do not provide for trade debts which are probably irrecoverable | |

**[4]**

## QUESTION 5

The following balances were extracted from the books of Project Manufacturing on 30 September 2016.

| | **$** |
|---|---|
| Capital | 140 000 |
| Drawings | 39 800 |
| Revenue (Sales) | 380 000 |
| Purchases of finished goods | 36 000 |
| Factory managers' salaries | 29 000 |
| Office wages and salaries | 50 000 |
| Premises maintenance | 11 000 |
| Royalties | 8 000 |
| Factory wages | 73 000 |
| Rent | 16 400 |
| Insurance | 5 000 |

| | |
|---|---:|
| Advertising expenses | 15 400 |
| Administration and finance costs | 9 500 |
| Factory machinery (cost) | 115 000 |
| Office fixtures (cost) | 14 000 |
| Provisions for depreciation | |
| Factory machinery | 50 000 |
| Office fixtures | 6 200 |
| Purchases of raw materials | 106 000 |
| Inventory at 1 October 2015 | |
| Raw materials | 8 700 |
| Work in progress | 19 000 |
| Finished goods | 34 100 |
| Provision for doubtful debts | 900 |
| Trade receivables | 32 000 |
| Commission received | 3 000 |
| Trade payables | 18 700 |
| Bank overdraft | 23 100 |

**Additional information at 30 September 2016**

**1** Inventory

| | **$** |
|---|---:|
| Raw materials | 9 750 |
| Work in progress | 17 550 |
| Finished goods | 40 400 |

**2** Expenses are to be apportioned to the factory and the office as follows:

| | **Factory** | **Office** |
|---|:---:|:---:|
| Insurance | 80% | 20% |
| Rent | 75% | 25% |
| Premises maintenance | 60% | 40% |

**3** Administration and finance costs owing were $750.
**4** Advertising expenses of $1 200 were prepaid.
**5** Depreciation is to be charged as follows:
- **(i)** factory machinery at 20% per annum using the diminishing (reducing) balance method
- **(ii)** office fixtures at 10% per annum using the straight-line method.

**6** A provision for doubtful debts is to be maintained at the rate of 5%.

**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 30 September 2016. Show clearly the prime cost and the cost of production. **[15]**

**(b)** Prepare the income statement for the year ended 30 September 2016. **[14]**

**(c)** Prepare the statement of financial position at 30 September 2016. **[11]**