

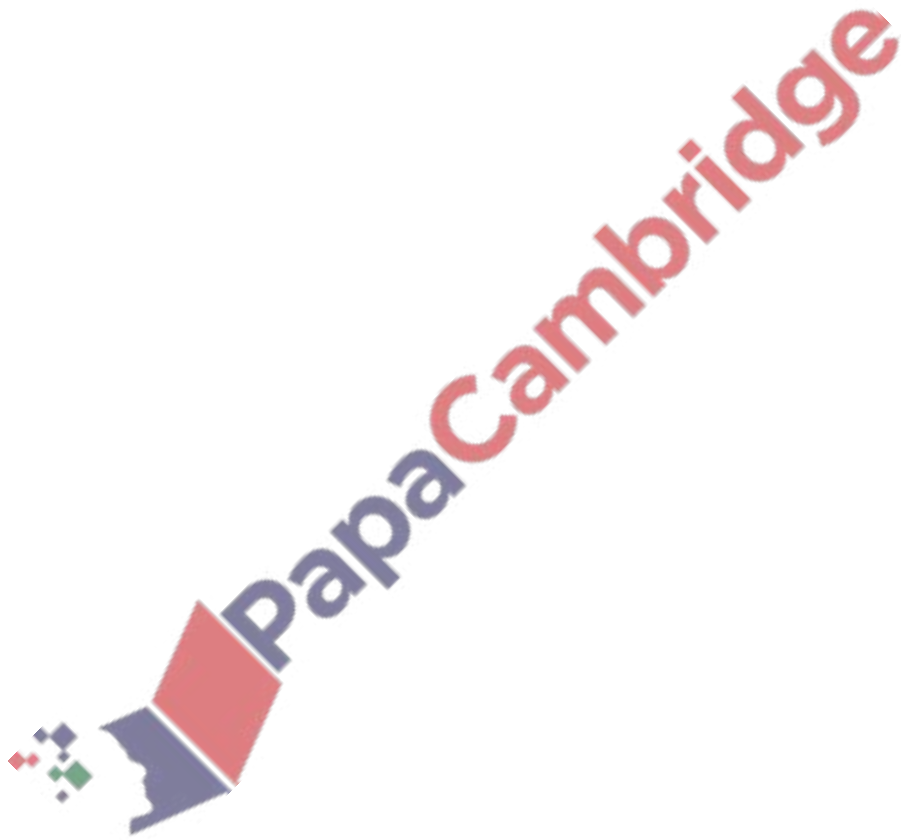
**TOPICAL  
PAST PAPERS**

0452

# **ACCOUNTING**

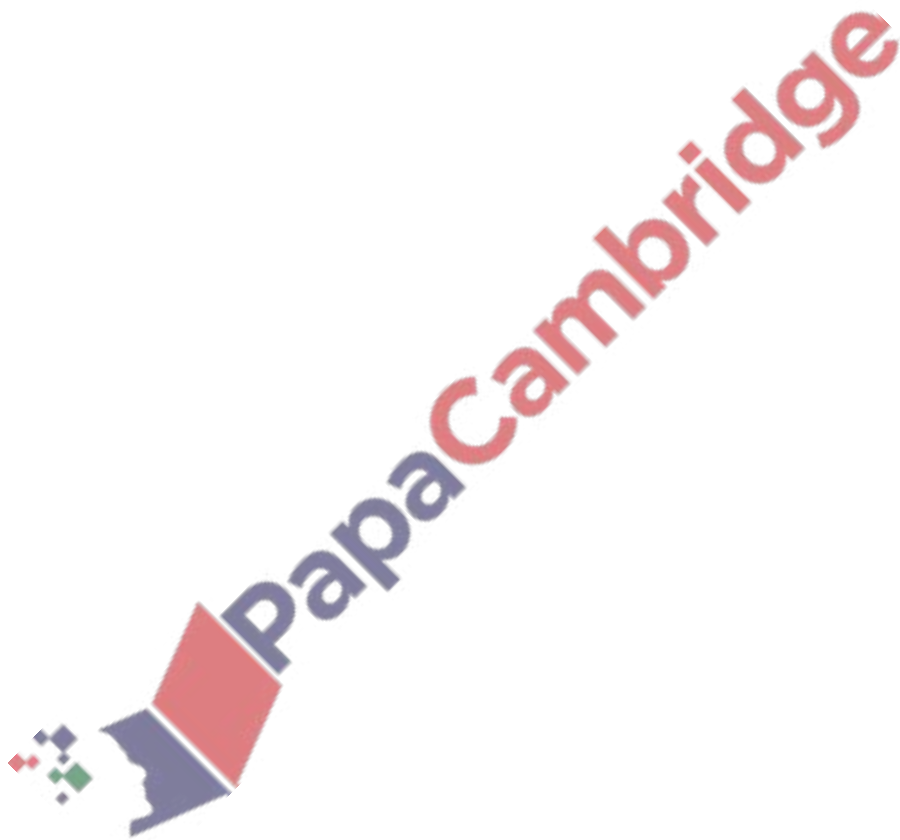
## **PAPER-2**

**IGCSE LEVEL ACCOUNTING**  
**PAPER 2 (TOPICAL & YEARLY)**  
**All Variants (2017 edition)**



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## PREFACE

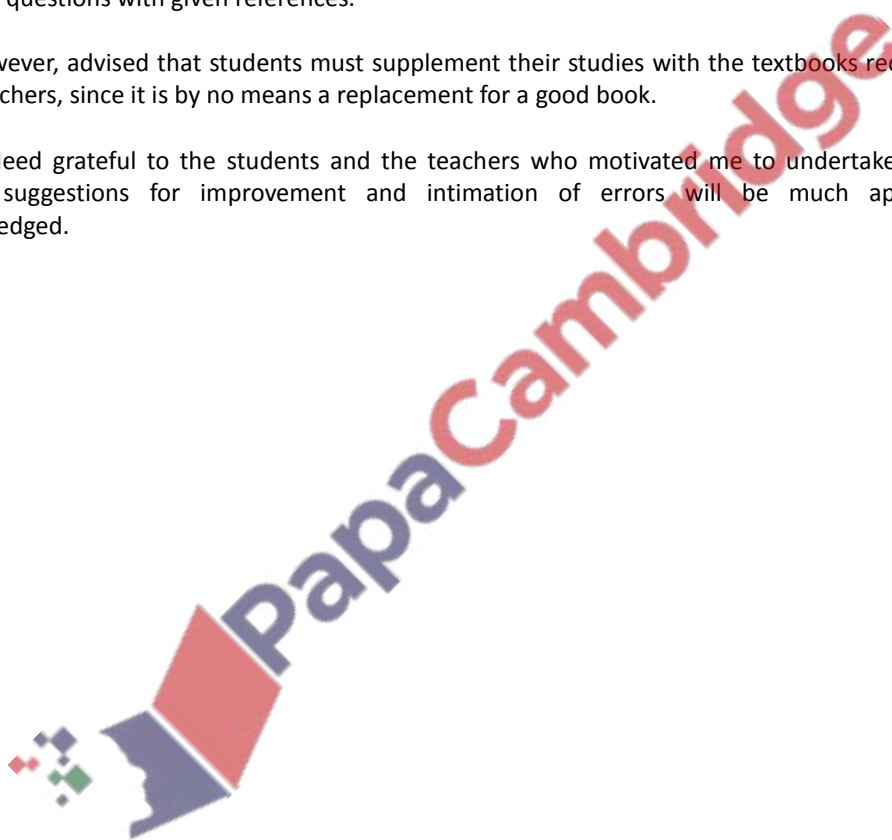
Being in accordance with the IGCSE– 0452 (syllabus followed in Pakistan), the book provides an opportunity to strengthen the level of understanding and preparation for Cambridge exams.

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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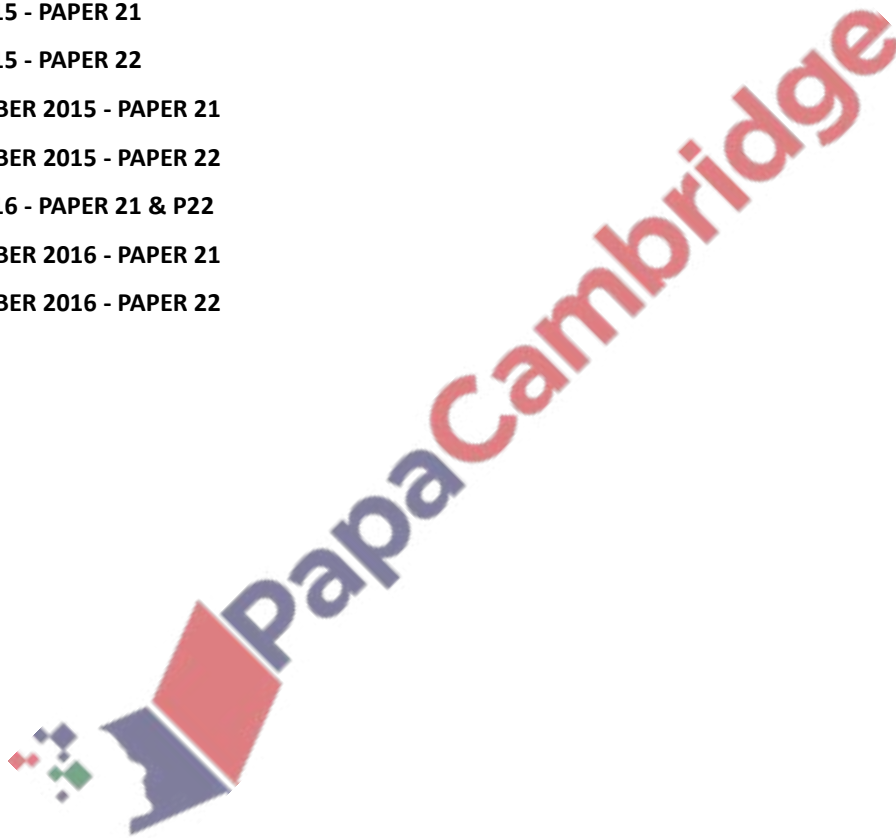
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**CHAPTER 1****ACCOUNTING BASICS****QUESTION 1****SPECIMEN 2010 P2 Q1 (e)**

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.	<i>Increased</i>	<i>\$10,000</i>
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.

	<b>Proposal</b>	<b>Accounting principle/concept</b>
1	Change the depreciation methods for non-current Assets	<i>Consistency</i>
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.

<b>Proposed action</b>	<b>Principle or concept</b>
Revalue his premises, recording the increase in market value as a profit	<i>Historic cost</i>
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 &amp; 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		<u>3 000</u>
	<u>15 400</u>	<u>15 400</u>

**QUESTION 5 NOVEMBER 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 -\$800	No effect	+ \$330 (\$1130-\$800)
(iii)	Paid creditor \$500 by cheque, less 3% cash discount.	-\$485 (\$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
<b>1</b>	Remove the provision for doubtful debts from the income statement.	Prudence/Matching
<b>2</b>	Increase the value of the premises from cost to the current market value.	Historic cost
<b>3</b>	Reduce the depreciation rate on computers from 30% to 10% per annum.	Consistency or Prudence
<b>4</b>	Record expenses paid without adjustment for amounts owing.	Accrual/Matching

**QUESTION 11****MAY 2015 P21 Q4 (d)**

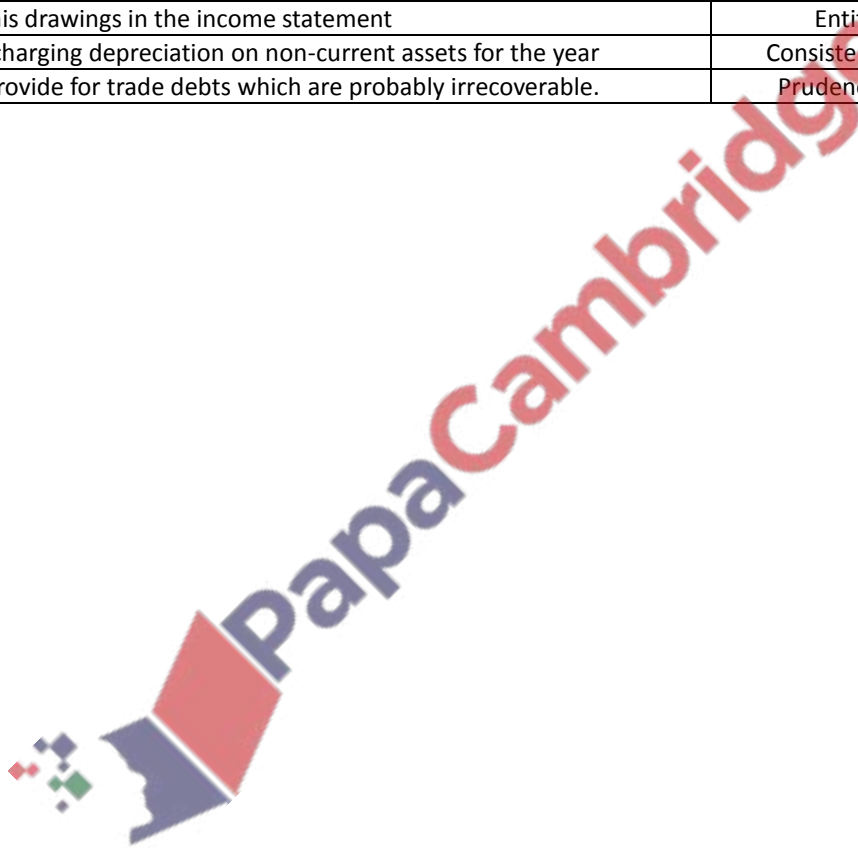
	Proposal	Accounting concept
<b>1</b>	Change the depreciation methods for noncurrent Assets	Consistency
<b>2</b>	Remove the provision for doubtful debts from the financial statements	Prudence or Matching
<b>3</b>	Value the inventory at market price	Historic cost
<b>4</b>	Place a value on the skill of the workforce in the financial statements	Money measurement
<b>5</b>	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)
	<b>Principle or concept</b>
Revalue his premises recording the increase in market value as a profit	<i>Historic cost</i>
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 on 15 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	

- (b) State the type of discount recorded in the ledger account on 4 July. [2]  
 (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	

- (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:
- Capital
  - Capital employed
- [2]

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

- Bought goods on credit from Henry, \$200.
- Sold goods costing \$300, to Mary for the selling price of \$500, on credit.
- Sent Henry a cheque for \$190 in full settlement of his debt of \$200.
- 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	<i>Purchases Journal</i>	<i>Purchases</i>	<i>Henry</i>	<i>\$ Nil</i>
2				
3				
4				

[12]

- (c) State the purpose of the three documents used in transactions 2 to 4 above.
- Invoice [2]
  - Cheque counterfoil [2]
  - 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	<i>Cheque counterfoil</i>	<i>Cash book</i>	<i>+\$30</i>
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	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
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. Mary bought a motor vehicle, \$15 000. [2]
- (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	<i>Purchase invoice</i>	<i>Purchases journal</i>	<i>No effect</i>
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	<i>Purchase invoice</i>	<i>Purchases journal</i>
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.	<i>Sales invoice</i>	<i>Sales journal</i>	<i>Yash</i>	<i>Sales</i>
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 (\$)
<b>April 5</b>	Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount	<i>Cheque Counterfoil</i>	<i>Cash book</i>	<i>+30</i>
<b>April 8</b>	Bought goods on credit from Putil, \$800, less 20% trade discount			
<b>April 19</b>	Paid wages in cash \$450			
<b>April 23</b>	Returned goods, list price \$200, purchased on 8 April			
<b>April 26</b>	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.

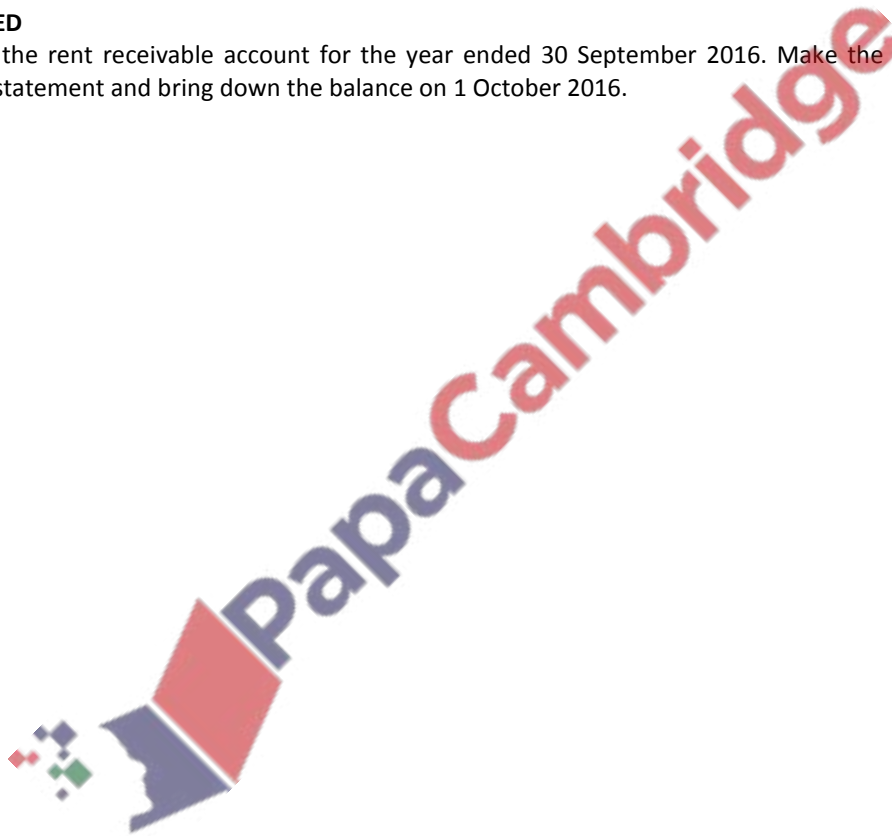
<b>Receipts</b>	
31 December 2015	Rent received by cheque \$6 700
30 April 2016	Rent received by cheque \$3 100
<b>Payments</b>	
31 January 2016	Refund for overpayment of rent receivable \$700

**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 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 purpose 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
		<u>16 100</u>			<u>16 100</u>

**Inventory account**

2009		\$	2009		\$
Sep 16	Balance b/f	1 800	Sep 30	Income statement	1 800
Sep 30	Income statement	<u>1 470</u>	Sep 30	Balance c/d	<u>1 470</u>
		<u>3 270</u>			<u>3 270</u>
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
		<u>      </u>	Sep 30	Balance c/d	<u>250</u>
		<u>1 450</u>			<u>1 450</u>
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	<u>400</u>	Sep 27	Bad debts	<u>2 510</u>
		<u>2 550</u>			<u>2 550</u>

## 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 &amp; 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
		<u>      </u>	30	Balance c/d	<u>450</u>
		<u>870</u>			<u>870</u>
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 ( $\$360 \times \frac{1}{12}$ )	30
Sep 01	Bank	<u>360</u>	Sep 30	Balance c/d	<u>610</u>
		<u>640</u>			<u>640</u>
Oct 01	Balance b/d	610			

## Gul &amp; 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
		<u>1 810</u>	Sep 30	Balance c/d	<u>1 360</u>
Oct 01	Balance b/d	1 360			<u>1 810</u>

(c)

Account	Ledger
Insurance Gul & Co	General or Nominal Ledger 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 = (\$120 000 + \$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	<u>142</u>
		<u>350</u>			<u>350</u>
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**

<b>2012</b>		<b>\$</b>	<b>2012</b>		<b>\$</b>
Mar 01	Balance b/f	3 000	Mar 20	Return in [ $\$200 - (\$200 \times 20\%)$ ]	160
Mar 17	Sales [ $\$1\ 000 - (\$1\ 000 \times 20\%)$ ]	800	Mar 30	Bank	650
			Mar 30	Bad debts (balancing figure)	<u>2 990</u>
		<u>3 800</u>			<u>3 800</u>

**(b)** Credit note**(c)** General Journal**QUESTION 10****MAY 2012 P22 Q1 (b & c)**

<b>(b)</b>		<b>Source document</b>	<b>Book of prime entry</b>	<b>Effect on owner's capital</b>
May 1	<i>Paid Early Ltd \$570, after deducting \$30 cash discount</i>	<i>Cheque counterfoil</i>	<i>Cash book</i>	<i>+\$30</i>
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**

<b>2012</b>		<b>\$</b>	<b>2012</b>		<b>\$</b>
May 01	Bank	570	May 01	Balance b/f	1 200
May 01	Discount received	30			
May 31	Balance c/d	<u>600</u>			
		<u>1 200</u>	Jun 01	Balance b/d	<u>600</u>

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

(a) **Savvas Account**

		\$			\$
2011			2011		
Sep 08	Returns out [ $\$240 - (240 \times 15\%)$ ]	204	Sep 01	Balance b/f	1 500
Sep 25	Bank [ $(\$1 500 - (\$1 500 \times 4\%))$ ]	1 440	Sep 08	Purchases [ $\$800 - (\$800 \times 15\%)$ ]	680
Sep 25	Discount received ( $\$1 500 \times 4\%$ )	60			
Sep 30	Balance c/d	<u>476</u>			
		<u>2 180</u>	Oct 01	Balance b/d	<u>476</u>

(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 [ $\$50 - (\$50 \times 10\%)$ ]	45
Aug 18	Rapid Office Supplies ( $500 \times 90\%$ )	450	Sep 30	Income statement (balancing fig.)	390
Aug 20	Cash	150	Sep 30	Balance c/d	<u>225</u>
		<u>660</u>			<u>660</u>
Oct 1	Balance b/d	225			

**Rapid Office Supplies account**

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

- (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		<u>1 650</u>
	<u>2 250</u>	<u>2 250</u>

**(b)**

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital \$
Purchased goods, \$600, on credit from Punto	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
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	3 000	Dec 31	Income statement	12 000
Apr 01	Bank	3 000			
Jul 01	Bank	3 000			
Dec 31	Balance c/d (balancing figure)	<u>3 000</u>			
		<u>12 000</u>			<u>12 000</u>

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

**(c) Rent Received account**

2012		\$	2012		\$
Dec 31	Income statement (\$5 400 × $\frac{5}{12}$ )	2 250	Aug 01	Bank (\$5 400 × $\frac{1}{4}$ )	1 350
Dec 31	Balance c/d (balancing figure)	<u>450</u>	Nov 01	Bank \$5 400 × $\frac{1}{4}$ )	<u>1 350</u>
		<u>2 700</u>			<u>2 700</u>

- (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 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× <sup>2</sup> / <sub>3</sub> )	200
Apr 30	Bank		840			
			<u>1 100</u>			<u>1 100</u>
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		
			<u>12 350</u>	Apr 30	Income statement (bal. figure)	<u>12 000</u>
				May 1	Balance b/d	<u>1 000</u>

(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
		<u>1 626</u>			<u>1 626</u>
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 &amp; 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**

		\$			\$
<b>2014</b>			<b>2014</b>		
Apr 01	Balance b/f	800	Apr 10	Sales returns [ $\$100 - (\$100 \times 20\%)$ ]	80
Apr 08	Sales [ $\$900 - (\$900 \times 20\%)$ ]	720	Apr 18	Discount allowed ( $\$800 \times 2.5\%$ )	20
			Apr 18	Bank ( $\$800 - \$80$ )	780
			Apr 30	Balance c/d	<u>640</u>
		<u>1 520</u>			<u>1 520</u>
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**

		\$			\$
<b>2013</b>			<b>2014</b>		
Apr 01	Balance b/f	500	Mar 31	Income statement (balancing figure)	4350
<b>2014</b>			Mar 31	Balance c/d (prepayment)	150
Mar 31	Bank	<u>4 000</u>			
		<u>4 500</u>			<u>4500</u>

**Commission receivable account**

		\$			\$
<b>2014</b>			<b>2013</b>		
Mar 31	Income Statement (bal. figure)	1 650	Apr 01	Balance b/f	250
			<b>2014</b>		
			Mar 31	Bank	1 200
			Mar 31	Balance c/d (arrears)	<u>200</u>
		<u>1 650</u>			<u>1650</u>

**QUESTION 21****MAY 2014 P22 Q1 (b to d)****(b) Hajar account**

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

<b>Assets:</b>		\$	\$
Inventory		1 950	
Bank		550	
Fixtures and fittings		<u>1 500</u>	4 000
<b>Liabilities:</b>			
Trade payable		400	
5% Bank loan		<u>2 500</u>	<u>(2 900)</u>
Owner's capital			<u>1 100</u>

(ii) Calculation of capital employed

Owner's capital	\$	1 100
5% Bank loan (repayable 30 April 2018)		<u>2 500</u>
Capital Employed		<u>3 600</u>

(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%)	<u>24</u>			
		<u>1 600</u>			<u>1 600</u>

Telephone expenses account

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

(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 ( $3000 \times 50\% \times 2\%$ )	30	Apr 01	Balance b/f	3 000
Apr 05	Bank [ $(\$3\ 000 \times 50\%) - \$30$ ]	1 470	Apr 08	Purchases [ $\$800 - (\$800 \times 20\%)$ ]	640
Apr 23	Returns out [ $\$200 - (\$200 \times 20\%)$ ]	160			
Apr 30	Balance c/d	<u>1 980</u>			
		<u>3 640</u>	May 01	Balance b/d	<u>1 980</u>

(c)

**Wages account**

2015		\$	2015		\$
Apr 01	Balance b/f (prepayment)	1 750	Apr 30	Income statement (bal. figure)	2 050
Apr 19	Cash	<u>450</u>	Apr 30	Balance c/d (prepayment)	<u>150</u>
		<u>2 200</u>			<u>2 200</u>
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 ( $\$200 \times 3\%$ )	6	Jul 01	Balance b/f	200
Jul 12	Bank ( $\$200 - \$6$ )	194	Jul 15	Motor van expenses	120
Jul 31	Balance c/d	<u>460</u>	Jul 26	Motor expenses [ $\$400 - (400 \times 15\%)$ ]	<u>340</u>
		<u>660</u>	Aug 1	Balance b/d	<u>460</u>

**(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 ( $\$400 \times 85\%$ )	340			
Jul 31	Balance b/d	<u>125</u>			
		<u>3 985</u>	Aug 1	Balance b/d	<u>125</u>

**(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 [ $\$350 - (\$350 \times 20\%)$ ]	280
05	Sales [ $\$1\,800 - (\$1\,800 \times 20\%)$ ]	1 440	21	Bank	800
		<u>2 190</u>	22	Bad debts (balancing figure)	<u>1 110</u>
					<u>2 190</u>

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

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

- (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)	<u>5 650</u>
Capital at 1 May 2015	<u>2 300</u>

**(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	<u>1 173</u>
		<u>1 875</u>			<u>1 875</u>
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)	<u>55</u>	May 31	Income Statement (balancing fig.)	<u>295</u>
		<u>495</u>			<u>495</u>
			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	<u>705</u>
		<u>1 630</u>			<u>1 630</u>
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 ( $\$100 \times \frac{\$600}{\$1\,500}$ )
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
			<b>2016</b>		
			April 30	Bank	3 100
			Sept 30	Balance c/d (balancing figure)	<u>400</u>
		<u>12 700</u>			<u>12 700</u>
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.

		Dr	Cr	Balance
April		\$	\$	\$
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	Apr 12	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	<u>625</u>	30	Balance c/d	<u>705</u>
		<u>2 520</u>			<u>2 520</u>
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	
<b>2009</b>		<b>\$</b>	<b>2009</b>		<b>\$</b>
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	<u>1 500</u>			
		<u>2 204</u>			<u>2 204</u>
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	<u>1 150</u>
Balance as per bank statement	<u>1 594</u>

## QUESTION 2

MAY 2010 P21 Q1 (c &amp; d)

(c) Cash book (bank columns only)

2010		\$	2010		\$
Apr 01	Balance b/d	650	Apr 12	Kwan	730
08	Pacific Traders	1 500	15	Interest	12
16	Dividends	130	17	Headland Garage	75
18	Stanton & Co	<u>96</u>	20	Balance c/d	<u>1 559</u>
		<u>2 376</u>			<u>2 376</u>
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)	<u>(96)</u>
Balance as per Bank Statement	<u>1 538</u>

## 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	<u>662</u>
		<u>2 550</u>			<u>2 550</u>

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

2011		\$	2011		\$
May 01	Balance b/f	662	May 01	Balance c/d	686
May 01	Dividend	<u>24</u>			
		<u>686</u>			<u>686</u>

**(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	<u>(1 920)</u>
Balance as per Bank Statement (Dr)	<u>804</u>

**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	<u>520</u>
		<u>2 135</u>			<u>2 135</u>
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	<u>37</u>	<u>110</u>
		579
Less Un-presented – Zaine		<u>59</u>
Balance as per cash book (Dr)		<u>520</u>

**(c) Standing order****QUESTION 5****NOVEMBER 2015 P22 Q1 (a & b)****(a) Cash Book (Bank Columns)**

2015		\$	2015		\$
Oct 01	Details		Oct 01	Details	
	Balance b/d	705		Bank charges	35
				Ng	150
				YJ Electric	250
				Balance c/d	<u>270</u>
		<u>705</u>			<u>705</u>

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

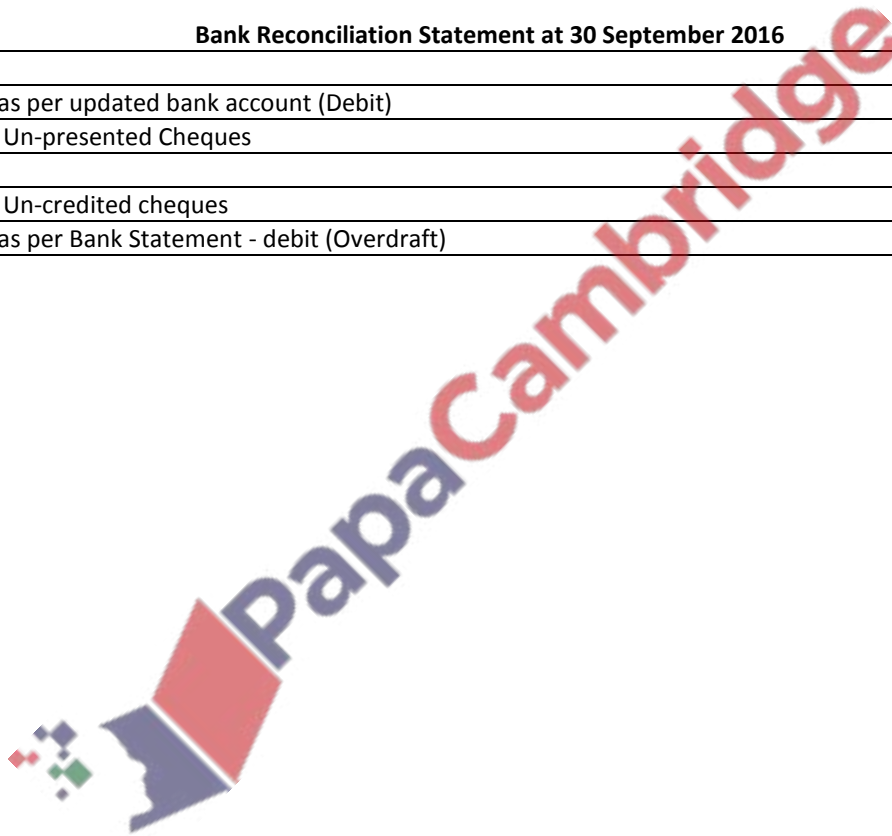
	\$
Balance as per adjusted cash book (Dr)	270
Add Un-presented Cheques (\$849 + \$364 + \$500)	1 713
Less Un-credited Cheques (Sampson)	<u>(625)</u>
Balance as per bank statement	<u>1 358</u>

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

<b>(c)</b>		<b>Updated Bank account</b>			
<b>2016</b>		<b>\$</b>	<b>2016</b>		<b>\$</b>
Sept 30	Balance b/f	450	Sept 30	Bank charges	230
Sept 30	Dividend	<u>120</u>	Sept 30	Balance c/d	<u>340</u>
		<u>570</u>			<u>570</u>
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	<u>50</u>
	390
Less Un-credited cheques	<u>(860)</u>
Balance as per Bank Statement - debit (Overdraft)	<u>470</u>



**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)**

Cadmere Limited is a manufacturing business. One of the factory workers of Cadmre 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]

Cadmere 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	<u>180</u>	<u>\$6</u>	<u>250</u>	<u>110</u>	<u>150</u>	<u>50</u>	<u>?</u>
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)	<u>60</u>
	750
Less Tax and social security deduction (\$750 × 40%)	<u>300</u>
Net wages payable to the café manager	<u>450</u>

- (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 <sup>1</sup> / <sub>2</sub> )	<u>90</u>
Total gross Wages (pay)	1 050
Less Tax and social security	<u>(150)</u>
Wages paid in cash	<u>900</u>

- (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	<u>150</u>
Total tax and social security payable	<u>255</u>

**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	<u>(136)</u>
Net wages	<u>509</u>

**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)	<u>80</u>
Total Gross pay	1 080
Less Statutory deductions (\$1 080 × 15%)	<u>162</u>
Net pay	<u>918</u>

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

	\$
Gross pay	1 080
Add Indra's contribution (\$1 080 × 10%)	<u>108</u>
Cost of employment	<u>1 188</u>

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

<b>(b) (i)</b>	Gross pay [(160 hours @ \$5) + (20 hours @ \$7.50)]	\$950
	Tax and social security deduction	<u>\$165</u>
	Susan's net pay	<u>\$785</u>
<b>(ii)</b>	Gross wages and salaries [(160 hours @ \$5) + (20 hours @ \$7.50)]	\$950
	Tsang's share of Social security	<u>\$ 90</u>
	Total Wages and salaries expense	<u>\$1 040</u>

**(c) Tsang' Journal**

2010		Dr \$	Cr \$
Mar 31	Wages and salaries [ <b>b (ii)</b> ]	1 040	
	Bank [ <b>b (i)</b> ]		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	<u>47 900</u>	
	51 300	
Inventory 31 March	<u>(2 900)</u>	<u>(48 400)</u>
Gross profit		16 600
Other Incomes		
Discount received		<u>300</u>
		16 900
Expenses		
Wages and salaries		<u>(2 500)</u>
Profit for the year		<u>14 400</u>

**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%)	<u>35</u>
Total cost of employing Rose for one week	<u>385</u>

**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	<u>(160)</u>
Net pay	<u>734</u>

**(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	<u>95</u>
Cost of employing Hui	<u>\$989</u>

**(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	<u>145</u>
Net pay	<u>725</u>

**(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	<u>87</u>
Total cost of employing Fan	<u>957</u>

**QUESTION 9****MAY 2013 P22 Q3**

<b>(a) Employee 001</b>	\$
Gross pay	2 200
Tax	(440)
Employee's social security contributions	<u>(132)</u>
Net pay	<u>1 628</u>

<b>Employee 002</b>	<b>\$</b>
Gross pay	2 600
Tax	(520)
Employee's social security contributions	(156)
Charitable donations	<u>(25)</u>
Net pay	<u>1 899</u>

<b>(b)</b>	<b>\$</b>
Total gross pay	4 800
Employer's Social security contributions	<u>432</u>
Total cost	<u>5 232</u>

**(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%)	<u>(248)</u>
Net pay	<u>992</u>

**(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)	<u>248</u>
Total owed to the tax and social security authorities for May 2013	<u>372</u>

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

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

	\$
Gross Pay $\{[(160 \text{ hours} \times \$8)] + [40 \text{ hours} \times (\$8 \times 1.5)] + [(20 \text{ hours} \times (\$8 \times 2))]\}$	\$2 080
Less Tax and social security deduction	<u>(240)</u>
Net pay for April	<u>1 840</u>

**(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%)	<u>\$208</u>
Total contribution to social security	<u>\$448</u>

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

<b>(b)</b>	<b>\$</b>	<b>\$</b>
Gross pay [(140 hours @ \$6) ; (28 hours @ \$7.50)]		1 050
Less Tax and social security deductions	250	
Pension contribution	<u>60</u>	<u>(310)</u>
Net pay		<u>740</u>

**(c)** Pay slip

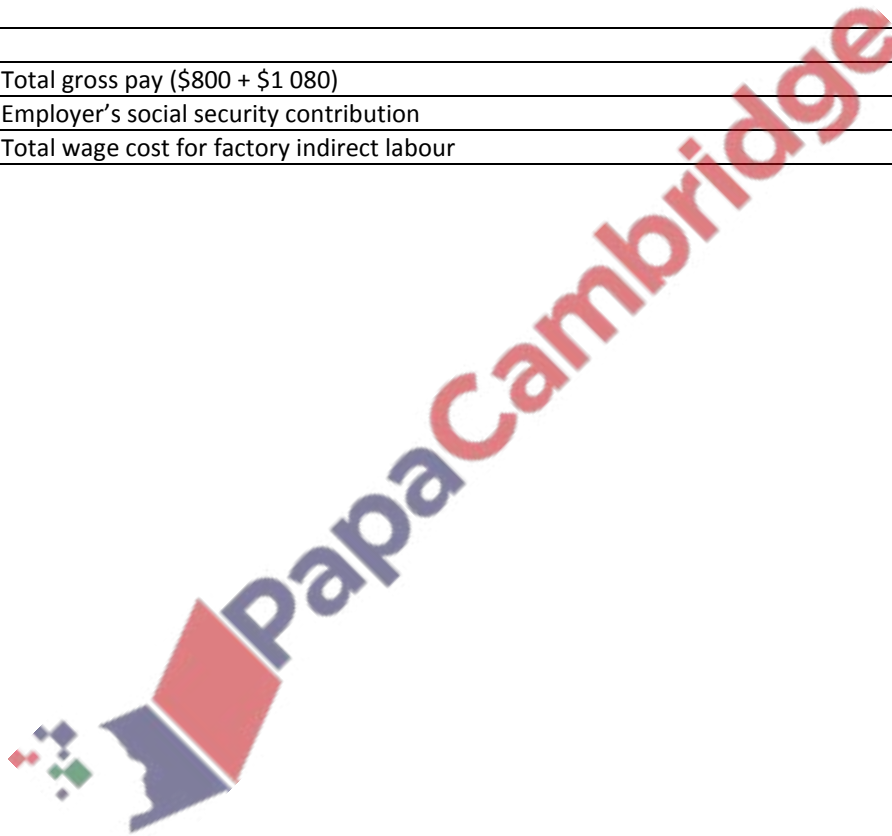
**QUESTION 13****NOVEMBER 2016 P21 Q3 (a to c)"**

- (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	<u>510</u>	<u>670</u>

(c)	\$
Total gross pay (\$800 + \$1 080)	1 880
Employer's social security contribution	<u>270</u>
Total wage cost for factory indirect labour	<u>2 150</u>





## 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 Reason
(ii)	Computers	Method of depreciation Reason
(iii)	Loose tools	Method of depreciation 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	Accumulated depreciation	NBV
	\$	\$	\$
Equipment	60 000	24 000	36 000
Office Computers	<u>8 000</u>	<u>5 600</u>	<u>2 400</u>
	<u>68 000</u>	<u>29 600</u>	<u>38 400</u>

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. [6]

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

**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	<i>Invoice</i>	<i>Sales journal</i>	<i>Increase \$100</i>
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.

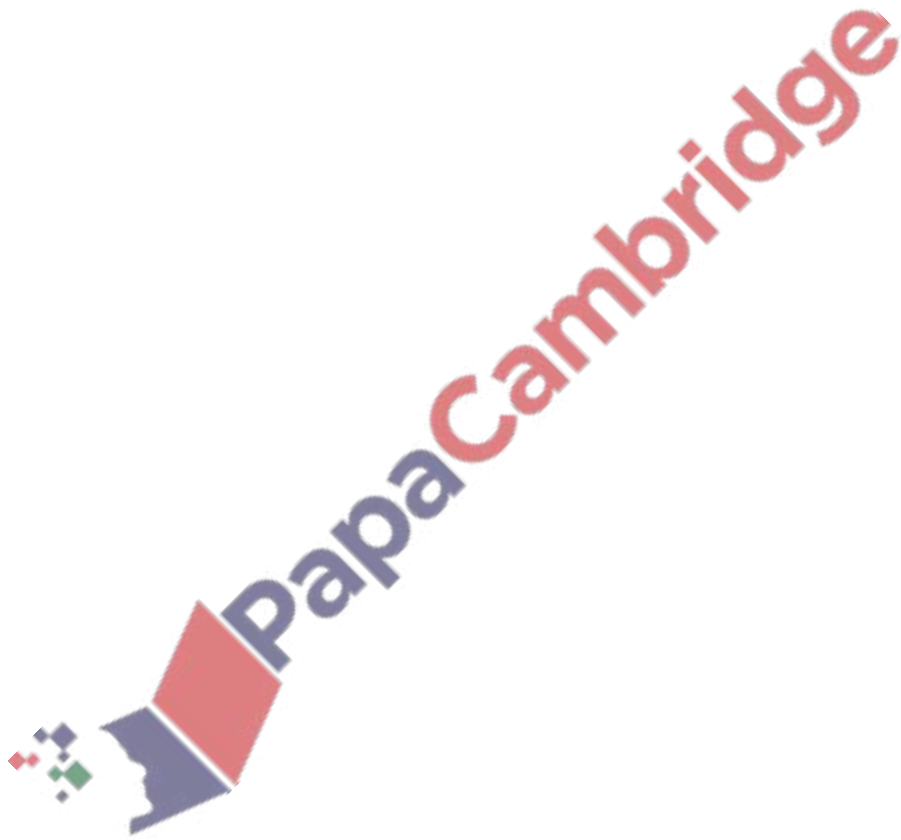
**REQUIRED**

- (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
<i>There is only one method of charging depreciation.</i>		✓
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 Machinery account	8 000	8 000
Mar 31	Provision for depreciation account ( $\$8\,000 \times 10\% \times 1\frac{1}{2}$ ) Machine disposal account	1 200	1 200
0Mar 31	Bank account Machine disposal account	7 000	7 000
Mar 31	Machine disposal account Income statement (profit)	200	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 Asset benefits the business evenly over its life
	(ii)	Computers	Reducing balance or written down value Large reduction in value of asset in early years Rapid technical improvements make computers quickly out of date
	(iii)	Loose tools	Revaluation 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) =  $(\$150\,000 - \$80\,000) \times 2\%$   
= \$1 400



**(e) Disposal Account**

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

**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	<u>-</u>	<u>(1 000)</u>	<u>-</u>
	98 000	14 000	1 680
Less Provision for depn [\$5 000– (\$1 000×20%)]	<u>(60 000)</u>	<u>(4 800)</u>	<u>-</u>
Value at year end before current year depreciation	38 000	9 200	1 680
Depreciation (38000×25%);[14000×10%];(1680–1400)	<u>(9 500)</u>	<u>(1 400)</u>	<u>(280)</u>
			\$

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

Cost of furniture sold	1 000
Depreciation (\$1 000 × 20%)	<u>(200)</u>
Book value on sale of furniture	800
Sale price of furniture sold	<u>(550)</u>
Loss on sale of furniture	<u>250</u>

**(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)	<u>(9 500)</u>	<u>(1 400)</u>	<u>(280)</u>
Net book value on 30 April 2011	<u>28 500</u>	<u>7 800</u>	<u>1 400</u>

**QUESTION 4****NOVEMBER 2012 P21 Q2**

- (a)
- Depreciation is the continuing diminution in the value or estimated useful life of a non-current asset
  - 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 ( $\$28\,000 \times 20\% \times 3$ )	16 800	Sep 01	Balance b/f	24 000
Aug 31	Balance c/d	<u>20 600</u>	Aug 31	Income statement (W 1)	<u>13 400</u>
		<u>37 400</u>	Sept 1	Balance b/d	<u>20 600</u>

**(ii) Equipment disposal account**

2012		\$	2012		\$
Jan 31	Equipment	28 000	Jan 31	Provision for depreciation	16 800
			Jan 31	Bank	10 000
		<u>28 000</u>	Aug 31	Income statement (bal. Figure)	<u>1 200</u>
					<u>28 000</u>

**(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 ( $\$8\,000 + \$600$ ); [ $5\,600 + 750(W\ 2)$ ]	<u>8 600</u>	<u>6 350</u>	<u>2 250</u>
	<u>75 600</u>	<u>26 950</u>	48 650

**WORKINGS**

**(W 1)** Current year depreciation (equipment) =  $(\$60\,000 + \$35\,000 - \$28\,000) \times 20\% = \$13\,400$

**(W 2)** Current year depreciation (computers) =  $[(\$8\,000 + \$600) - \$5\,600] \times 25\% = \$750$

**QUESTION 5****MAY 2013 P21 Q4****(a) Journal**

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

**(b) Provision for Depreciation account**

2013		\$	2012		\$
Mar 31	Balance c/d	<u>4 800</u>	Mar 31	Income statement ( $\$24\,000 \times 20\%$ )	<u>4 800</u>
Jan 23	Disposal a/c ( $\$12\,000 \times 20\%$ )	2 400	Apr 01	Balance b/d	4 800
Mar 31	Balance c/d	<u>4 320</u>	Mar 31	Income statement ( $\$9\,600 \times 20\%$ )	<u>1 920</u>
		<u>6 720</u>			<u>6 720</u>

**(c) Disposal account**

2013		\$	2013		\$
Jan 23	Motor vehicle	12 000	Jan 23	Bank	6 500
			Jan 23	Provision for Depreciation	2 400
		<u>12 000</u>	Mar 31	Income statement (bal. Figure)	<u>3 100</u>
					<u>12 000</u>

**(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 × <sup>25</sup> / <sub>125</sub> )
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

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

(d) Journal

	Dr (\$)	Cr (\$)
Vehicle Disposal Delivery vehicle	15 000	15 000
Provision for depreciation Vehicle Disposal	5 400	5 400
Bank Vehicle Disposal	8 000	8 000
Income statement (loss) Vehicle Disposal	1 600	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 $(\$9\,600 \times 50\%)$
30 September 2016	2 800 $\left(\frac{\$9\,600 - \$1\,200}{3 \text{ years}}\right)$	2 400 $[(\$9\,600 - \$4\,800) \times 50\%]$
30 September 2017	2 800 $\left(\frac{\$9\,600 - \$1\,200}{3 \text{ years}}\right)$	1 200 $[(\$9\,600 - \$7\,200) \times 50\%]$

(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 $(\$50\,000 \times 2\%) ; [(\$50\,000 + \$30\,000) \times 2\%]$	1 000	1 600
Motor vehicles $[(\$16\,000 - \$4\,000) \times 25\%] ; [(\$25\,000 - \$7\,000) \times 25\%]$	3 000	4 500
Computers $(\$6\,000 - \$4\,200) ; [(\$4\,200 + \$3\,200) - \$6\,000]$	1 800	1 400

**[6]****(d)****Motor vehicles account**

<b>2013</b>		\$	<b>2014</b>		\$
Apr 1	Balance b/f	<u>16 000</u>	Mar 31	Balance c/d	<u>16 000</u>
<b>2014</b>			<b>2015</b>		
Apr 1	Balance b/d	16 000	Mar 31	Balance c/d	25 000
	Bank	<u>9 000</u>			
		<u>25 000</u>			<u>25 000</u>
<b>2015</b>					
Apr 1	Balance b/d	25 000			

## Motor vehicle provision for depreciation account

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

(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)

<b>(i)</b>	Sale value of vehicle	–	Book value of vehicle sold	=	Profit (loss) on disposal
	\$8 400	–	(\$16 000 – \$7 000)	=	\$600 loss

<b>(ii)</b>	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

<b>2015</b>		\$	<b>2015</b>		\$
May 31	Disposal	7 000	Mar 01	Balance b/f	18 400
<b>2016</b>			<b>2016</b>		
Feb 29	Balance c/d	<u>22 050</u>	Feb 29	Income statement [c (ii)]	<u>10 650</u>
		<u>29 050</u>			<u>29 050</u>
			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	<u>1 500</u>	Eight months
	<u>27 500</u>	

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.

	31 May 2012 \$	31 May 2013 \$
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. [6]
- (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	<u>2 200</u>	20
	<u>35 700</u>	

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	<u>1 500</u>	20%	<u>300</u>
		<u>27 500</u>		<u>1 220</u>

(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		
		<u>1 500</u>	Sep 30		<u>1 500</u>
			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%]	<u>916</u>			<u>940</u>
		<u>940</u>	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 [ $\$2\,300 - (\$2\,300 \times 0.40)$ John Lee (Amount receivable from John Lee written off)]	1 380	1 380

(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) Wade Designs	3 300	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
	<u>35 700</u>				<u>1 740</u>

(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)	<u>1 740</u>			
		<u>2 050</u>			<u>2 050</u>

(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	<i>Credit</i>
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	

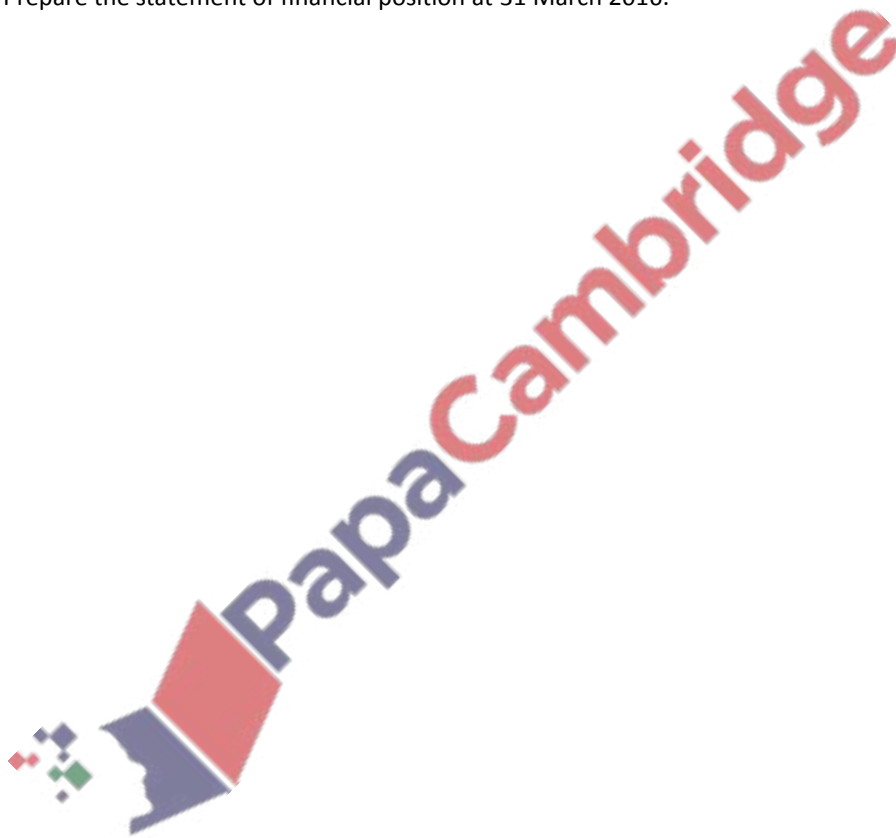
**Additional information at 31 March 2016**

- 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 $\{[(20\,000 - 15\,000) \times 20\%] + [(11\,500 + 6\,500)] \times 20\%$	3 800		
Returns outwards	<u>(960)</u>	51 180	
		61 960	
Inventory at 31 March 2009		<u>12 600</u>	49 360
Gross profit			46 440
<b>Expenses</b>			
Wages of motor vehicle driver $(\$11\,500 \times 80\%)$		9 200	
Motor vehicle running expenses $(\$6\,500 \times 80\%)$		5 200	
Depreciation: Vehicle $\{[(\$20\,000 - 15\,000) \times 20\% \times 80\%]$		800	
Premises $(\$60\,000 \times 2\%)$		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 $(\$30\,000 \times 8\%)$		<u>2 400</u>	(37 330)
			9 110
<b>Other Incomes</b>			
Discount received		5 300	
Decrease in prov. for doubtful debts $\{[(18\,500 \times 2\%) - 100]$		<u>190</u>	5 490
Profit for the year			<u>14 600</u>

(b)

**Sue Searle**  
**Balance Sheet**  
**As at 31 March 2009**

	\$	\$	\$
<b>Non-current assets</b>			
Premises		60 000	
Provision for depreciation $(\$12\,000 + \$1\,200)$		<u>(13 200)</u>	46 800
Motor van		20 000	
Provision for depreciation $(\$15\,000 + \$1\,000)$		<u>(16 000)</u>	4 000
			50 800
<b>Current Assets</b>			
Inventory at 31 March 2009		12 600	
Trade receivables	18 500		
Less Provision for doubtful debts $(\$18\,500 \times 2\%)$	<u>(370)</u>	18 130	
Cash		270	
Prepaid insurance		<u>450</u>	
		31 450	

<b>Current Liabilities</b>	\$	\$	\$
Trade payables	9 750		
Bank Overdraft	1 680		
Accrued interest	2 400		
Lighting due	<u>130</u>	<u>(13 960)</u>	
Net Current Assets			<u>17 490</u>
			68 290
<b>Non-current liabilities</b>			
8 % Bank loan repayable 30 June 2011			<u>(30 000)</u>
			<u>38 290</u>
<b>Financed by</b>			
Capital at 1 April 2008		35 000	
Profit for the year		<u>14 600</u>	
		49 600	
Drawings		<u>(11 310)</u>	<u>38 290</u>

**QUESTION 2****NOVEMBER 2010 P22 Q5**

(a)	<b>Income Statement</b>		
	<b>For the year ended 30 September 2010</b>		
	\$	\$	\$
Revenue (sales)		155 000	
Less Sales returns		<u>(9 500)</u>	145 500
<b>Cost of Sales</b>			
Opening Inventory		11 500	
Add Ordinary goods purchased (purchases) (\$70 000 – \$1 250)	68 750		
Carriage inwards	<u>3 000</u>	<u>71 750</u>	
		83 250	
Less Closing inventory		<u>(14 600)</u>	<u>(68 650)</u>
<b>Gross profit</b>			76 850
<b>Expenses</b>			
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% × $\frac{6}{12}$ )		<u>250</u>	<u>(68 800)</u>
			8 050
<b>Other Incomes</b>			
Discount received		5 600	
Decrease in Prov for doubtful debts [1 000 – ((23 000 – 4 250) × 4%)]		<u>250</u>	<u>5 850</u>
Profit for the year			<u>13 900</u>

(b)

**Balance Sheet**  
**As at 30 September 2010**

<b>NON-CURRENT ASSETS</b>	<b>Cost (\$)</b>	<b>Depn. to date (\$)</b>	<b>Book value (\$)</b>
Motor vehicles (\$8 000 + \$8 500)	42 000	16 500	25 500
Office equipment (\$4 000 + \$1 600)	<u>26 000</u>	<u>6 600</u>	<u>19 400</u>
	<u>68 000</u>	<u>23 100</u>	44 900
<b>CURRENT ASSETS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Closing inventory		14 600	
Trade receivables (\$23 000 – \$4 250)	18 750		
Provision for doubtful debts [(\$23 000 – \$4 250) × 4%]	<u>(750)</u>	18 000	
Other receivables (prepaid advertising)		<u>300</u>	
		32 900	
<b>CURRENT LIABILITIES</b>			
Trade payables	18 300		
Accrued salaries	2 600		
Accrued interest on loan	250		
Short term loan	10 000		
Bank overdraft	<u>16 000</u>	<u>(47 150)</u>	<u>(14 250)</u>
			<u>30 650</u>
<b>Equity</b>			
Capital at start (\$40 000 – \$10 000)		30 000	
Add Profit for the year		13 900	
Less Drawings (\$12 000 + \$1 250)		<u>(13 250)</u>	<u>30 650</u>

**QUESTION 3****NOVEMBER 2011 P21 Q1 (c to e)**

<b>(c)</b>		<b>Trial Balance at 31 July 2011</b>	
		<b>\$</b>	<b>\$</b>
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		<u>6 250</u>	
		<u>66 400</u>	<u>66 400</u>
<b>(d)</b>	Trade receivables		

<b>(e)</b>	<b>Trial balance</b>	<b>Balance sheet</b>
	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		
		<b>Income Statement for the year ended 30 September 2011</b>		
		\$	\$	\$
Revenue (sales)			210 000	
Less Sales returns (goods returned by customers)			<u>(8 120)</u>	201 880
<b>Cost of Sales</b>				
Opening Inventory			9 430	
Add Purchases	113 500			
Carriage inwards	500			
Return outwards (goods returned to suppliers)	<u>(3 400)</u>		<u>110 600</u>	
			120 030	
Less Closing inventory			<u>(11 780)</u>	<u>(108 250)</u>
<b>Gross profit</b>				93 630
<b>Expenses</b>				
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% × $\frac{6}{12}$ )			<u>700</u>	<u>(76 825)</u>
				16 805
<b>Other Incomes</b>				
Discount received			1 750	
Profit on disposal of non-current asset			200	
Decrease in Provision for doubtful debts [\$500 – (\$8 200 × 5%)]			<u>90</u>	<u>2 040</u>
<b>Profit for the year</b>				<u>18 845</u>
(b)		<b>Balance Sheet</b>		
		<b>As at 30 September 2011</b>		
<b>NON-CURRENT ASSETS</b>		\$	\$	\$
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)			<u>(10 800)</u>	7 200
Computer equipment at cost			12 000	
Provisions for depreciation (\$3 600 + \$2 520)			<u>(6 120)</u>	<u>5 880</u>
				129 080
<b>CURRENT ASSETS</b>				
Closing inventory			11 780	
Trade receivables	8 200			
Provision for doubtful debts (\$8 200 × 5%)	<u>(410)</u>		7 790	
Other receivables (prepaid insurance)			<u>1 120</u>	
			20 690	

<b>CURRENT LIABILITIES</b>	\$	\$	\$
Trade payables	26 750		
Bank overdraft	18 500		
Accrued heating	375		
Accrued interest on loan	<u>700</u>	<u>(46 325)</u>	<u>(25 735)</u>
			103 345
<b>Non-Current Liabilities</b>			
7% Bank loan repayable 30 March 2014			<u>(20 000)</u>
			<u>83 345</u>
<b>Equity</b>			
Capital at year start		80 000	
Add Profit for the year		18 845	
Less Drawings		<u>(15 500)</u>	<u>83 345</u>

**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
<b>Cost of sales</b>			
Opening inventory		4 690	
Purchases (\$18 240 – \$450)	17 790		
Less Purchase returns	<u>(1 600)</u>	16 190	
Closing inventory		<u>(3 870)</u>	<u>(17 010)</u>
Gross profit			61 570
<b>EXPENSES</b>			
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 ( $\$25\,000 \times 6\% \times \frac{4}{12}$ )		500	
Depreciation: Lease ( $\$50\,000 \div 25$ years)		2 000	
Equipment [ $(\$54\,000 + \$10\,000) - \$17\,000$ ] $\times 20\%$		<u>9 400</u>	<u>(51 190)</u>
			10 380

<b>Other Incomes</b>	\$	\$	\$
Discount received		330	
Decrease in Provision for doubtful debts [ $\$700 - (\$6\,750 \times 8\%)$ ]		<u>160</u>	<u>490</u>
<b>Profit for the year</b>			<u><u>10\,870</u></u>

(b) **Balance sheet as at 31 March 2012**

	Cost	Accumulated depreciation	NBV
	\$	\$	\$
<b>Non-current Assets</b>			
Leasehold ( $\$10\,000 + \$2\,000$ )	50 000	12 000	38 000
Equipment ( $\$54\,000 + \$10\,000$ ); ( $\$17\,000 + \$9\,400$ )	<u>64 000</u>	<u>26 400</u>	<u>37 600</u>
	<u>114 000</u>	<u>46 000</u>	75 600
<b>Current Assets</b>			
Inventory		3 870	
Trade receivables	6 750		
Provision for doubtful debts ( $\$6\,750 \times 8\%$ )	<u>(540)</u>	6 210	
Other receivables (prepaid insurance)		1 350	
Bank ( $\$5\,150 - \$5\,000$ )		<u>150</u>	
		11 580	
<b>Current liabilities</b>	\$	\$	\$
Trade payables	4 010		
Payable for equipment	5 000		
Other payables ( $\$750 + \$500$ )	<u>1 250</u>	<u>10 260</u>	<u>1 320</u>
			76 920
<b>Non-current liabilities</b>			
6% Bank loan			(25 000)
			<u>51 920</u>
<b>EQUITY</b>			
Capital at 1 April 2011		50 000	
Profit for the year		<u>10 870</u>	
		60 870	
Drawings ( $\$8\,500 + \$450$ )		<u>(8 950)</u>	<u>51 920</u>

**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		<u>11 200</u>
	<u>18 400</u>	<u>18 400</u>

- (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		<u>(8 900)</u>	356 100
Cost of Sales			
Opening inventory		33 500	
Purchases (\$135 000 + \$7 500)	142 500		
Less Purchase returns	<u>(4 250)</u>	138 250	
Closing inventory		<u>(36 450)</u>	<u>(135 300)</u>
Cost of sales			220 800
<b>Gross profit</b>			
<b>EXPENSES</b>			
Loan interest [ $(\$50\,000 \times 8\% \times \frac{9}{12})$ ]		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 [ $(\$150\,000 - \$50\,000) \times 2\%$ ]		2 000	
Fixtures [ $(\$28\,000 + \$4\,000) \times 15\%$ ]		4 800	
Computers [ $(\$40\,000 - \$12\,000) \times 25\%$ ]		<u>7 000</u>	<u>(201 780)</u>
			19 020
<b>OTHER INCOMES</b>			
Discount received		7 300	
Decrease in Provision for doubtful debts			
$[{(\$60\,000 \times \frac{1}{4}) \times 8\%} + {(\$60\,000 \times \frac{3}{4}) \times 4\%}] - \$6\,400$		<u>3 400</u>	<u>10 700</u>
<b>Profit for the year</b>			<u>29 720</u>

**(b) Balance sheet at 30 September 2012**

	Cost (\$)	Deprn (\$)	NBV (\$)
<b>NON CURRENT ASSETS</b>			
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)	<u>40 000</u>	<u>19 000</u>	<u>21 000</u>
	<u>222 000</u>	<u>54 800</u>	167 200
<b>CURRENT ASSETS</b>			
Inventory		36 450	
Trade receivables	60 000		
Less Provision for doubtful debts	<u>3 000</u>	57 000	
Other receivables (prepaid salaries & wages)		5 200	
Bank		<u>14 070</u>	
		112 720	

<b>CURRENT LIABILITIES</b>		\$	\$	\$
Trade payables (\$31 000 + \$7 500)		38 500		
Other payables: Interest due(\$3 000 – \$2 000)		1 000		
Repairs owing		<u>1 700</u>	<u>(41 200)</u>	<u>71 520</u>
				238 720
<b>NON CURRENT LIABILITIES</b>				
8% Bank loan				<u>(50 000)</u>
				<u>188 720</u>
<b>EQUITY</b>				
Capital at 1 October 2011		180 000		
Profit for the year		29 720		
Drawings		<u>(21 000)</u>		<u>188 720</u>

**QUESTION 9****MAY 2013 P22 Q5**

(a) **Patricia Chin**  
**Income Statement for the year ended 31 March 2013**

		\$	\$	\$
Revenue				119 140
<b>Cost of Sales</b>				
Inventory 1 April 2012			5 430	
Purchases	60 200			
Purchases returns	<u>(2 900)</u>	57 300		
Inventory 31 March 2013		<u>(4 200)</u>		<u>(58 530)</u>
Gross profit				60 610
<b>Other Incomes</b>				
Discount received			884	
Decrease in prov. for doubtful debts [\$800 – (\$7300 × 6%)]			<u>362</u>	<u>1 146</u>
				61 856
<b>EXPENSES</b>				
Wages			20 960	
General expenses (\$9 100 – \$2 000)			7 100	
Insurance [\$12 600 – (\$12 600 × <sup>2</sup> / <sub>14</sub> )]			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 × 2%)			1 340	
Fixtures and fittings (\$20 000 + \$2000 × 8%)			1 760	
Motor vehicle (\$18000 - \$11520 × 20%)			<u>1 296</u>	<u>(52 925)</u>
Profit for year				<u>8 931</u>

**(b) Balance Sheet (Statement of Financial Position) as at 31 March 2013**

<b>Non-current assets</b>	<b>Cost (\$)</b>	<b>Depn (\$)</b>	<b>NBV (\$)</b>
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)	<u>18 000</u>	<u>12 816</u>	<u>5 184</u>
	<u>107 000</u>	<u>28 196</u>	78 804

<b>Current assets</b>		\$	\$	\$
Inventory			4 200	
Trade receivables (\$7 546 – \$246)	7 300			
Provision for doubtful debts (\$7 300 × 6%)	<u>(438)</u>		6 862	
Other receivables (Prepaid insurance) (\$12 600 × <sup>2</sup> / <sub>14</sub> )			<u>1 800</u>	
			12 862	
<b>Current liabilities</b>				
Trade payables	4 920			
Other payables (\$225 + \$2 100)	2 325			
Bank overdraft (\$2 330 + \$800)	<u>3 130</u>	<u>(10 375)</u>		<u>2 487</u>
				81 291
<b>Non-current liabilities</b> 7% bank loan				<u>(30 000)</u>
				<u>51 291</u>
<b>Equity</b>				
Capital			56 000	
Profit for the year			8 931	
Drawings (\$12 840 + \$800)		<u>(13 640)</u>		<u>51 291</u>

**QUESTION 10****MAY 2014 P22 5**

<b>(a)</b>	<b>Franco's Income Statement for the year ended 31 January 2014</b>			
		\$	\$	\$
Revenue			362 500	
Return inwards			<u>(7 200)</u>	355 300
<b>Cost of Sales</b>				
Inventory 1 February 2013			17 970	
Purchases	172 400			
Return outwards	<u>(8 800)</u>		463 600	
Closing inventory			<u>(15 600)</u>	<u>(165 970)</u>
Gross profit				189 330
<b>OTHER INCOMES</b>				
Commission received			11 400	
Profit on disposal of assets			<u>500</u>	<u>11 900</u>
				201 230
<b>EXPENSES</b>				
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]			<u>700</u>	<u>(147 200)</u>
Profit of the year				<u>54 030</u>

## Statement of Financial Position at 31 January 2014

	Cost (\$)	Accumulated Depreciation(\$)	NBV(\$)
<b>NON-CURRENT ASSETS</b>			
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)	<u>78 000</u>	<u>45 000</u>	<u>33 000</u>
	<u>258 000</u>	<u>85 000</u>	173 000
<b>CURRENT ASSETS</b>			
Inventory		15 600	
Trade receivables (\$45 000 – \$3 000)	42 000		
Less Provision for doubtful debt (\$42 000 × 5%)	<u>(2 100)</u>	39 900	
Other receivables (prepaid marketing expenses)		6 750	
Bank (\$17 430 – \$8 000)		<u>9 430</u>	
		71 680	
<b>CURRENT LIABILITIES</b>			
Trade payables	37 650		
Other payables – accrued interest (\$100 000 × 8%)	<u>8 000</u>	<u>45 650</u>	<u>26 030</u>
			199 030
<b>NON-CURRENT LIABILITIES</b>			
8% Bank loan			<u>(100 000)</u>
			<u>99 030</u>
<b>EQUITY</b>			
Capital		80 000	
Add Profit for the year		54 030	
Less Drawings (\$20 000 + \$15 000)		<u>(35 000)</u>	<u>99 030</u>

**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	<u>(2 600)</u>	
	202 200	
Closing inventory 30 September 2015	<u>(29 980)</u>	
Cost of sales		<u>(172 220)</u>
Gross profit		142 780
Other Incomes		
Commission receivable (\$12 500 + \$2 500)		<u>15 000</u>
		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 ( $\$30\,000 \times 6\%$ )	1 800	
Heat and light	6 500	
Operating expenses ( $\$7\,100 + \$1\,100$ )	8 200	
Depreciation: Motor vehicles $[(\$50\,000 - \$10\,000) \times 20\%]$	8 000	
Fixtures and fittings ( $\$24\,000 \times 15\%$ )	3 600	
Bad debts	2 000	
Increase in Provision for doubtful debts $[(\$32\,000 \times 5\%) - \$1\,000]$	<u>600</u>	<u>(94 700)</u>
Profit for the year		<u>63 080</u>

(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	<u>24 000</u>	<u>21 600</u>	<u>2 400</u>
	<u>74 000</u>	<u>39 600</u>	34 400
<b>Current Assets</b>			
Closing inventory		29 980	
Trade receivables ( $\$34\,000 - \$2\,000$ )	32 000		
Less Provision for doubtful debts ( $\$32\,000 \times 5\%$ )	<u>(1 600)</u>	30 400	
Other receivables $[(\$6\,000 \times \frac{1}{2}) + \$2\,500]$		5 500	
Cash and bank ( $\$19\,500 - \$3\,000$ )		<u>16 500</u>	<u>82 380</u>
<b>Total Assets</b>			<u>116 780</u>
<b>Capital and Liabilities</b>			
Capital		15 000	
Profit for the year		<u>63 080</u>	
		78 080	
Less Drawings		<u>(18 000)</u>	60 080
<b>Non-Current Liabilities</b>			
6% Bank loan			30 000
<b>Current Liabilities</b>			
Trade payables		25 000	
Other payables $[(\$30\,000 \times 6\%) - \$1\,200] + \$1\,100$		<u>1 700</u>	<u>26 700</u>
			<u>116 780</u>

## QUESTION 12

NOVEMBER 2015 P22 Q5

(a)

## Income Statement for the year ended 30 September 2015

	\$	\$
Revenue	248 200	
Returns inwards	<u>(7 850)</u>	240 350
<b>Cost of Sales</b>		
Inventory 1 October 2014	20 450	
Purchases	104 750	
Carriage inwards	<u>3 400</u>	
Closing inventory - 30 September 2015	<u>(17 300)</u>	<u>(111 300)</u>
Gross profit		129 050



<b>Other Incomes</b>		\$	\$
Discount received		8 250	
Commission received		<u>5 900</u>	<u>14 150</u>
			143 200
<b>Expenses:</b>			
Advertising [ $\$10\,800 - (\$1\,500 \times \frac{3}{5})$ ]		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 ( $\$80\,000 \div 20$ years)		4 000	
Computer equipment [ $(\$75\,000 - \$23\,000) \times 25\%$ ]		13 000	
Fixtures and fittings ( $\$30\,000 \times 10\%$ )		3 000	
Bank loan interest ( $\$50\,000 \times 8\%$ )		4 000	
Bad debts		6 400	
Increase in Provision for doubtful debts [ $(\$38\,000 \times 5\%) - \$1\,500$ ]		<u>400</u>	<u>(107 000)</u>
Profit for the year			<u><u>36 200</u></u>

(b)

**Ning**  
**Statement of Financial Position**  
**As at 30 September 2015**

<b>Non-Current Assets</b>	<b>Cost</b>	<b>Depn.</b>	<b>NBV</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
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 ( $\$17\,500 + \$3\,000$ )	<u>30 000</u>	<u>20 500</u>	<u>9 500</u>
	<u>185 000</u>	<u>80 500</u>	104 500
<b>Current Assets</b>			
Inventory		17 300	
Trade receivables ( $\$44\,400 - \$6\,400$ )	38 000		
Less Provision for doubtful debts ( $\$38\,000 \times 5\%$ )	<u>(1 900)</u>	36 100	
Other receivables – prepayments ( $\$1\,500 \times \frac{3}{5}$ )		<u>900</u>	<u>54 300</u>
<b>Total Assets</b>			<u><u>158 800</u></u>
<b>Capital and Liabilities</b>			
Capital		50 000	
Add Profit for the year		36 200	
Less Drawings		<u>(25 000)</u>	61 200
<b>Non-Current Liabilities</b>			
8% Bank loan ( $\$50\,000 - \$10\,000$ )			40 000
<b>Current Liabilities</b>			
Trade payables		38 700	
Other payables – accruals [ $\$2\,600 + \{(\$50\,000 \times 8\%) - \$3\,000\}$ ]		3 600	
8% Bank loan payable in following year		10 000	
Bank		<u>5 300</u>	<u>57 600</u>
			<u><u>158 800</u></u>

**QUESTION 13****MAY 2016 P21 & 22 Q5**

(a)

Suria

**Income statement for the year ended 31 March 2016**

	\$	\$
Revenue	287 000	
Less Return inwards	<u>(3 150)</u>	283 850
Cost of Sales		
Opening Inventory	15 340	
Purchases	143 800	
Closing Inventory	<u>(17 990)</u>	<u>( 141 150)</u>
Gross profit		142 700
<b>Other Incomes</b> Commission receivable ( $\$4\,900 + \$1\,400$ )		<u>6 300</u>
		149 000
<b>Expenses:</b>		
Wages and salaries	26 500	
Computer maintenance expenses ( $\$12\,200 - \$8\,000$ )	4 200	
Rent and rates	10 000	
Bank loan interest ( $\$40\,000 \times 6\%$ )	2 400	
Heat and light	7 300	
Advertising [ $\$12\,600 - (\$5\,700 \times \frac{4}{6})$ ]	8 800	
General expenses ( $\$8\,700 + \$2\,400$ )	11 100	
Depreciation: Leasehold premises ( $\$100\,000 \div 25$ years)	4 000	
Computers [ $\{(\$44\,000 + \$8\,000) - \$16\,600\} \times 25\%$ ]	8 850	
Office furniture ( $\$15\,500 \times 10\%$ )	1 550	
Bad debts	1 900	
Increase in Provision for doubtful debts [ $\{(\$27\,900 - \$1\,900) \times 4\% - \$910\}$ ]	<u>130</u>	<u>(86 730)</u>
Profit for the year		<u>62 270</u>

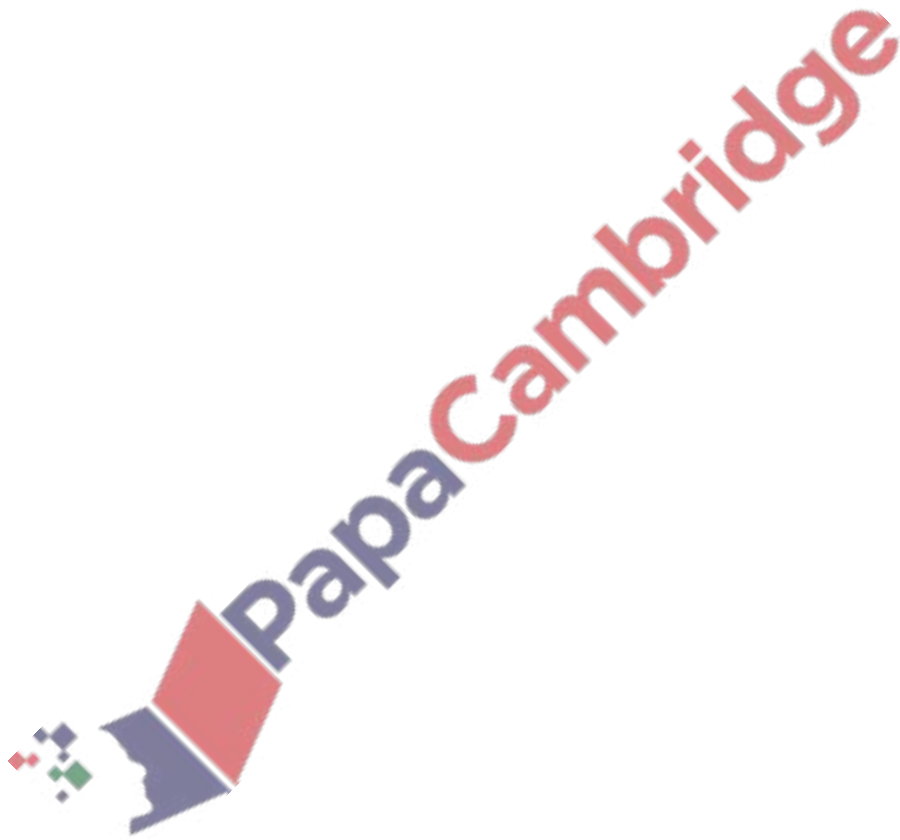
(b)

Suria

**Statement of financial position at 31 March 2016**

Assets	Cost	Aggregate depn	book value
<b>Non-Current Assets</b>	\$	\$	\$
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 ( $\$12\,000 + \$1\,550$ )	<u>15 500</u>	<u>13 550</u>	<u>1 950</u>
	<u>167 500</u>	<u>50 000</u>	117 500
<b>Current Assets</b>			
Inventory		17 990	
Trade receivables ( $\$27\,900 - \$1\,900$ )	26 000		
Provision for doubtful debts [ $\{(\$27\,900 - \$1\,900) \times 4\%$ ]	<u>(1 040)</u>	24 960	
Other receivables: Commission receivable		1 400	
Prepaid advertising ( $\$5\,700 \times \frac{4}{6}$ )		3 800	
Cash and cash equivalents		<u>520</u>	<u>48 670</u>
			<u>166 170</u>

Equity	\$	\$
Capital	70 000	
Profit for the year	<u>62 270</u>	
	132 270	
Less Drawings	<u>(28 000)</u>	104 270
<b>Current liabilities</b>		
Trade payables	18 600	
6% Bank loan	40 000	
Other payables : Accrued general expenses	2 400	
Accrued interest $\{(\$40\,000 \times 6\%) - \$1\,500\}$	<u>900</u>	<u>61 900</u>
		<u>166 170</u>



## 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**

- Inventory at 30 September 2009 was valued at \$15 400.
- Paul withdrew goods costing \$4 000 from the partnership business during the year. This had not been recorded in the books.
- At 30 September 2009:  
Advertising expenses, \$2 850, were prepaid. Rent receivable, \$2 000, was due.
- Depreciation is charged on fixtures and fittings at 15% per annum on cost using the straight line method.
- 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.
- The provision for doubtful debts is to be maintained at 5% of trade receivables.

**REQUIRED**

- Prepare the income statement of Paul and Judi for the year ended 30 September 2009. [19]
- 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**

- State **two** items, other than the profit sharing ratio, that might be included in a partnership agreement. [2]
- 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





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		<b>\$</b>
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**

- Inventory at 30 April 2014, \$38 350.
- The motor vehicle expenses are to be apportioned one quarter to collecting goods for resale and three quarters to delivery of goods to customers.
- At 30 April 2014:
  - Heat and light, \$750, was accrued
  - Office expenses, \$4 000, were prepaid.
- Half of Fong's \$10 000 salary had been paid to him and posted to the wages and salaries account.
- Fixtures and fittings costing \$2 000 purchased by cheque on 20 April 2014 had not been recorded in the books.
- Depreciation is to be charged on all non-current assets owned at the end of the year:
  - Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
  - Fixtures and fittings at the rate of 10% using the straight-line method.
- Trade receivables contains a debt of \$7 500, which is considered irrecoverable. The provision for doubtful debts is to be maintained at 6%.

**REQUIRED**

- Prepare the income statement and appropriation account for the year ended 30 April 2014. [22]
- Prepare the current accounts for the year ended 30 April 2014. [4]
- 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  $\frac{3}{5}$  Aina and  $\frac{2}{5}$  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



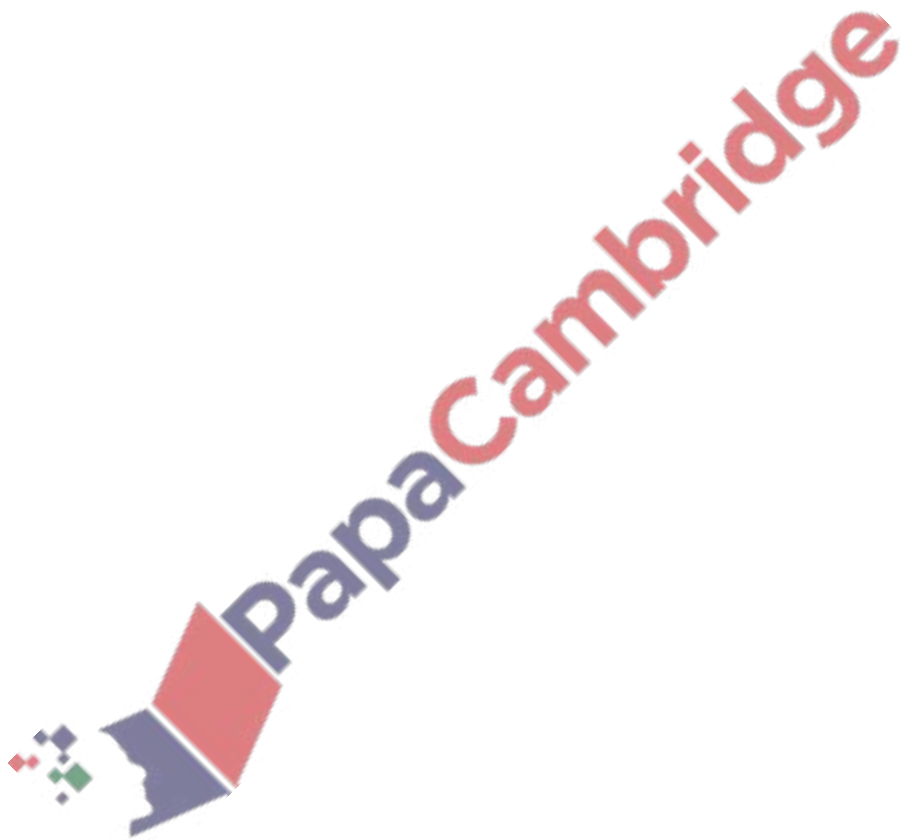
Drawings	\$
Li	15 000
Yang	9 000
Land and buildings (cost)	200 000
Computing equipment (cost)	60 000
Office fixtures (cost)	35 000
Provisions for depreciation	
Land and buildings	22 000
Computing equipment	20 000
Office fixtures	10 000
Provision for doubtful debts	2 000
Revenue	625 000
Inventory at 1 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
<b>Liability of the owners</b>	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.
<b>Legal status</b>	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.
<b>Number of owners</b>	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.
<b>Transferability of ownership</b>	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.
<b>Management of business</b>	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%)	<u>800</u>	<u>1 040</u>
		21 540
Interest on capital:		
Bell [(\$40 000 × 6%) + (\$10 000 × 6% × $\frac{9}{12}$ )]	2 850	
Hayward (\$20 000 × 6%)	1 200	
Salary – Hayward	<u>12 000</u>	<u>(16 050)</u>
		<u>5 490</u>
Profit Share:		
Bell (\$5 490 × $\frac{1}{2}$ )	2 745	
Hayward (\$5 490 × $\frac{1}{2}$ )	<u>2 745</u>	<u>5 490</u>

## (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
	<u>22 300</u>	Balance c/d	<u>6 355</u>
Balance b/d	6 355		<u>22 300</u>

**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		<u>4 500</u>	205 500
<b>Cost of Sales</b>			
Opening inventory		12 650	
Purchases	139 750		
Less Drawings	<u>(4 000)</u>	<u>135 750</u>	
		148 400	
Closing inventory		<u>(15 400)</u>	<u>133 000</u>
<b>Gross profit c/f</b>			72 500
		\$	\$
<b>Gross profit b/f</b>			72 500
<b>Expenses</b>			
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% × <sup>8</sup> / <sub>12</sub> )		3 400	
Increase in provision for doubtful debts[\$16 000 × 5%]–\$550		<u>250</u>	<u>(55 950)</u>
			16 550
Other Incomes			
Rent receivable (\$6 000 + \$2 000)			<u>8 000</u>
<b>Profit for the year</b>			24 550
Interest on capital:			
Paul (\$30 000 × 4%)		1 200	
Judi (\$20 000 × 4%)		<u>800</u>	<u>(2 000)</u>
			<u>22 550</u>
Share of profit:			
Paul ( $\$22\,550 \times \frac{3}{5}$ )		13 530	
Judi ( $\$22\,550 \times \frac{2}{5}$ )		<u>9 020</u>	<u>22 550</u>

(b)

**Paul and Judi****Balance Sheet as at 30 September 2009**

<b>Non-current assets</b>	\$	\$	\$
Fixtures (\$12 600 + \$3 400)		24 000	
Provision for Depreciation		<u>16 000</u>	8 000

<b>Current Assets</b>		\$	\$	\$
Closing inventory			15 400	
Trade receivables		16 000		
Less Provision for doubtful debts(\$16 000 × 5%)		<u>800</u>	15 200	
Prepaid advertising			2 850	
Rent receivable			2 000	
Bank			<u>16 650</u>	
			52 100	
<b>Current Liabilities</b>	Trade payables		<u>8 900</u>	<u>43 200</u>
				<u>51 200</u>
<b>Financed By</b>				
Capital: Paul		30 000		
Judi		<u>20 000</u>	50 000	
Current accounts(W 1)	Paul	2 030		
	Judi	<u>(830)</u>	<u>1 200</u>	<u>51 200</u>

**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
	<u>17 030</u>	<u>10 650</u>	Balance c/d	<u>830</u>	<u>10 650</u>

**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	<u>9 000</u>	<u>(15 500)</u>
		<u>16 500</u>
Share of profit: Choong ( $\$16 500 \times \frac{2}{3}$ )	11 000	
Tan ( $\$16 500 \times \frac{1}{3}$ )	<u>5 500</u>	<u>16 500</u>

(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
	<u>16 200</u>	<u>17 500</u>	Profit share	11 000	5 500
			Balance c/d	<u>500</u>	<u>17 500</u>

- (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	<u>20 000</u>	<u>20 000</u>	Apr 30			
		<u>80 000</u>	<u>50 000</u>	May 01	Balance b/d	<u>20 000</u>	<u>20 000</u>

**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
<b>Cost of Sales</b>			
Opening inventory		30 650	
Add Purchases	111 200		
Less Returns	<u>(4 750)</u>	106 450	
Closing inventory		<u>(28 100)</u>	<u>(109 000)</u>
			100 500
<b>Add Other Incomes</b> : Discount received			<u>5 300</u>
Gross Profit			105 800
<b>EXPENSES</b>			
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]		<u>750</u>	<u>(86 900)</u>
Profit for the year			18 900
Interest on drawings: Fu (\$10 000 × 5%)		500	
Li (\$10 000 × 5%)		500	
Yang (\$12 000 × 5%)		<u>600</u>	1 600
Interest on capital: Fu (\$40 000 × 4%)		1 600	
Li (\$35 000 × 4%)		1 400	
Yang (\$25 000 × 4%)		<u>1 000</u>	<u>(4 000)</u>
			<u>16 500</u>
Profit share:			
Fu (\$16 500 × <sup>2</sup> / <sub>5</sub> )		6 600	
Li (\$16 500 × <sup>2</sup> / <sub>5</sub> )		6 600	
Yang (\$16 500 × <sup>1</sup> / <sub>5</sub> )		<u>3 300</u>	<u>16 500</u>

**(b) Statement of Financial Position as at 30 April 2011**

	Cost (\$)	Prov. For Depn (\$)	Net book value (\$)
<b>Non-Current Assets</b>			
Premises	44 750		44 750
Motor vehicles (\$3 200 + \$2 560)	16 000	5 760	10 240
Fixtures (\$17 500 + \$3 000)	<u>30 000</u>	<u>20 500</u>	<u>9 500</u>
	<u>90 750</u>	<u>26 260</u>	64 490
<b>Current Assets</b>			
Inventory		28 100	
Trade receivables	45 000		
Less Provision for doubtful debts (\$45 000 × 5%)	<u>(2 250)</u>	42 750	
Prepaid general expenses		4 200	
Bank		<u>7 560</u>	
		<u>82 610</u>	
<b>Current Liabilities</b>			
Trade payables	54 700		
Accrued rent	<u>2 500</u>	<u>57 200</u>	<u>25 410</u>
			<u>89 900</u>
<b>Equity</b>			
Capital account: Fu	40 000		
Li	35 000		
Yang (\$25 000 – \$10 000)	<u>15 000</u>	90 000	
Current account Fu (see workings)	200		
Li (see workings)	<u>(1 000)</u>		
Yang (see workings)	<u>700</u>	<u>(100)</u>	<u>89 900</u>

**(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		<u>1 000</u>	
	<u>10 700</u>	<u>10 500</u>	<u>14 300</u>		<u>10 700</u>	<u>10 500</u>	<u>14 300</u>

**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		<u>(9 200)</u>	355 800
<b>Cost of Sales</b>			
Opening Inventory		53 500	
Purchases	173 000		
Add Carriage inwards (\$16 500 × 30%)	4 950		
Less Returns	<u>(5 500)</u>	172 450	
Closing inventory		<u>(61 450)</u>	<u>164 500</u>
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]		<u>400</u>	<u>(164 200)</u>
Profit for the year			27 100

**Appropriations:**

Interest on capital: Donney	6 000		
Raj	<u>4 000</u>	10 000	
Salary Raj		<u>12 000</u>	<u>(22 000)</u>
			<u>5 100</u>
Profit share: Donney		3 400	
Raj		<u>1 700</u>	<u>5 100</u>

**(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)	<u>75 000</u>	35 000	40 000
Fixtures and fittings (\$24 000 + \$7 500)	<u>50 000</u>	<u>31 500</u>	<u>18 500</u>
	<u>295 000</u>	<u>66 500</u>	228 500
<b>Current Assets</b>			
Inventory		61 450	
Trade receivables (\$62 500 – \$2 500)	60 000		
Less: provision for doubtful debts (\$60 000 × 4%)	<u>(2 400)</u>	57 600	
Other receivables (Prepaid admin expenses)		<u>630</u>	
		119 680	
<b>Current Liabilities</b>			
Trade payables	30 500		
Accrued Wages and salaries	2 700		
Accrued loan interest (\$50 000 × 8%) – \$2 000]	2 000		
Bank overdraft	<u>4 380</u>	<u>(39 580)</u>	
<b>Net current assets</b>			<u>80 100</u>
			308 600
<b>Less Non-current liabilities</b>			
8% loan repayable 31 December 2025			<u>(50 000)</u>
			<u>258 600</u>
<b>Equity</b>			
Capital accounts: Donney	150 000		
Raj	<u>100 000</u>	250 000	
Current accounts: Donney	9 400		
Raj	<u>(800)</u>	<u>8 600</u>	<u>258 600</u>



**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		<u>(11 100)</u>	368 900
Cost of Sales			
Inventory at 1 May 2011		53 750	
Purchases	170 000		
Less Returns to suppliers	<u>(8 900)</u>	<u>161 100</u>	
		214 850	
Less Inventory at 30 April 2012		<u>(38 500)</u>	
Cost of sales			<u>(176 350)</u>
Gross profit			192 550
<b>Expenses</b>			
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%)		<u>3 500</u>	<u>(142 550)</u>
Profit for the year			50 000
<b>Appropriations</b>			
Interest on capital: Su (\$120 000 × 5%)		6 000	
Li (\$100 000 × 5%)		5 000	
Salary Su		<u>15 000</u>	<u>(26 000)</u>
			<u>24 000</u>
Share of profit: Su ( $\$24\,000 \times \frac{3}{5}$ )		14 400	
Li ( $\$24\,000 \times \frac{2}{5}$ )		<u>9 600</u>	<u>24 000</u>

**(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	<u>2 100</u>	
	<u>35 900</u>	<u>16 700</u>		<u>35 900</u>	<u>16 700</u>
Balance c/d		<u>2 100</u>	Balance c/d	900	

(c)

**Balance Sheet**  
**As at 30 April 2012**

<b>Non-current assets</b>	<b>Cost (\$)</b>	<b>Depn. (\$)</b>	<b>NBV (\$)</b>
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)	<u>35 000</u>	29 500	<u>5 500</u>
	<u>303 000</u>	<u>65 600</u>	237 400
<b>Current assets</b>			
Inventory		38 500	
Trade receivables (\$58 000 – \$3 000)	55 000		
Less: provision for doubtful debts (\$55 000 × 6%)	<u>3 300</u>	51 700	
Other receivables		890	
Bank deposit		<u>5 000</u>	
		96 090	
<b>Current liabilities</b>			
Trade payables	20 340		
Other payables:	4 000		
Loan interest due [(\$80 000 × 6%) – \$3 600]	1 200		
Bank overdraft	<u>9 150</u>	(34 690)	<u>61 400</u>
			298 800
<b>Non-current liabilities</b>			
6% loan			<u>(80 000)</u>
			<u>218 800</u>
<b>Equity</b>			
<b>Capital accounts:</b> Su	120 000		
Li	<u>100 000</u>	220 000	
<b>Current accounts:</b> Su	900		
Li	<u>(2 100)</u>	<u>(1 200)</u>	<u>218 800</u>

**QUESTION 7****NOVEMBER 2013 P21 Q5**

(a)

**Income Statement and Appropriation Account**  
**For the year ended 31 January 2013**

	\$	\$	\$
Revenue			148 200
<b>Cost of Sales</b>			
Opening inventory		12 400	
Purchases	66 200		
Less Returns	(1 230)		
Add Import duty	2 846		
Transport on purchases (\$4 330 × 80%)	<u>3 464</u>	71 280	
Closing Inventory		<u>(14 230)</u>	<u>(69 450)</u>
Gross profit			78 750
<b>Other Incomes</b>			
Discount received		2 428	
Decrease in prov. for doubtful debts [\$600 – (\$8000 × 5%)]		<u>200</u>	<u>2 628</u>
			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 × $\frac{11}{12}$ )		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 [(\$26 000 + \$6 000) × 12%]	3 840		
Motor vehicles [(\$40 000 – \$19 520) × 20%]	<u>4 096</u>	<u>9 936</u>	<u>(64 268)</u>
Profit for the year			17 110
Appropriations			
Interest on capital: Genet (\$60 000 × 4%)	2 400		
Vass (\$40 000 × 4%)	<u>1 600</u>	4 000	
Salary : Vass		<u>5 000</u>	<u>(9 000)</u>
Profit available for distribution			<u>8 110</u>
Profit share: Genet (\$8 110 × $\frac{3}{5}$ )		4 866	
Vass (\$8 110 × $\frac{2}{5}$ )		<u>3 244</u>	<u>8 110</u>

## (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		<u>3 756</u>
	<u>9 666</u>	<u>13 600</u>		<u>9 666</u>	<u>13 600</u>
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
	\$	\$	\$
<b>NON-CURRENT ASSETS</b>			
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)	<u>40 000</u>	<u>23 616</u>	<u>16 384</u>
	<u>152 000</u>	<u>50 816</u>	101 184
<b>CURRENT ASSETS</b>			
Closing Inventory		14 230	
Trade receivables (\$8 110 – \$110)	8 000		
Provision for doubtful debts (\$8 000 × 5%)	<u>(400)</u>	7 600	
Other receivables: Insurance (\$10 400 × $\frac{1}{12}$ )		<u>800</u>	
		22 630	

<b>CURRENT LIABILITIES</b>		\$	\$	\$
Trade payables		10 180		
Other payables: Loan interest $[(\$15\ 000 \times 8\%) - \$1\ 000]$		200		
General expenses		322		
Bank overdraft		<u>1 202</u>	(11 904)	
Net current assets (working capital)				<u>10 726</u>
				111 910
<b>NON-CURRENT LIABILITIES</b>				
8% bank loan 1 May 2018				<u>(15 000)</u>
				<u>96 910</u>
<b>EQUITY</b>				
Capital: Genet		60 000		
Vass		<u>40 000</u>		100 000
Current accounts: Genet		666		
Vass		<u>(3 756)</u>		<u>(3 090)</u>
				<u>96 910</u>

**QUESTION 8****NOVEMBER 2013 P22 Q5**

(a) **Income statement and appropriation account**  
For the year ended 30 September 2013

<b>INCOMES</b>		\$	\$
Fees (Revenue)		103 769	
Commission received		2 400	
Discount received		<u>1 400</u>	107 569
<b>EXPENSES</b>			
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 $(\$40\ 000 \times 8\%)$		3 200	
Bank charges		123	
Increase in provision for doubtful debts $[(\$10\ 720 \times 5\%) - \$520]$		16	
Depreciation: Premises $(\$118\ 000 \times 6\%)$		7 080	
Office equipment $(\$60\ 000 \times 12\%)$		7 200	
Motor vehicles $(\$22\ 000 - \$2\ 000 - \$7\ 200) \times 20\%$		<u>2 560</u>	<u>(80 839)</u>
Profit for the year			26 730
Add Interest in drawings: Cain		480	
Les		<u>600</u>	<u>1 080</u>
			27 810
Less Interest on capital: Cain		4 000	
Les		3 000	
Salary Les		<u>16 000</u>	<u>(23 000)</u>
			<u>4 810</u>
Share of profit: Cain		2 886	
Les		<u>1 924</u>	<u>4 810</u>

(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
	<u>12 480</u>	<u>31 100</u>		<u>12 480</u>	<u>31 100</u>
Balance b/d	4 894	10 176			

(c)

## Statement of Financial Position at 30 September 2013

	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
<b>Non-Current Assets</b>			
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)	<u>20 000</u>	<u>9 760</u>	<u>10 240</u>
	198 000	52 720	145 280
<b>CURRENT ASSETS</b>			
Trade receivables	10 720		
Provision for doubtful debts (\$10 720 × 5%)	<u>(536)</u>	10 184	
Other receivables		1 010	
Bank (\$20 889 – \$123)		<u>20 766</u>	
		31 960	
<b>CURRENT LIABILITIES</b>			
Trade payables	1 960		
Other payables: Bank interest	200		
Heat and light	<u>150</u>	<u>(2 310)</u>	
Net Current Assets			<u>29 650</u>
			174 930
<b>NON-CURRENT LIABILITIES</b>			
8% bank loan (repayable 30 June 2019)		40 000	
Cain loan (repayable 31 March 2018)		<u>10 000</u>	<u>(50 000)</u>
			<u>124 930</u>
<b>EQUITY</b>			
Capital accounts			
Cain (\$90 000 – \$10 000)		80 000	
Les		<u>60 000</u>	140 000
Current accounts			
Cain (Dr)		(4 894)	
Les (Dr)		<u>(10 176)</u>	<u>(15 070)</u>
			<u>124 930</u>

## 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		<u>(11 800)</u>	468 700
<b>Cost of Sales</b>			
Opening Inventory		47 700	
Purchases	209 000		
Less Return to suppliers	<u>(10 500)</u>		
Carriage inwards - motor vehicle expenses ( $\$13\,600 \times \frac{1}{4}$ )	<u>3 400</u>	201 900	
Closing Inventory		<u>(38 350)</u>	<u>(211 250)</u>
Gross profit			257 450
<b>Expenses</b>			
Carriage outwards - motor vehicle expenses ( $\$13\,600 \times \frac{1}{4}$ )		10 200	
Office expenses ( $\$36\,500 - \$4\,000$ )		32 500	
Selling expenses		30 800	
Wages and salaries [ $\$80\,000 - (\$10\,000 \times \frac{1}{2})$ ]		75 000	
Heat and light ( $\$4\,750 + \$750$ )		5 500	
Bank loan interest ( $\$200\,000 \times 8\%$ )		16 000	
Bad debts		7 500	
Increase in prov. for doubtful debts [ $(\$47\,500 \times 6\%) - \$2\,100$ ]		750	
Depreciation: Motor vehicles [ $(\$45\,000 - \$25\,000) \times 25\%$ ]		5 000	
Fixtures & fittings [ $(\$28\,000 + \$2\,000) \times 10\%$ ]		<u>3 000</u>	<u>(186 250)</u>
Profit for the year			71 200
Add Interest on drawings: Chan ( $\$6\,000 \times 5\%$ )		300	
Fong ( $\$10\,000 \times 5\%$ )		<u>500</u>	<u>800</u>
			72 000
Less Interest on capital: Chan ( $\$60\,000 \times 5\%$ )		3 000	
Fong ( $\$40\,000 \times 5\%$ )		2 000	
Salary Fong		<u>10 000</u>	<u>(15 000)</u>
			<u>57 000</u>
Profit share: Chan ( $\$57\,000 \times \frac{2}{3}$ )		38 000	
Fong ( $\$57\,000 \times \frac{1}{3}$ )		<u>19 000</u>	<u>57 000</u>

(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	<u>36 200</u>	<u>19 500</u>	Salary		5 000
			Profit share	<u>38 000</u>	<u>19 000</u>
	<u>42 500</u>	<u>30 000</u>		<u>42 500</u>	<u>30 000</u>

(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 ( $\$28\,000 + \$2\,000$ ); ( $\$12\,000 + \$3\,000$ )	<u>30 000</u>	<u>15 000</u>	<u>15 000</u>
	<u>325 000</u>	<u>45 000</u>	280 000

<b>CURRENT ASSETS</b>		\$	\$	\$
Inventory			38 350	
Trade receivables (\$55 000 – \$7 500)	47 500			
Less: provision for doubtful debts (\$47 500 × 6%)	<u>(2 850)</u>		44 650	
Other receivables (Prepaid office expenses)			4 000	
Bank (\$34 500 – \$2 000)			<u>32 500</u>	
			119 500	
<b>CURRENT LIABILITIES</b>				
Trade payables	36 050			
Other payables: Heat and light	750			
Loan interest due (\$16 000 – \$9 000)	<u>7 000</u>	<u>(43 800)</u>		<u>75 700</u>
				355 700
<b>NON-CURRENT LIABILITIES</b>				
8% loan repayable 30 March 2016				<u>(200 000)</u>
				<u>155 700</u>
<b>EQUITY</b>				
Capital accounts: Chan			60 000	
Fong			<u>40 000</u>	100 000
Current accounts: Chan			36 200	
Fong			<u>19 500</u>	<u>55 700</u>
				<u>155 700</u>

**QUESTION 10****NOVEMBER 2014 P22 Q5**

(a)	<b>Darius and Edgar</b>			
	<b>Income Statement and Appropriation Account for the year ended 31 July 2014</b>			
		\$	\$	
Revenue		256 000		
Less Returns		<u>(5 200)</u>	250 800	
<b>Cost of Sales</b>				
Opening inventory		25 800		
Purchases		<u>148 300</u>		
		174 100		
Closing inventory		<u>(34 100)</u>	<u>(140 000)</u>	
Gross Profit			110 800	
<b>OTHER INCOMES</b>				
Rent receivable (\$3 500 + \$1 500)		5 000		
Decrease in prov. for doubtful debts [(\$39 500 – \$4 500) × 4%] – \$1 900		<u>500</u>	<u>5 500</u>	
			116 300	
<b>EXPENSES</b>				
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 ( $\frac{\$75\,000}{25\text{ years}}$ )		3 000		

	Motor vehicles [(\$40 000 – \$10 000) × 30%]	9 000	
	Fixtures (\$25 000 × 10%)	2 500	
	Bad debts	<u>4 500</u>	(86 300)
	Profit for the year		30 000
<b>APPROPRIATIONS</b>			
	Interest on capital Darius (\$40 000 × 5%)	2 000	
	Edgar [(\$20 000 × 5%) + (\$20 000 × 5% × <sup>6</sup> / <sub>12</sub> )]	1 500	
	Salary – Edgar	<u>12 000</u>	( 15 500)
			<u>14 500</u>
Share of profit:	Darius (\$14 500 × <sup>3</sup> / <sub>5</sub> )	8 700	
	Edgar (\$14 500 × <sup>2</sup> / <sub>5</sub> )	<u>5 800</u>	<u>14 500</u>

(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	<u>800</u>	
	<u>12 000</u>	<u>20 200</u>		<u>12 000</u>	<u>20 200</u>

(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)	<u>25 000</u>	<u>17 500</u>	<u>7 500</u>
	<u>140 000</u>	<u>57 500</u>	82 500
<b>CURRENT ASSETS</b>			
Inventory		34 100	
Trade receivables (\$39 500 – \$4 500)	35 000		
Prov. for doubtful debts [(\$39 500 – \$4 500) × 4%]	<u>(1 400)</u>	33 600	
Other receivables : accrued rent receivable	1 500		
operating expenses prepaid	<u>1 800</u>	3 300	
Bank		<u>31 400</u>	
		102 400	
<b>CURRENT LIABILITIES</b>			
Trade payables	55 900		
8% Bank loan (repayable 31 March 2015)	40 000		
Other payables : Interest due (\$3 200 – \$1 600)	<u>1 600</u>	<u>(97 500)</u>	<u>4 900</u>
			<u>87 400</u>
<b>EQUITY</b>			
Capital accounts: Darius	40 000		
Edgar	<u>40 000</u>	80 000	
Current accounts: Darius	(800)		
Edgar	<u>8 200</u>	<u>7 400</u>	<u>87 400</u>



**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	<u>(8 600)</u>	181 400
<b>Cost of Sales</b>		
Inventory 1 May 2014	15 600	
Purchases	<u>81 250</u>	
	96 850	
Inventory 30 April 2015	<u>(13 650)</u>	
Cost of sales		<u>(83 200)</u>
Gross profit		98 200
<b>Expenses</b>		
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]	<u>250</u>	<u>(85 400)</u>
Profit for the year		12 800
Add Interest on drawings:		
Farah (\$6 000 × 5%)	300	
Hana (\$6 000 × 5%)	<u>300</u>	<u>600</u>
		13 400
Less Interest on capital:		
Farah (\$50 000 × 4%)	(2 000)	
Hana (\$30 000 × 4%)	<u>(1 200)</u>	<u>(3 200)</u>
		<u>10 200</u>
Profit share: Farah ( $\$10\,200 \times \frac{1}{2}$ )	5 100	
Hana ( $\$10\,200 \times \frac{1}{2}$ )	<u>5 100</u>	<u>10 200</u>

(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	<u>4 050</u>	<u>1 850</u>	Profit share	<u>5 100</u>	<u>5 100</u>
	<u>10 350</u>	<u>8 150</u>	Balance b/d	<u>4 050</u>	<u>1 850</u>

## (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)	<u>15 000</u>	<u>12 500</u>	<u>2 500</u>
	105 000	31 300	73 700
<b>Current Assets</b>			
Closing inventory		13 650	
Trade receivables	18 750		
Less Provision for doubtful debts (\$18 750 × 4%)	<u>(750)</u>	18 000	
Other receivables - prepayments		<u>800</u>	<u>32 450</u>
Total assets			<u>106 150</u>
<b>Capital and liabilities</b>			
Capital accounts: Farah	50 000		
Hana	<u>30 000</u>	80 000	
Current accounts: Farah	4 050		
Hana	<u>1 850</u>	<u>5 900</u>	85 900
<b>Current Liabilities</b>			
Trade payables (\$7 900 – \$550)		7 350	
Other payables – accruals		150	
Bank overdraft (\$12 200 + \$550)		<u>12 750</u>	<u>20 250</u>
			<u>106 150</u>

**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 [ $\$19\,800 - (\$40\,000 \times 5\%)$ ]		17 800
Add interest on drawings: Aina ( $\$7\,500 \times 6\%$ )	450	
Barry ( $\$10\,000 \times 6\%$ )	<u>600</u>	<u>1 050</u>
Less Interest on capital: Aina ( $\$50\,000 \times 4\%$ )	2 000	18 850
Barry [ $(\$20\,000 \times 4\%) + (\$20\,000 \times 4\% \times \frac{6}{12})$ ]	1 200	
Salary: Barry	<u>8 000</u>	<u>(11 200)</u>
		<u>7 650</u>
Share of profit: Aina ( $\$7\,650 \times \frac{3}{5}$ )	4 590	
Barry ( $\$7\,650 \times \frac{2}{5}$ )	<u>3 060</u>	<u>7 650</u>

(b)

**Current Accounts**

	Aina (\$)	Barry(\$)		Aina(\$)	Barry(\$)
Balance b/f	800		Balance b/f		6 500
Drawings	7 500	10 000	Interest on loan ( $\$40\,000 \times 5\%$ )		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	<u>2 160</u>	
	<u>8 750</u>	<u>20 760</u>		<u>8 750</u>	<u>20 760</u>



(b)

## Current accounts

Date 2016		Li \$	Yang \$	Date 2016		Li \$	Yang \$
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
		<u>44 150</u>	<u>29 800</u>	Sept 30	Profit share	<u>29 850</u>	<u>19 900</u>
				Oct 1	Balance b/d	19 650	14 900
						<u>44 150</u>	<u>29 800</u>

(c)

## Li and Yang

## Statement of Financial Position at 30 September 2016

	Cost \$	Accumulated depreciation \$	Net Book Value \$
<b>Non-Current Assets</b>			
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 (\$35 000 - \$5 000) ; (\$10 000 - \$3 000 + \$6 000)	<u>30 000</u>	<u>13 000</u>	<u>17 000</u>
	290 000	69 000	221 000
<b>Current Assets</b>			
Closing inventory		57 900	
Trade receivables (\$69 200 + \$2 800 - \$4 000)	68 000		
Less: provision for doubtful debts (\$68 000 × 5%)	<u>(3 400)</u>	64 600	
Other receivables: Prepaid administration expenses		<u>250</u>	<u>122 750</u>
<b>Total assets</b>			<u>343 750</u>
<b>Equity</b>			
<b>Capital Accounts:</b>			
Li		50 000	
Yang		<u>50 000</u>	100 000
<b>Current Accounts:</b>			
Li ('b' part)		19 650	
Yang ('b' part)		<u>14 900</u>	34 550
<b>Non-Current Liabilities</b>			
5% Bank loan repayable 2021			120 000
<b>Current Liabilities</b>			
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)		<u>23 600</u>	<u>89 200</u>
<b>Total equity and liabilities</b>			<u>343 750</u>

## 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 fictitious 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)	( <sup>2</sup> / <sub>3</sub> ) ↓20 000	( <sup>1</sup> / <sub>3</sub> ) ↓10 000
Capital account balances after goodwill adjustment	<u>30 000</u>	<u>5 000</u>

(d)

**Newstart  
Balance Sheet as at 1 April 2009**

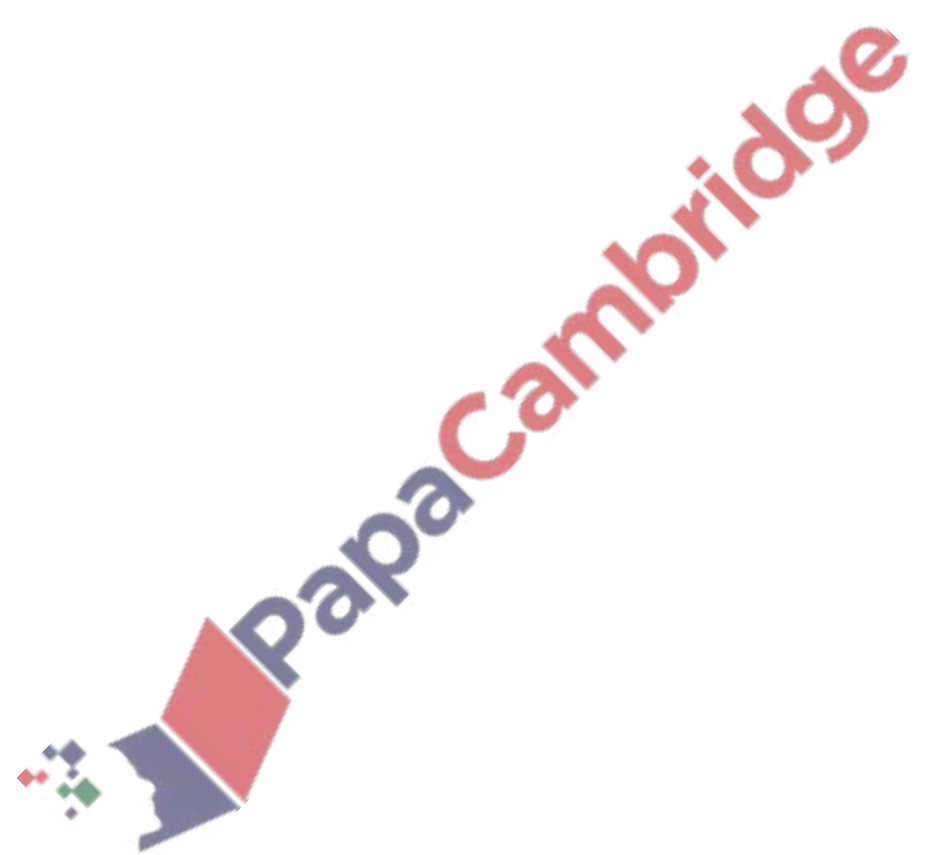
	\$	\$	\$
<b>Non-Current Assets</b> (\$23 000 + \$10 000)			33 000
<b>Current Assets</b>			
Inventory (\$7 000 + \$5 000)		12 000	
Trade receivables (\$3 000 + \$4 000)		7 000	
Cash (bank)		<u>2 000</u>	
		21 000	
<b>Current Liabilities</b>			
Trade payables (\$5 000 + \$6 000)	11 000		
Loans repayable within 12 months (bank overdraft)	<u>8 000</u>	<u>(19 000)</u>	<u>2 000</u>
			<u>35 000</u>
<b>Equity</b>			
Capital Chan ("c" part)		30 000	
David ("c" part)		<u>5 000</u>	<u>35 000</u>

(e)

**Newstart  
Appropriation Account**

	\$	\$
Profit for the year		10 250
Interest on drawings:		
Chan (\$15 000 × 5%)	750	
David (\$20 000 × 5%)	<u>1 000</u>	<u>1 750</u>
		12 000

Salary	Chan	8 000	
	David	<u>7 000</u>	<u>(15 000)</u>
			<u>(3 000)</u>
Loss Share:	Chan ( $\$3\,000 \times \frac{2}{3}$ )	(2 000)	
	David ( $\$3\,000 \times \frac{1}{3}$ )	<u>(1 000)</u>	<u>(3 000)</u>



## 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		
A new computer system		
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		
Installation of additional machinery		
Repairs to office equipment		
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]

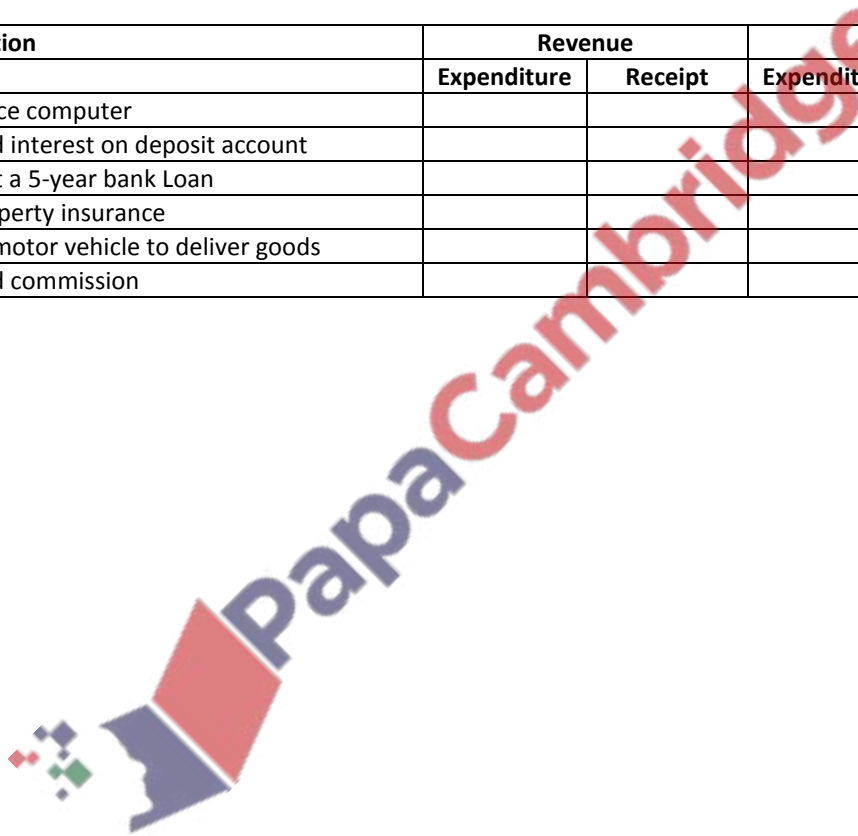
**QUESTION 9****NOVEMBER 2016 P22 Q2 (c & d)**

(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 other 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)**

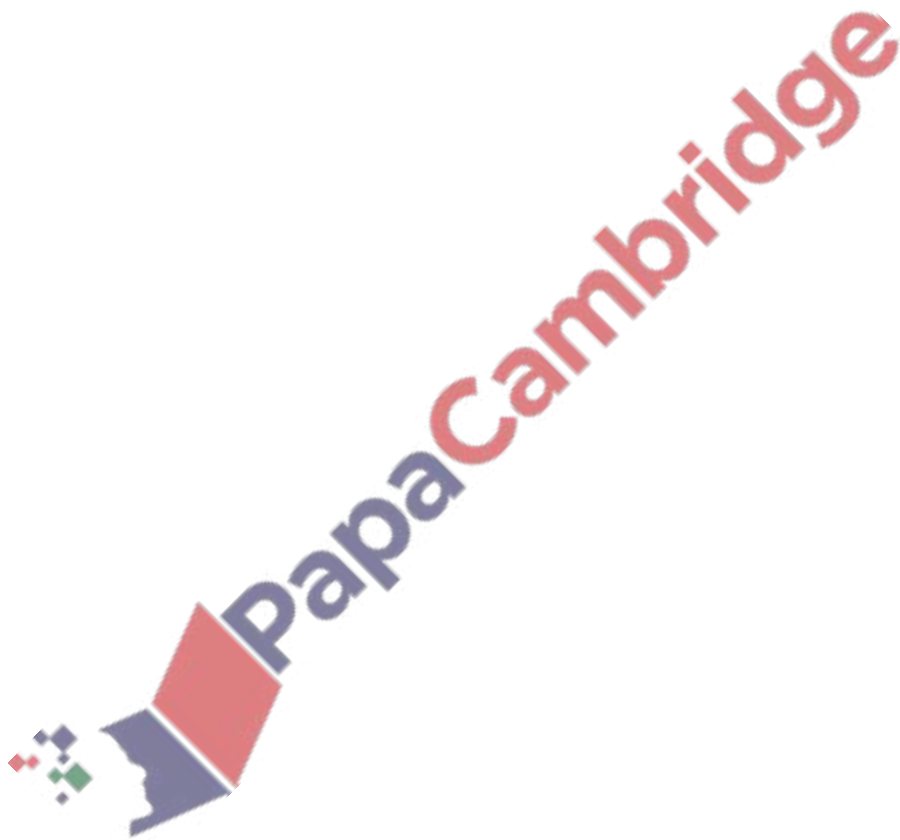
Transaction	Revenue expenditure	Revenue receipt	Capital expenditure	Capital receipt
Sale of motor van				✓
Purchased new motor van tyres	✓			
Cash discount received		✓		
Purchase a new motor van			✓	

**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 value, \$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.**

	\$	\$	\$	\$
<b>Draft profit for year</b>				<b>15 500</b>
	<b>Increase</b>	<b>Decrease</b>	<b>No effect</b>	
<b>1</b>				
<b>2</b>				
<b>3</b>				
<b>4</b>				
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
	<u>217 540</u>	<u>86 420</u>

- (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.	<i>Decrease</i>	<i>950</i>
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)**

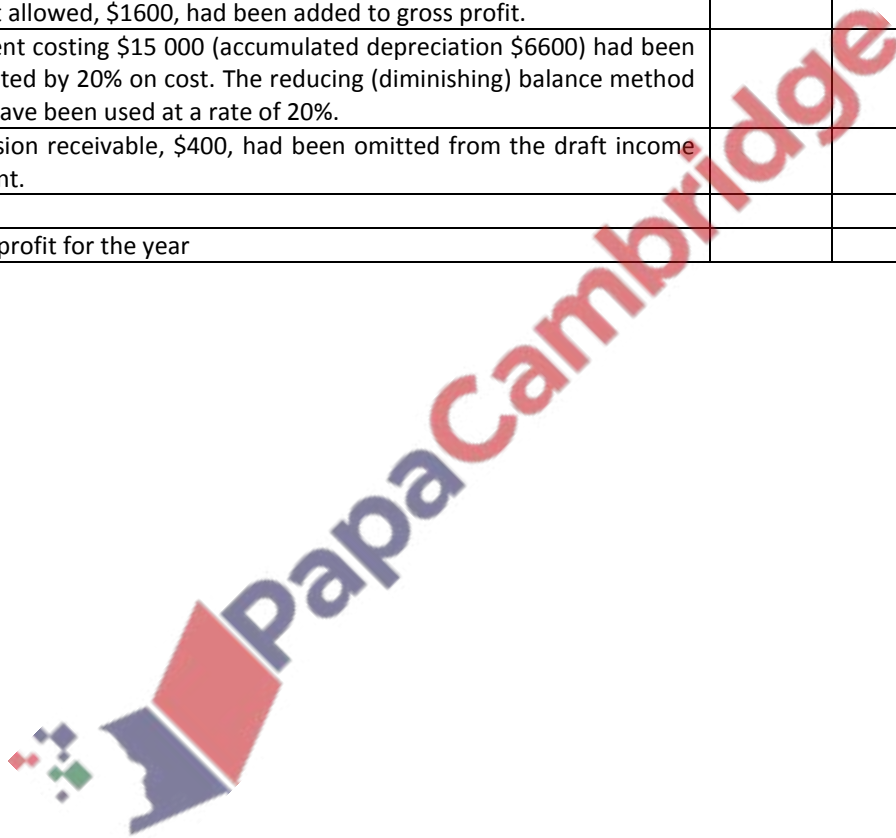
After preparing the draft income statement, which showed a profit for the year of \$24 000, Lyana discovered some errors.

**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 A Morston	2 000	2 000
(ii)	T Cley C Tilley	650	650
(iii)	Motor vehicle expenses Motor vehicle	500	500
(iv)	L Staithe Discount allowed Discount received	380	190 190

- (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		<u>380</u>
			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	<u>500</u>	<u>(2 500)</u>
Revised profit for the year			<u>12 550</u>

## QUESTION 2

NOVEMBER 2010 P22 Q2 (a to c)

- (a) **Journal**

		Dr (\$)	CR (\$)
1	Sales Equipment Disposal	3 000	3 000
2	Purchases Alana	1 300	1 300
3	Buildings insurance JGL Insurance	425	425

## WORKING

	Actual Entry		Wrong Entry			Rectifying Entry		
		Dr. \$	Cr.\$	Dr. \$	Cr.\$	Dr. \$	Cr.\$	
1.	Bank Equip disposal	3 000	3 000	Bank Sales	3 000 3 000	Sales Equip disposal	3 000 3 000	
2.	Purchases Alana	650	650	Alana Purchases	650 650	Purchases Alana	1 300 1 300	
3.	Insurance JGL Insurance	425	425	No entry		Insurance JGL Insurance	425 425	

- (b) (i) Error of Principle  
(ii) Complete reversal of entries  
(iii) Error of Omission

(c)		Gross profit \$	Profit for the year \$
	Draft profit	60 000	15 000
	Error 1	(3 000)	(3 000)
	Error 2	(1 300)	(1 300)
	Error 3	-	(425)
	Revised profit	<u>55 700</u>	<u>10 275</u>

**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)	Apr 10	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	<u>66</u>		
	<u>180</u>		<u>180</u>

**(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	<u>1 200</u>	1 380
Less Cash discount allowed wrongly posted on credit side now corrected		<u>(66)</u>
Corrected balance in M. H Supplies Ltd account		<u>1 780</u>



**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) Sales	12 000	12 000

**QUESTION 6** **MAY 2012 P22 Q2**

(a) **Journal**

		DR (\$)	CR (\$)
1.	Purchases Takka	4 000	4 000
2.	Nolan North	380	380
3.	Suspense Discount received	6 100	6 100
4.	Bad debts Long	375	375

(b) **Statement of revised profit**

**For the year ended 30 April 2012**

		\$	\$	\$	\$
	<b>Draft profit for year</b>				<b>15 500</b>
		<b>Increase</b>	<b>Decrease</b>	<b>No effect</b>	
1	Purchases		4 000		
2	Sales			No effect	
3	Discount	6 100			
4	Bad debt		375		
	Totals	<u>6 100</u>	<u>4 375</u>		<u>1 725</u>
	Revised profit for the year				<u>17 225</u>

(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 only 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 the 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
	<u>152 220</u>	<u>152 220</u>

- (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
		<u>1 034</u>		Insurance	<u>90</u>
					<u>1 034</u>

- (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

	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		Dr	Cr
Details		\$	\$
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	<u>2 100</u>	<u>        </u>
	<u>37 100</u>	<u>37 100</u>

**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	<u>180</u>	<u>        </u>
	<u>31 200</u>	<u>31 200</u>

(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	<u>170</u>	Sept 30	Rent	<u>180</u>
		<u>1 130</u>			<u>1 130</u>

(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 &amp; 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 ( <b>balancing figure</b> )	<u>1 130</u>	<u>37 130</u>
	<u>37 130</u>	<u>37 130</u>

**(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.	<u>400</u>		
Total	<u>2 670</u>	<u>4 500</u>	<u>(1 830)</u>
Revised profit for the year			<u>22 170</u>

## 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	<u>2 300</u>			
		<u>49 600</u>	Apr 01	Balance b/d	<u>2 300</u>
					<u>49 600</u>

## QUESTION 2

MAY 2011 P21 Q2 (a &amp; 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	<u>59 700</u>
		<u>217 750</u>			<u>217 750</u>

## QUESTION 3

NOVEMBER 2011 P22 Q2 (a &amp; 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	<u>80 000</u>			
		<u>105 000</u>			<u>105 000</u>

- (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	<b>Purchases (balancing figure)</b>	<b>77 850</b>
Mar 31	Discount received	1 350	Mar 31	Refunds from trade payables	700
Mar 31	Balance c/d	<u>9 150</u>			
		<u>93 850</u>			<u>93 850</u>

**(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	<u>4 978</u>
		<u>80 714</u>			<u>80 714</u>

**(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	<u>19 980</u>
		<u>71 880</u>			<u>71 880</u>

**QUESTION 7** **NOVEMBER 2015 P22 Q2 (a)****Sales ledger control account**

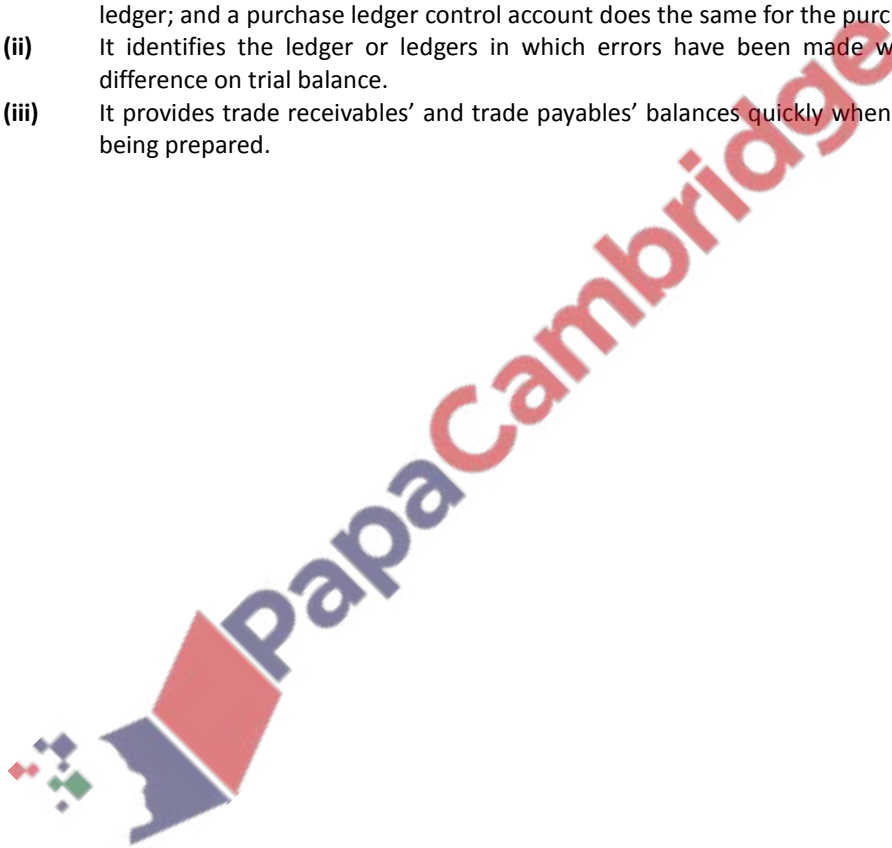
2015		\$	2015		\$
Aug 01	Balance b/f	27 520	Aug 31	Sales returns	1 700
Aug 31	Sales	32 400	Aug 31	Bank	40 150
Aug 31	Interest charged	600	Aug 31	Discount allowed	780
			Aug 31	Bad debts	2 900
			Aug 31	Balance c/d	<u>14 990</u>
		<u>60 520</u>			<u>60 520</u>

**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	<u>10 550</u>
		<u>59 390</u>			<u>59 390</u>
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	<u>4 650</u>
	<u>78 250</u>		<u>78 250</u>

The sale of office equipment was at net book value.

**Additional information:**

	1 April 2009	31 March 2010
	\$	\$
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 for 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	<u>6 000</u>
	<u>71 500</u>		<u>71 500</u>

**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	600 Prepaid	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:

- Trade receivables include a sum of \$500 which should be written off as a bad debt.
- 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
	<u>47 200</u>		<u>47 200</u>
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 &amp; f)

## (a) Total Trade Receivables account

Revenue (Sales)	\$ 6 020	Bank	\$ 4 460
		Bad debt	140
		Balance c/d	<u>1 420</u>
	<u>6 020</u>		<u>6 020</u>

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	<u>1 600</u>		
	<u>3 600</u>		<u>3 600</u>

## (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		<u>(240)</u>	<u>3 360</u>
Gross profit			<u>3 450</u>

## (e) Jenny Palmer

## Income Statement for the month ended 31 July 2009

Gross profit		\$	\$
		3 450	
Other Incomes: Discount received		<u>100</u>	3 550
Expenses			
Wages and salaries		690	
Bad debts		140	
Sundry expenses		<u>1 650</u>	<u>(2 480)</u>
Profit for the year			<u>1 070</u>

## (f)

## Jenny Palmer

## Balance Sheet at 31 July 2009

<b>Non-current assets</b>		\$	\$
Equipment			1 200
<b>Current Assets</b>			
Inventory		240	
Trade receivables		1 420	
Bank		1 370	
Cash		<u>71</u>	
			3 101

<b>Current Liabilities</b>		\$	\$	\$
Trade payables		1 600		
Other payables - tax authorities		<u>181</u>	<u>1 781</u>	<u>1 320</u>
				<u>2 520</u>
Capital			2 000	
Add Profit for the year			1 070	
Less Drawings			<u>(550)</u>	<u>2 520</u>

**QUESTION 2****MAY 2010 P21 Q3 (a to c)**

(a) (i) **Calculation of capital at 1 April 2009.**

<b>Assets</b>		\$	\$
Office equipment		16 000	
Trade receivables		14 200	
Other receivables (prepaid expenses)		100	
Cash (bank)		<u>3 500</u>	33 800
<b>Liabilities</b>			
Non-current liabilities (6% Loan)		10 000	
Other payables (accrued rent)		<u>400</u>	<u>(10 400)</u>
<b>Capital</b>			<u>23 400</u>

(ii) **Calculation of consultancy fees for the year ended 31 March 2010.**

		\$
Receipts of consultancy fees		74 000
Trade receivables at 31 March 2010		<u>11 000</u>
		85 000
Trade receivables at 1 April 2009		<u>14 200</u>
Consultancy fees for the year		<u>70 800</u>

(b) **Indira – Income statement for the year ended 31 March 2010**

		\$	\$
Consultancy fees			70 800
<b>Expenses</b>			
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)		<u>3 250</u>	<u>(49 150)</u>
Profit for the year			<u>21 650</u>

- (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
<b>Sales</b>	<b><u>59 150</u></b>	Balance c/d	<u>8 400</u>
	<u>68 900</u>		<u>68 900</u>

**Trade payables Control Account (to calculate purchases)**

	\$		\$
Bank (payments to suppliers)	34 900	Balance b/f	10 500
Balance c/d	<u>9 300</u>	<b>Purchases</b>	<b><u>33 700</u></b>
	<u>44 200</u>		<u>44 200</u>

**Income Statement for the year ended 30 April 2011**

	\$	\$
Revenue (sales)		59 150
<b>Cost of Sales</b>		
Opening inventory	5 250	
Add Purchases	33 700	
Closing inventory	<u>(11 000)</u>	<u>(27 950)</u>
<b>Gross profit</b>		31 200
<b>EXPENSES</b>		
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)	<u>5 000</u>	<u>(30 800)</u>
<b>Profit for the year</b>		<u>400</u>

**(c) Statement of Financial Position as at 30 April 2011**

	\$	\$	\$
<b>Non-Current Assets</b>			42 000
<b>Current Assets</b>			
Closing inventory	11 000		
Trade receivables	<u>8 400</u>	19 400	
<b>Current Liabilities</b>			
Trade payables	9 300		
Accrued lighting and heating	250		
Accrued loan interest	1 200		
Bank overdraft	<u>10 250</u>	<u>(21 000)</u>	<u>(1 600)</u>
			40 400
<b>Non-Current Liabilities:</b> 6% Bank loan			<u>(20 000)</u>
			<u>20 400</u>
<b>EQUITY</b>		\$	\$
Capital at 1 May 2010		25 000	
Add Profit for the year		400	
Less Drawings		<u>(5 000)</u>	<u>20 400</u>

**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**

	\$	\$	\$
<b>NON-CURRENT ASSETS</b>			
Motor vehicle			7 700
<b>CURRENT ASSETS</b>			
Inventory	11 600		
Trade receivables (6 500 – 500)	6 000		
Other receivables (350 + 100)	450		
Bank deposit	2 600		
Cash	<u>50</u>	20 700	
<b>CURRENT LIABILITIES</b>			
Trade payables	8 100		
Other payables	<u>900</u>	9 000	<u>11 700</u>
			19 400
<b>NON-CURRENT LIABILITIES</b>			
Loan			<u>(9 000)</u>
<b>Capital at 30 September 2012</b>			<b><u>10 400</u></b>

- (c) **Leong**  
**Statement to calculate profit for the year 30 September 2012**

	\$
Closing capital	10 400
Drawings	8 800
Opening capital	<u>(6 000)</u>
Profit for the year	<u>13 200</u>

**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	<u>1 430</u>	<b>Credit purchases (balancing figure)</b>	<b><u>18 080</u></b>
	<u>19 230</u>		<u>19 230</u>

(c)

## Cash Account

<b>Revenue (balancing figure)</b>	<b>\$ 67 050</b>	Takings banked	43 200
		Staff wages	14 900
		Drawings	8 000
		Cash purchases	<u>950</u>
	<u>67 050</u>		<u>67 050</u>

(d)

**Basir's Korner Café**  
**Income Statement**  
**For the year ended 30 September 2014**

	<b>\$</b>	<b>\$</b>
Revenue (sales)		67 050
<b>Cost of Sales</b>		
Opening inventory	350	
Purchases ('b' part)	<u>19 030</u>	
	19 380	
Closing inventory	<u>(720)</u>	
<b>Cost of sales</b>		<u>18 660</u>
Gross profit		48 390
<b>EXPENSES</b>		
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%)	<u>350</u>	<u>(36 350)</u>
Profit for the year		<u>12 040</u>

**QUESTION 6****MAY 2015 P21 Q2 (a to c)**

(a)

## Purchases ledger control account

<b>2015</b>		<b>\$</b>	<b>2015</b>		<b>\$</b>
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	<u>8 450</u>			
		<u>45 660</u>	Mar 01	Balance b/d	<u>8 450</u>
					<u>45 660</u>

(b)

## Sales ledger control account

<b>2015</b>		<b>\$</b>	<b>2015</b>		<b>\$</b>
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	<u>12 600</u>
		<u>62 900</u>			<u>62 900</u>
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
<b>Cost of Sales</b>			
Opening inventory - 1 February		9 350	
Purchases	28 500		
Less Returns outwards	<u>(3 800)</u>	<u>24 700</u>	
		34 050	
Closing inventory - 28 February		<u>(8 650)</u>	<u>25 400</u>
Gross profit			32 900
<b>Other Incomes</b>			
Discount received			<u>910</u>
			33 810
<b>Expenses:</b>			
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)		<u>7 200</u>	<u>(27 700)</u>
Profit for the month			<u>6 110</u>

**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**

	\$		\$
<b>Cash sales (Balancing figure)</b>	27 900	Wages	9 000
		Drawings	11 500
		Cash sales banked	<u>7 400</u>
	<u>27 900</u>		<u>27 900</u>

(W 2)

**Sales Ledger Control account**

	\$		\$
Balance b/f	17 600	Bank (receipts)	32 000
<b>Revenue ← sales (Balancing figure)</b>	32 750	Balance c/d	18 350
	<u>50 350</u>		<u>50 350</u>

(ii)

**Purchases Ledger Control account**

	\$		\$
Bank (payments)	29 000	Balance b/f	9 750
Balance c/d	<u>7 950</u>	<b>Purchases (Balancing figure)</b>	<u>27 200</u>
	<u>36 950</u>		<u>36 950</u>



(b)

Alif

## Income statement for the year ended 31 March 2016

	\$	\$
Revenue ('a' part)		60 650
<b>Cost of Sales</b>		
Opening inventory	12 000	
Purchases	27 200	
Closing inventory	<u>(11 500)</u>	
Cost of sales		<u>(27 700)</u>
<b>Gross profit</b>		32 950
<b>Other incomes</b>		
Interest receivable		<u>600</u>
		33 550
<b>Expenses</b>		
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)	<u>3 000</u>	<u>(26 450)</u>
Profit for the year		<u><u>7 100</u></u>

(c)

## Statement of financial position at 31 March 2016

	\$	\$
<b>Non-current assets</b>		
Equipment		10 500
<b>Current Assets</b>		
Inventory	11 500	
Trade receivables	18 350	
Other receivables: Prepaid rent	<u>700</u>	<u>30 550</u>
		<u>41 050</u>
<b>Equity</b>		
Capital	35 000	
Profit for the year	<u>7 100</u>	
	42 100	
Drawings	<u>(11 500)</u>	30 600
<b>Current Liabilities</b>		
Trade payables	7 950	
Other payables: Wages	450	
Bank [(\$3 950 + \$40 000 (total receipts) – \$46 000 (Total payments))]	<u>2 050</u>	<u>10 450</u>
		<u>41 050</u>

## 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	<u>5 735</u>
	<u>12 110</u>		<u>12 110</u>

#### Additional information

- |   |  | 1 April | 30 April |
|---|--|---------|----------|
|   |  | \$      | \$       |
| 1 | Other balances   |         |          |
|   | 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	<u>3 915</u>
Sales of refreshments	<u>25 000</u>		
	<u>28 765</u>		<u>28 765</u>

#### Additional information:

<b>1</b>	Balances	<b>1 November 2010 (\$)</b>	<b>31 October 2011 (\$)</b>
	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
<b>2</b>	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	<u>6 834</u>	Balance c/d	<u>2 491</u>
	<u>21 758</u>		<u>21 758</u>

**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	<u>9 650</u>
	<u>52 150</u>		<u>52 150</u>
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	<u>1 350</u>
	<u>7 350</u>		<u>7 350</u>
		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
<b>Cost of Sales</b>		
Opening inventory	1 700	
Purchases (\$4 320 – \$1 830 + \$1 470)	3 960	
Closing inventory	<u>1 230</u>	<u>4 430</u>
Gross Profit		6 190
<b>Expenses</b>		
Wages (“b” part)	815	
Repairs to cafe fixtures	165	
Depreciation on café fixtures (\$5 450 – \$5 400)	<u>50</u>	<u>1 030</u>
Café profit		<u>5 160</u>

(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	<u>105</u>
	5 875
<b>Liabilities</b>	
Subscriptions in advance	<u>175</u>
Accumulated fund	<u>5 700</u>

(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	<u>19 000</u>	
	21 200	
Closing inventory	<u>(700)</u>	
Cost of sales		<u>(20 500)</u>
Refreshment profit		<u>4 500</u>

(c)

**Sandbury Sports Club**  
**Income and Expenditure Account**  
**For the year ended 31 October 2011**

	\$	\$
<b>Income</b>		
Subscriptions (\$3 200 + \$175 + \$90)	3 465	
Profit on refreshments ('b' part)	<u>4 500</u>	7 965
<b>Expenditure</b>		
Bad debts	120	
Rent and rates	1 200	
Operating expenses(\$3 750 + \$100 + \$250)	4 100	
Depreciation on equipment (\$3 200 + \$900 – \$2 700)	<u>1 400</u>	<u>(6 820)</u>
Surplus		<u>1 145</u>

(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		<u>200</u>
	<u>4 930</u>	<u>4 930</u>



(b)		(i)		Subscriptions account			
<b>2012</b>		<b>\$</b>	<b>2012</b>		<b>\$</b>		
Apr 30	Income and expenditure	2 015	Apr 30	Bank	1 980		
Apr 30	Balance c/d (in advance)	<u>25</u>	Apr 30	Balance c/d (in arrears)	<u>60</u>		
		<u>2 040</u>			<u>2 040</u>		
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			
			<b>\$</b>		<b>\$</b>
Sales of refreshments					2 500
Cost of sales					
Purchases of refreshments (\$1 150 + \$75)			1 225		
Closing inventory			<u>(430)</u>		<u>795</u>
Profit on refreshments					<u>1 705</u>

(c)		Income and Expenditure Account for the year ended 30 April 2012			
<b>Incomes</b>			<b>\$</b>		<b>\$</b>
Subscriptions [b (i)]			2 015		
Profit on refreshments [b (ii)]			1 705		
Donations income for the year			<u>150</u>		3 870
<b>Expenditures</b>					
Rent			1 400		
General expenses (\$780 + \$170)			950		
Depreciation on fixtures and fittings (\$1 600 – \$1 360)			<u>240</u>		<u>2 590</u>
<b>Surplus</b>					<u>1 280</u>

(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			
		<b>\$</b>		<b>\$</b>	
Balance b/f		5 000	Disposal	1 230	
Bank (new purchase)		4 656	Depreciation (balancing figure)	322	
		<u>9 656</u>	Balance c/d	<u>8 104</u>	
				<u>9 656</u>	

**(b) Kits and Equipment Disposal Account**

Kits and equipment	\$ 1 230	Bank	\$ 1 008
	<u>1 230</u>	Loss on disposal (balancing figure)	<u>222</u>
			<u>1 230</u>

**(c) Subscriptions account**

<b>2012</b>		\$	<b>2013</b>		\$
Jul 01	Balance b/d	240	Jun 30	Bank	7 200
2013					
Jun 30	Income and expenditure	6 420			
Jun 30	Balance c/d	<u>540</u>			
		<u>7 200</u>	Jul 01	Balance b/d	<u>540</u>
					<u>7 200</u>

**(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)	<u>2 184</u>	
	2 434	
Closing inventory	<u>(300)</u>	<u>(2 134)</u>
Profit for the year		<u>4 700</u>

**(e) Brown Lane Football Club****Income and Expenditure account for the year ended 30 June 2013**

<b>INCOMES</b>	\$	\$
Subscriptions ('c' part)	6 420	
Match day revenue	1 233	
Profit on refreshments ('d' part)	4 700	
Donation income	<u>940</u>	13 293
<b>EXPENDITURES</b>		
Match expenses	3 680	
General expenses	6 913	
Groundsman's wages	1 940	
Depreciation ('a' part)	322	
Loss on disposal ('b' part)	<u>222</u>	<u>(13 077)</u>
Surplus of income over expenditure		<u>216</u>

**(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	<u>(240)</u>
Net pay	<u>900</u>

**(b) Millenium Social Club  
Café Income Statement for the year ended**

	\$	\$
<b>Revenue</b> (Café takings)		41 000
<b>Cost of Sales</b>		
Opening inventory	930	
Purchases (\$12 400 + \$1 100 – \$1 250)	<u>12 250</u>	
	13 180	
Closing inventory	<u>(790)</u>	<u>(12 390)</u>
Cost of sales		28 610
<b>Expenses:</b>		
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 [(\$11 200 + \$700 – \$10 100) × 1/2]	<u>900</u>	<u>(16 754)</u>
Profit on café		<u>11 856</u>

**(c) Millenium Social Club  
Income and Expenditure Account for the year ended 30 April 2014**

	\$	\$
<b>INCOMES</b>		
Subscriptions (\$5 800 + \$750 – \$400 + \$600)	6 750	
Profit on café	11 856	
Donations	<u>3 100</u>	21 706
<b>EXPENDITURES</b>		
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	<u>4 000</u>	<u>(13 900)</u>
Excess of income over expenditure		<u>7 806</u>

**QUESTION 6****MAY 2015 P22 Q3****(a) Subscriptions account**

		\$			\$
<b>2014</b>			<b>2015</b>		
Apr 01	Balance b/d (arrears)	530	Mar 31	Bank	3 260
<b>2015</b>			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)	<u>450</u>			
		<u>4 260</u>			<u>4 260</u>
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	<u>350</u>	4 460
<b>Expenditures:</b>		
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	<u>250</u>	<u>6 160</u>
<b>Deficit</b>		<u>(1 700)</u>

(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	<u>50</u>	<u>800</u>
Total assets		<u>5 200</u>
Accumulated fund		
Balance at start	4 500	
Less Deficit for the year	<u>(1 700)</u>	2 800
Current liabilities		
Subscriptions in advance	450	
Other payables – accrued	20	
Bank overdraft	<u>1 930</u>	<u>2 400</u>
Total accumulated fund & liabilities		<u>5 200</u>



## 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 ( $\frac{3}{5}$ ) of the area is occupied by the factory and two fifths ( $\frac{2}{5}$ ) 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 ( $\frac{4}{5}$ ) to the factory and one fifth ( $\frac{1}{5}$ ) 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
6% Loan (repayable on 23 June 2018)	50 000

Cr

**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

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

	<b>\$</b>
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:

	<b>Factory</b>	<b>Office</b>
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

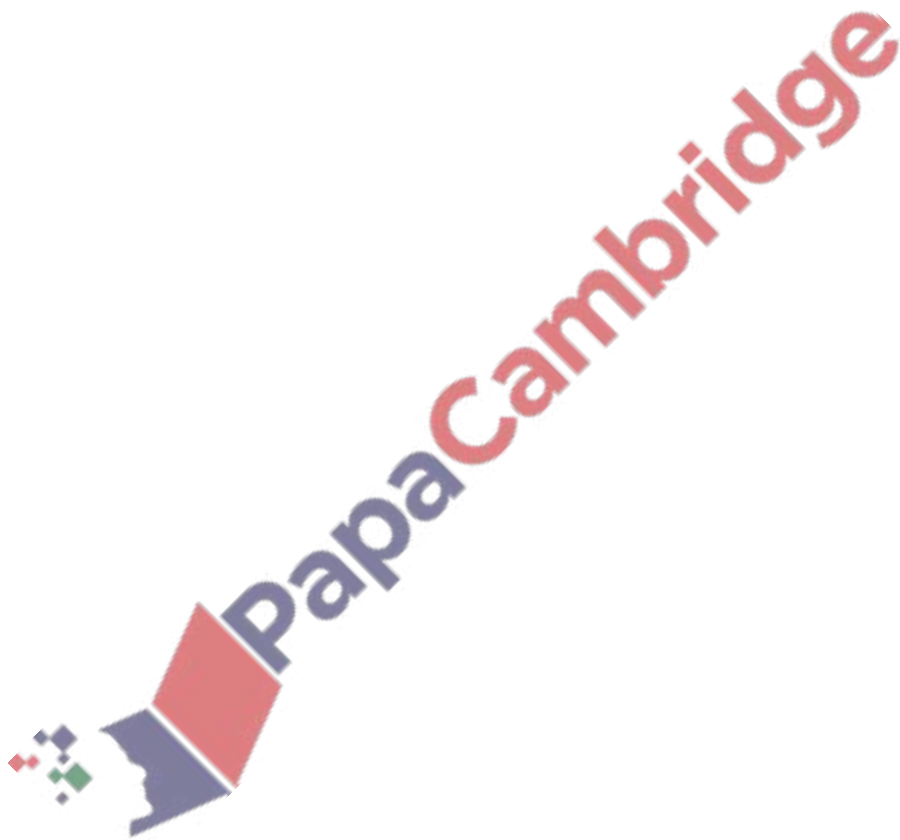
(ii) office fixtures at 10% per annum using the straight-line method.

**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	<u>1 200</u>	
	432 260	
Closing inventory of raw material	<u>47 290</u>	384 970
Direct wages (\$198 600 + \$16 550)		<u>215 150</u>
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%	<u>13 500</u>	<u>56 460</u>
		656 580
Add    Decrease in work in progress		<u>150</u>
Production cost of goods completed		<u>656 730</u>

(b)

Alison Brown

## Income Statement for the year ended 31 July 2009

	\$	\$	\$
Revenue (sales)		798 200	
Less sales returns		<u>6 400</u>	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	<u>(960)</u>	<u>10 380</u>	
		675 140	
Closing inventory of finished goods		<u>9 200</u>	<u>666 210</u>
Gross profit			125 590
Office salaries (\$43 330 – \$1 860)		41 470	
Sundry office expenses		18 950	
Distribution costs		23 460	
Depreciation of equipment $[(20\% \times 15\,000) + (20\% \times 2\,400 \times \frac{3}{12})]$		3 120	
Provision for doubtful debts (2% × 84 350)		<u>1 687</u>	<u>88 687</u>
Profit for the year			<u>36 903</u>

(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	<u>17 400</u>	9 120	<u>8 280</u>
	<u>153 400</u>	<u>64 620</u>	88 780

<b>Current Assets</b>		\$	\$	\$
Inventory : Raw materials		47 290		
Work in progress		4 670		
Finished goods		<u>9 200</u>	61 160	
Trade receivables		84 350		
Less provision for doubtful debts		<u>1 687</u>	82 663	
Other receivables (Prepayments)			1 860	
Cash equivalents (Bank)			<u>2 050</u>	
			147 733	
<b>Current Liabilities</b>				
Trade payables		64 160		
Other payables (Accruals)		<u>16 550</u>	<u>80 710</u>	<u>67 023</u>
				<u>155 803</u>
<b>Equity (Capital)</b>				
Capital at year start			132 160	
Add Profit for the year			36 903	
Less Drawings (\$12 300 + \$960)			<u>(13 260)</u>	<u>155 803</u>

**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		<u>(16 250)</u>	74 050
Direct wages (\$62 140 + \$1 120)			<u>63 260</u>
Prime cost			137 310
Factory Overheads			
Factory rent ( $\$28\,000 \times \frac{3}{5}$ )		16 800	
Factory management salaries		31 500	
Depreciation of factory plant ( $90\,000 - 32\,000$ ) $\times$ 20%		<u>11 600</u>	<u>59 900</u>
			197 210
Add Opening work in progress			23 570
Less Closing work in progress			<u>(18 780)</u>
Production cost of goods completed			<u>202 000</u>

(b) **Income Statement for the year ended 31 January 2010**

Revenue (sales)		\$	\$	\$
Revenue (sales returns)			342 500	
			<u>(1 250)</u>	341 250
<b>Cost of sales</b>				
Opening inventory of finished goods			35 000	
Production cost of goods completed		202 000		
Purchases of finished goods		<u>15 500</u>	217 500	
Closing inventory of finished goods			<u>(32 500)</u>	<u>(220 000)</u>
Gross profit				121 250

Expenses	\$	\$
Rent ( $\$28\,000 \times \frac{2}{5}$ )	11 200	
Office salaries	41 600	
Distribution costs	28 650	
Sundry office expenses ( $\$9\,870 - \$630$ )	9 240	
Finance costs ( $\$40\,000 \times 8\%$ )	3 200	
Depreciation of equipment $[(24\,000 \times 20\%) + (6\,000 \times 20\% \times \frac{4}{12})]$	5 200	
Provision for doubtful debts $[(\$45\,000 \times 4\%) - \$1\,550]$	<u>250</u>	<u>(99 340)</u>
Profit for the year		<u>21 910</u>

(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 ( $\$12\,000 + \$5\,200$ )	<u>30 000</u>	<u>17 200</u>	<u>12 800</u>
			139 200
<b>Current Assets</b>			
Inventory: Raw materials	16 250		
Work in progress	18 780		
Finished goods	<u>32 500</u>	67 530	
Trade receivables	45 000		
Less provision for doubtful debts ( $\$45\,000 \times 4\%$ )	<u>(1 800)</u>	43 200	
Other receivables (Prepayments)		<u>630</u>	
		111 360	
<b>Current Liabilities</b>			
Trade payables	60 700		
Cash at bank (Cr)	33 030		
Loan interest payable ( $\$3\,200 - \$2\,400$ )	800		
Other payables (Accruals)	<u>1 120</u>	<u>(95 650)</u>	<u>15 710</u>
			<u>154 910</u>
<b>Equity (Capital)</b>			
Opening balance	110 000		
Add Net Profit for the year	21 910		
Less Drawings	<u>(17 000)</u>	114 910	
Non-current liability (8% loan - repayable 31 December 2015)		<u>40 000</u>	<u>154 910</u>

## 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	<u>(28 100)</u>	
Cost of raw materials consumed		140 000
Direct factory wages ( $\$85\,960 + \$4\,040$ )		90 000
Royalties		<u>10 000</u>
Prime cost		240 000

Factory overheads:		\$	\$
Indirect factory expenses		23 450	
Rent ( $\$30\,000 \times \frac{4}{5}$ )		24 000	
Factory management salaries		36 000	
Depreciation of plant and machinery [ $(\$75\,000 - \$25\,000) \times 20\%$ ]		<u>10 000</u>	<u>93 450</u>
			333 450
Add   Opening work in progress		30 800	
Less   Closing work in progress		<u>(34 250)</u>	<u>(3 450)</u>
Cost of production			<u><u>330 000</u></u>

**(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		<u>330 000</u>	
		<u>370 750</u>	
Closing inventory of finished goods		<u>(42 350)</u>	
Cost of sales			<u>328 400</u>
Gross profit			121 600
<b>Expenses</b>			
Rent ( $\$30\,000 \times \frac{1}{5}$ )		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 ( $\$50\,000 \times 6\%$ )		3 000	
Depreciation on office equipment [ $(\$24\,000 + \$2\,000) \times 10\%$ ]		2 600	
Increase in provision for doubtful debts [ $(\$64\,000 \times 5\%) - \$2\,400$ ]		<u>800</u>	<u>88 090</u>
Profit for the year			<u><u>33 510</u></u>

**(c) Balance sheet as at 30 April 2011**

	\$	\$	\$
<b>Non-Current Assets</b>	<b>Cost</b>	<b>Depn. to date</b>	<b>NBV</b>
Plant and machinery ( $\$25\,000 + \$10\,000$ )	75 000	35 000	40 000
Office equipment ( $\$24\,000 + \$2\,000$ ) ; ( $\$9\,000 + \$2\,600$ )	<u>26 000</u>	<u>11 600</u>	<u>14 400</u>
	<u>101 000</u>	<u>46 600</u>	54 400
<b>Current Assets</b>			
Inventory: Raw materials	28 100		
Work in progress	34 250		
Finished goods	<u>42 350</u>	104 700	
Trade receivables	64 000		
Less: provision for doubtful debts	<u>(3 200)</u>	60 800	
Other receivables (prepaid advertising)		1 700	
Bank		<u>4 200</u>	
		171 400	

<b>Current Liabilities</b>		\$	\$	\$
Trade payables		61 750		
Other payables (accrued expenses) [\$4 040 + (\$3 000 – \$1 500)]		<u>5 540</u>	<u>67 290</u>	<u>104 110</u>
				158 510
<b>Non-current liabilities</b>				
6% loan repayable 31 December 2020				<u>50 000</u>
				<u>108 510</u>
<b>Equity</b>				
Capital			100 000	
Add Profit for the year			<u>33 510</u>	
			133 510	
Less Drawings			<u>(25 000)</u>	<u>108 510</u>

**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%)	<u>7 200</u>	<u>89 800</u>	
		107 300	
Closing inventory of raw materials		<u>(16 300)</u>	
Cost of raw materials consumed			91 000
Production wages			75 000
Royalties			<u>9 000</u>
<b>PRIME COST</b>			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%]		<u>7 500</u>	<u>90 000</u>
			265 000
Work in progress: at 1 October 2011		24 000	
at 30 September 2012		<u>(29 000)</u>	<u>(5 000)</u>
<b>PRODUCTION COST</b>			<u>260 000</u>

(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**

<b>Raw Materials Cost</b>		\$	\$
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		<u>(29 000)</u>	
Cost of raw materials consumed			180 000
Production wages (\$164 500 + \$6 500)			171 000
Direct factory expenses			<u>38 000</u>
Prime cost			389 000
<b>Factory Overheads</b>			
Indirect factory expenses		19 700	
Rent and rates		16 500	
Production management salaries		63 000	
Provision for depreciation of plant and machinery		<u>20 800</u>	<u>120 000</u>
			509 000
Add Work in progress (opening)		36 000	
Less Work in progress (closing)		<u>(40 000)</u>	<u>(4 000)</u>
Production Cost			<u>505 000</u>

**(b) Income Statement for the year ended 31 July 2012**

		\$	\$
Revenue			680 000
<b>Cost of sales</b>			
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		<u>(55 000)</u>	<u>(496 500)</u>
Gross profit			183 500
<b>Expenses</b>			
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		<u>1 500</u>	<u>(171 000)</u>
<b>Profit for the year</b>			<u>12 500</u>

**(c) Balance Sheet at 31 July 2012**

	COST (\$)	DEPN (\$)	NBV (\$)
<b>NON-CURRENT ASSETS</b>			
Factory equipment	160 000	76 800	83 200
Office equipment	<u>40 000</u>	<u>30 000</u>	<u>10 000</u>
	<u>200 000</u>	<u>106 800</u>	93 200
<b>CURRENT ASSETS</b>			
Inventory: Raw materials	29 000		
Work in progress	40 000		
Finished goods	<u>55 000</u>		124 000

Trade receivables	75 000		
Less: provision for doubtful debts	<u>4 500</u>	70 500	
Other receivables (Prepaid marketing)		1 350	
Bank		<u>9 700</u>	
		205 550	
<b>CURRENT LIABILITIES</b>			
Trade payables	53 550		
Other payables - accrued expenses (\$6 500 + \$700)	<u>7 200</u>	<u>(60 750)</u>	<u>144 800</u>
			238 000
<b>NON CURRENT LIABILITIES</b> 8% loan repayable 31 December 2025			<u>(35 000)</u>
			<u>203 000</u>
<b>EQUITY</b>			
Capital		200 000	
Add: Profit for the year		12 500	
Less: Drawings (\$8 000 + \$1 500)		<u>(9 500)</u>	<u>203 000</u>

**QUESTION 6****MAY 2013 P21 Q5**

(a)	<b>Paul Lee</b>		
	<b>Manufacturing Account for the year ended 31 May 2013</b>		
<b>Raw Material Cost</b>		\$	\$
Inventory of raw materials 1 June 2012			33 000
Purchases of raw materials	133 687		
Add Transport cost (\$29 400 x 65%)	<u>19 110</u>	152 797	
Inventory of raw materials 31 May 2013		<u>(38 000)</u>	
<b>Cost of raw materials consumed</b>			147 797
Direct labour (\$140 600 – \$56 000) x 40%			<u>33 840</u>
<b>Prime cost</b>			181 637
<b>Factory Overheads</b>			
Production managers' salaries		56 000	
Indirect labour (\$140 600 – \$56 000) x 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) x 20%		<u>26 880</u>	<u>170 113</u>
			351 750
Work in progress 1 September 2012		36 000	
Work in progress 31 August 2013		(42 600)	<u>(6 600)</u>
<b>Cost of production</b>			<u>345 150</u>
(b)	<b>Income statement for the year ended 31 May 2013</b>		
		\$	\$
Revenue			426 088
Cost of sales			
Opening inventory of finished goods		66 444	
Cost of production		345 150	
Closing inventory of finished goods		<u>(71 200)</u>	<u>(340 394)</u>
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) × 30%]	7 200	
Rent and rates (\$28 000 × 20%)	5 600	
Transport (\$29 400 × 35%)	10 290	
Provision for doubtful debts (\$34 400 × 4%)	1 376	
Provision for depreciation of office equipment (\$60 000 × 12%)	<u>7 200</u>	<u>(67 328)</u>
<b>Profit for the year</b>		<u><u>18 366</u></u>

(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)	<u>60 000</u>	<u>28 800</u>	<u>31 200</u>
	<u>270 000</u>	<u>131 280</u>	138 720
<b>Current Assets</b>			
Inventory			
Raw materials	38 000		
Work in progress	42 600		
Finished goods	<u>71 200</u>	151 800	
Trade receivables	34 400		
Provision for doubtful debts (\$34 400 × 4%)	<u>(1 376)</u>	33 024	
Other receivables (Selling & admin expenses)		<u>230</u>	
		185 054	
<b>Current Liabilities</b>			
Trade payables	43 690		
Other payables (light & heat)	860		
Loan interest due (\$3 000 – \$2 000)	1 000		
Bank overdraft	<u>658</u>	<u>(46 208)</u>	<u>138 846</u>
			277 566
<b>Non-Current Liabilities</b>			
6% Loan repayable 23 June 2018			<u>(50 000)</u>
			<u><u>227 566</u></u>
<b>EQUITY</b>			
Capital		220 000	
Add Net profit		18 366	
Less Drawings		<u>(10 800)</u>	<u>227 566</u>

**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**

	\$	\$
<b>Raw Material Cost</b>		
Opening inventory	10 830	
Purchases of raw materials	<u>80 670</u>	
	91 500	
Closing inventory	<u>(12 400)</u>	
Raw materials consumed		79 100
Factory wages		60 690
Royalties		<u>7 500</u>
Prime cost		147 290
<b>FACTORY OVERHEADS:</b>		
Depreciation of factory machinery	7 000	
Rent of factory building	2 000	
Factory management salaries	10 750	
Insurance (\$ 1250 × 80%)	1 000	
General expenses	<u>5 000</u>	
		25 750
		173 040
Add   Opening Work in progress	12 700	
Less   Closing Work in progress	<u>(9 980)</u>	
Cost of Production		<u>175 760</u>

**QUESTION 8****NOVEMBER 2014 P21 Q5**

(a)

**Manufacturing Account**  
**For the year ended 31 July 2014**

	\$	\$
<b>Raw Materials Cost</b>		
Opening Inventory of raw materials	15 000	
Purchases of raw materials	<u>132 500</u>	
	147 500	
Closing inventory of raw materials	<u>(17 500)</u>	
Cost of raw materials consumed		130 000
Factory wages (assumed to be direct)		90 800
Royalties		<u>15 000</u>
<b>Prime cost</b>		235 800
Factory overheads:		
Indirect factory expenses	12 750	
Rent (\$11 000 × 80%)	8 800	
Production managers' salaries	38 250	
Insurance [ $\$6200 - (\$4\,800 \times \frac{1}{4})$ ] × 80%	4 000	
Depreciation of machinery [ $(\$125\,000 - \$75\,000) \times 20\%$ ]	<u>10 000</u>	
		73 800
Total Manufacturing Costs		309 600
Work in progress- Opening	31 400	
Work in progress- Closing	<u>(26 000)</u>	
Cost of Production		<u>315 000</u>

(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	<u>(7 500)</u>	307 500	
Closing Inventory of finished goods		<u>(42 500)</u>	<u>(305 000)</u>
Gross profit			200 000

**EXPENSES**

Insurance [ $\$6200 - (\$4\,800 \times \frac{1}{4})$ ] x 20%		1 000	
Rent ( $\$11\,000 \times 20\%$ )		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 ( $\$60\,000 \times 8\%$ )		4 800	
Depreciation on office equipment ( $\$55\,000 \times 10\%$ )		5 500	
Bad debts		3 000	
Increase in prov. for doubtful debts [ $(\$55\,000 \times 4\%) - 1\,500$ ]		<u>700</u>	<u>(142 700)</u>
Profit for the year			<u>57 300</u>

(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 ( $\$16\,500 + \$5\,500$ )	<u>55 000</u>	<u>22 000</u>	<u>33 000</u>
	<u>180 000</u>	<u>107 000</u>	73 000

**CURRENT ASSETS**

Inventory:			
Raw materials	17 500		
Work in progress	26 000		
Finished goods	<u>42 500</u>	86 000	
Trade receivables ( $\$58\,000 - \$3\,000$ )	55 000		
Less: provision for doubtful debts ( $\$55\,000 \times 4\%$ )	<u>2 200</u>	52 800	
Other receivables: Sundry office expenses prepaid	1 400		
Prepaid insurance ( $\$4\,800 \times \frac{1}{4}$ )	<u>1 200</u>	2 600	
Bank		<u>27 700</u>	
		169 100	

**CURRENT LIABILITIES**

Trade payables	71 000		
Other payables – interest due ( $\$4\,800 - \$3\,500$ )	<u>1 300</u>	<u>(72 300)</u>	<u>96 800</u>
			169 800
<b>NON-CURRENT LIABILITIES</b> 8% loan (repayable 31 May 2024)			<u>(60 000)</u>
			<u>109 800</u>

**EQUITY**

Capital		80 000	
Add Profit for the year		57 300	
Less Drawings ( $\$20\,000 + \$7\,500$ )		<u>(27 500)</u>	<u>109 800</u>

**QUESTION 9****MAY 2015 P21 Q5**

<b>(a) Spiron Manufacturing Manufacturing Account For the year ended 30 April 2015</b>		\$	\$
<b>Direct Material Cost</b>			
Opening inventory 1 May 2014		10 150	
Purchases of raw material		<u>85 000</u>	
		95 150	
Closing inventory 30 April 2015		<u>(12 750)</u>	
Cost of raw materials consumed			82 400
Factory wages (assumed to be direct)			47 000
Direct expenses			<u>5 600</u>
Prime cost			135 000
<b>Factory Overheads:</b>			
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%]		<u>5 000</u>	
			<u>61 200</u>
			196 200
Add Work in progress: 1 May 2014		15 000	
Less Work in progress: 30 April 2015		<u>(16 200)</u>	
Cost of production			<u>195 000</u>
<b>(b) Income Statement for the year ended 30 April 2015</b>			
		\$	\$
Revenue			310 000
Cost of Sales			
Inventory of finished goods 1 May 2014		21 200	
Cost of Production		195 000	
Purchases of finished goods		<u>19 000</u>	
		235 200	
Inventory of finished goods – 30 April 2015		<u>(18 700)</u>	
			<u>(216 500)</u>
Gross profit			93 500
<b>Expenses</b>			
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%)		<u>3 000</u>	
			<u>(81 250)</u>
Profit for the year			<u>12 250</u>

**(c) Statement of Financial Position at 30 April 2015**

<b>Non-Current Assets</b>	<b>Cost (\$)</b>	<b>Accumulate d Depn (\$)</b>	<b>Net Book Value (\$)</b>
Machinery (\$60 000 + \$5 000)	80 000	65 000	15 000
Office fixtures (\$8 000 + \$3 000)	<u>20 000</u>	<u>11 000</u>	<u>9 000</u>
	<u>100 000</u>	<u>76 000</u>	24 000
<b>Current Assets</b>			
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%)	<u>(1 100)</u>	20 900	
Other receivables (prepayments)		600	
Bank		<u>7 700</u>	<u>76 850</u>
Total assets			<u>100 850</u>
<b>Capital &amp; Liabilities</b>			
Capital		90 000	
Add Profit for the year		12 250	
Less Drawings		<u>(16 600)</u>	85 650
<b>Current Liabilities</b>			
Trade payables		14 350	
Other payables - Financial expenses owing		<u>850</u>	<u>15 200</u>
Total Liabilities & Capital			<u>100 850</u>

**QUESTION 10****NOVEMBER 2015 P22 Q3 (a)**

**Fairview Manufacturing  
Manufacturing Account  
For the year ended 31 October 2015**

<b>Raw Material Cost</b>	<b>\$</b>	<b>\$</b>
Inventory 1 November 2014	108 000	
Purchases of raw materials	486 000	
Carriage in on raw materials ( $\$36\,000 \times \frac{1}{2}$ )	18 000	
Inventory 31 October 2015	<u>(94 000)</u>	
Cost of raw materials consumed		518 000
Factory wages (\$295 000 + \$9 000)		304 000
Direct packaging cost ( $\$55\,000 \times 60\%$ )		<u>33 000</u>
Prime cost		855 000
<b>Factory Overheads</b>		
Indirect packaging cost ( $\$55\,000 \times 40\%$ )	22 000	
Rent ( $\$38\,400 \times \frac{5}{8}$ )	24 000	
Management salaries	75 600	
Indirect expenses	8 500	
Depreciation – Factory equipment [ $(\$245\,000 - \$105\,000) \times 25\%$ ]	<u>35 000</u>	<u>165 100</u>
		1 020 100
Add Work in progress at 1 November 2014	84 300	
Less Work in progress at 31 October 2015	<u>(81 400)</u>	<u>2 900</u>
Cost of Production		<u>1 023 000</u>

**QUESTION 11****NOVEMBER 2016 P21 Q3 (d)**

**JT Manufacturing**  
**Manufacturing Account for the month of August 2016**

<b>Raw Material Costs</b>	<b>\$</b>	<b>\$</b>
Opening inventory	3 800	
Add Purchases	<u>15 600</u>	
	19 400	
Less Returns outwards	<u>(1 200)</u>	
	18 200	
Closing inventory	<u>(5 350)</u>	
Cost of raw materials consumed		12 850
Add Factory direct wages		9 350
Direct factory expenses		<u>800</u>
<b>Prime cost</b>		<b>23 000</b>
<b>Factory Overheads</b>		
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	<u>6 000</u>	<u>30 500</u>
		53 500
Add Opening work in progress	7 000	
Less Closing work in progress	<u>(7 500)</u>	<u>(500)</u>
Cost of Production		<u>53 000</u>

**QUESTION 12****NOVEMBER 2016 P22 Q5**

(a)

**Project Manufacturing****Manufacturing Account for the year ended 30 September 2016**

<b>Raw Material Costs</b>	<b>\$</b>	<b>\$</b>
Opening inventory	8 700	
Add Purchases	<u>106 000</u>	
	114 700	
Less Closing inventory	<u>(9 750)</u>	
Cost of raw materials consumed		104 950
Factory wages (assumed to be direct)		73 000
Other Direct Expenses :Royalties		<u>8 000</u>
Prime cost		185 950
<b>Factory Overheads</b>		
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%]	<u>13 000</u>	<u>64 900</u>
		250 850
Add Work in progress: Opening	19 000	

Less Work in progress: Closing	(17 550)	<u>1 450</u>
Cost of production		<u>252 300</u>

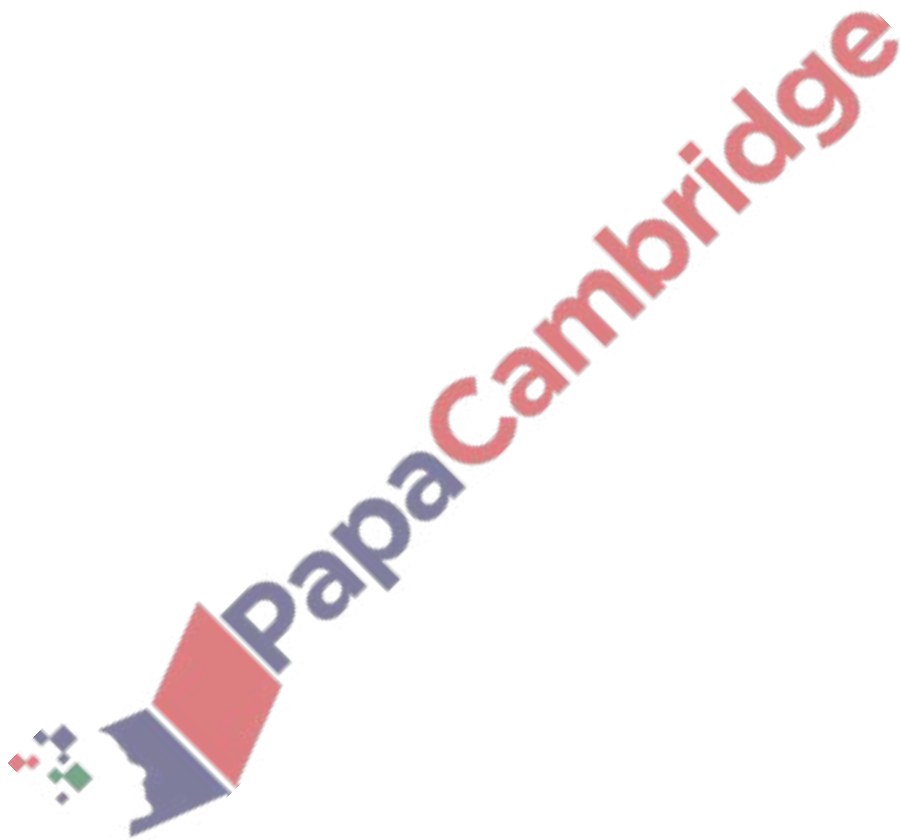
(b) **Project Manufacturing**  
**Income Statement for the year ended 30 September 2016**

	\$	\$
Revenue		380 000
<b>Cost of Sales</b>		
Finished Goods : Opening inventory	34 100	
Cost of production	252 300	
Purchases of finished goods	<u>36 000</u>	
	322 400	
Finished Goods : Closing inventory	<u>(40 400)</u>	
Cost of sales		<u>(282 000)</u>
Gross profit		98 000
<b>Other Incomes</b>		
Commission received		<u>3 000</u>
		101 000
<b>Expenses</b>		
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%)	<u>1 400</u>	
Profit for the year		<u>14 950</u>

(b) **Project Manufacturing**  
**Statement of Financial Position at 30 September 2016**

Non-Current Assets	Cost (\$)	Deprn. (\$)	NBV(\$)
Machinery (\$50 000 + \$13 000)	115 000	63 000	52 000
Office fixtures (\$6 200 + \$1 400)	<u>14 000</u>	<u>7 600</u>	<u>6 400</u>
	<u>129 000</u>	<u>70 600</u>	58 400
<b>Current Assets</b>			
Inventory: Raw materials	9 750		
Work in progress	17 550		
Finished goods	<u>40 400</u>	67 700	
Trade receivables	32 000		
Less Provision for doubtful debts (\$32 000 × 5%)	<u>(1 600)</u>	30 400	
Other receivables : Advertising prepaid		<u>1 200</u>	<u>99 300</u>
			<u>157 700</u>
<b>Equity</b>			
Capital		140 000	

Add	Profit for the year		<u>14 950</u>	
			154 950	
Less	Drawings		<u>(39 800)</u>	115 150
<b>Current Liabilities</b>				
	Trade payables		18 700	
	Bank overdraft		23 100	
	Other payables : Administration and finance costs owing		<u>750</u>	<u>42 550</u>
				<u>157 700</u>





## CHAPTER 16

## COMPANY ACCOUNTS

**QUESTION 1****NOVEMBER 2009 P2 Q3**

Loxton Ltd had the following capital structure on 1 September 2008.

<b>Authorised and issued share capital</b>	\$
50 000 ordinary shares of \$0.50 each	25 000
100 000 10 % preference shares of \$1 each	100 000
<b>Reserves</b>	
General reserve	80 000
Retained profit	25 000
<b>Debentures</b>	
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:

- On 1 March 2009 to make an interim dividend payment of
  - \$0.10 on each ordinary share
  - \$0.05 on each preference share
- On 31 August 2009 to make a final dividend payment of \$0.20 on each ordinary share pay the remainder of the preference dividend
- 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	<u>100 000</u>	<u>50 000</u>
	<u>200 000</u>	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 [ $\$60\,000 - (\$80\,000 \times 5\%)$ ]			56 000
Preference dividend			
- interim (100 000 shares $\times$ \$0.05)	5 000		
- final [ $(\$100\,000 \times 10\%) - \$5\,000$ ]	<u>5 000</u>	10 000	
Ordinary dividend			
- interim (50 000 shares $\times$ \$0.10)	5 000		
- final (50 000 shares $\times$ \$0.20)	<u>10 000</u>	15 000	
Transfer to General Reserve		<u>20 000</u>	<u>45 000</u>
Retained profit for the year			11 000
Last year retained profit b/f			<u>25 000</u>
Unappropriated profit c/f			<u>36 000</u>

(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 $\times$ \$0.10)			150
- final dividend (1 500 shares $\times$ \$0.20)			300
Debenture interest ( $\$2\,000 \times 5\%$ )			<u>100</u>
Total income for Elodie			<u>550</u>

**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)
- Both 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	<u>16 500</u>		<u>185 500</u>	
Closing inventory			<u>234 000</u>	
Cost of sales				<u>(57 000)</u>
Gross profit				<u>177 000</u>
<b>Expenses</b>				<u>193 000</u>
Office expenses (\$19 750 – \$450)			19 300	
Office salaries (\$59 300 + \$1 800)			61 100	
Depreciation – Computer equipment [\$80 000 – \$28 000] × 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]			<u>600</u>	
Profit for the year				<u>141 800</u>
				51 200



Less Appropriations:		\$	\$
Transfer to the General Reserve		20 000	
8% Preference dividend ( $\$200\,000 \times 8\%$ )		16 000	
Ordinary dividend (100 000 shares @ $\$0.10$ )		<u>10 000</u>	46 000
Retained profit for the year			5 200
Retained profit brought forward			<u>1 300</u>
Retained profit carried forward			<u>6 500</u>

**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 ( $\$15\,000 + \$8\,000$ )	<u>40 000</u>	<u>23 000</u>	<u>17 000</u>
	<u>370 000</u>	<u>64 000</u>	306 000
<b>Current assets</b>			
Inventory		57 000	
Trade receivables	42 000		
Less: provision for doubtful debts ( $\$42\,000 \times 5\%$ )	<u>(2 100)</u>	39 900	
Other receivables (Prepaid office expenses)		450	
Cash (bank)		<u>3 450</u>	
		100 800	306 000
<b>Current Liabilities</b>			
Trade payables	35 500		
Other payables: (accrued office salaries)	1 800		
Debenture interest [ $(\$50\,000 \times 12\%) - \$3\,000$ ]	<u>3 000</u>	<u>(40 300)</u>	<u>60 500</u>
			366 500
<b>Non-current liabilities: 12% Debentures</b>			<u>(50 000)</u>
			<u>316 500</u>
<b>Capital and Reserves</b>			
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		<u>6 500</u>	<u>316 500</u>

**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 ( $\$200\,000 \times 2.5\%$ )	5 000		
Proposed [ $(\$200\,000 \times 4\%) - \$5\,000$ ]	<u>3 000</u>	8 000	
Ordinary dividends proposed (400 000 shares @ 0.05)		<u>20 000</u>	<u>53 000</u>
Retained profit for the year			12 000
Add Retained profit brought forward			<u>75 000</u>
Retained profit carried forward			<u>87 000</u>

(b)

## Harland Ltd

## Extract from Balance Sheet at 31 October 2010

	\$	\$
<b>Authorised Share Capital</b>		
4% Cumulative preference shares of \$1 each	250 000	
Ordinary shares of \$1 each	<u>500 000</u>	<u>750 000</u>
<b>Issued Share Capital</b>		
4% Cumulative preference shares of \$1 each	200 000	
Ordinary shares of \$1 each	<u>400 000</u>	600 000
<b>Reserves</b>		
General reserve (\$110 000 + \$25 000)	135 000	
Retained profits as per "a" part	<u>87 000</u>	<u>222 000</u>
<b>Shareholders' funds</b>		<u>822 000</u>

(c)

	\$
Share Capital and Reserves	822 000
6% Debentures	<u>100 000</u>
Capital employed	<u>922 000</u>

(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		<u>8 000</u>	48 000
<b>Appropriations</b>			
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)	<u>2 500</u>	<u>3 500</u>	<u>(27 500)</u>
Retained profit for the year			<u>20 500</u>

- (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**

		<b>Dang Ltd</b>	
		<b>Appropriation Account for the year ended 31 March 2012</b>	
		\$	\$
	Profit for the year [ $\$60\,000 - (\$200\,000 \times 7\%)$ ]		46 000
Less	Transfer to the general reserve	25 000	
	Preference dividends paid ( $\$50\,000 \times 6\%$ )	3 000	
	Ordinary dividends paid (100 000 shares @ \$0.10 each)	<u>10 000</u>	<u>38 000</u>
	Retained profit for the year		8 000
	Add retained profit b/f at 1 April 2011		<u>21 000</u>
	Retained profit c/f		<u>29 000</u>
		<b>Balance Sheet (extract) at 31 March 2012</b>	
		\$	\$
Issued Share capital			
	100 000 6% \$0.50 Preference shares	50 000	
	100 000 \$1 Ordinary shares	<u>100 000</u>	150 000
Reserves			
	General reserve ( $\$60\,000 + \$25\,000$ )	85 000	
	Retained profit ('a' part)	<u>29 000</u>	<u>114 000</u>
Shareholders' equity			<u>264 000</u>
(c)	(i)	Preference shareholders are paid dividends at a <b>fixed rate</b> whereas there is <b>no fixed rate</b> to pay dividend to the ordinary shareholders.	
	(ii)	Preference shareholders have no voting rights, ordinary shareholders do have voting rights.	



- (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	<u>100 000</u>	<u>70 000</u>	<u>32 000</u>	<u>202 000</u>

(b)

**Statement of Financial Position extract at 30 April 2015**

Share capital	\$	\$
Ordinary shares of \$1 each		100 000
<b>Reserves</b>		
General reserve		70 000
Retained profits		<u>32 000</u>
Shareholders' funds		<u>202 000</u>

(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	<u>100 000</u>	<u>120 000</u>	<u>60 000</u>	<u>280 000</u>

**(b) Extract from the Statement of Financial Position extract at 30 September 2016**

Equity and Reserves	\$	\$
Ordinary shares of \$1 each		100 000
<b>Reserves</b>		
General reserve	120 000	
Retained profit	<u>60 000</u>	<u>180 000</u>
Total equity and shares		280 000
<b>Non-current liabilities</b>		
Debentures (Repayable 2025)		<u>50 000</u>
		<u>330 000</u>

- (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.

	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 by 10%.		

[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		<u>320 000</u>
	<u>642 000</u>	<u>642 000</u>

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 /<br>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	<u>16 600</u>	
	<u>162 500</u>	<u>162 500</u>

**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.	<i>Decreased \$40 000</i>	<i>No effect</i>	<i>Decreased</i>
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	<i>Increase</i>	<i>4 000</i>
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.

	<b>\$</b>
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%

- (b) Give three comments about the performance of Zahin's business over the two years. [10]  
[6]



## CHAPTER 17

## SOLUTIONS

## QUESTION 1

MAY 2009 P2 Q4 (d &amp; e)

$$\begin{aligned}
 \text{(d) (i) Inventory turnover rate} &= \frac{\text{Cost of Sales}}{\text{Average Inventory}} \\
 &= \frac{\text{Cost of Sales}}{(\text{Opening Inventory} + \text{Closing Inventory})/2} \\
 &= \frac{\$17\,000 + \$238\,000 - \$15\,000}{(\$17\,000 + \$15\,000)/2} = 15 \text{ times} \\
 \\ 
 \text{Gross profit rate} &= \frac{\text{Gross Profit}}{\text{Sales revenue}} \times 100 \\
 &= \frac{\$60\,000}{\$300\,000} \times 100 = 20\%
 \end{aligned}$$

- (e) Gross profit ratio has reduced from 30% to 20%. 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

$$\begin{aligned}
 \text{(a) (i) Gross profit to sales percentage} &= \frac{\$120\,000 - (\$12\,000 + \$91\,000 - \$28\,000)}{120\,000} \times 100 \\
 &= \frac{\$45\,000}{120\,000} \times 100 \\
 &= 37.50\% \\
 \\ 
 \text{(ii) Rate of inventory turnover} &= \frac{\$12\,000 + \$91\,000 - \$28\,000}{(\$12\,000 + \$28\,000)/2} \times 100 \\
 &= \frac{\$75\,000}{\$20\,000} \times 100 \\
 &= 3.75 \text{ times} \\
 \\ 
 \text{(iii) Net profit to capital percentage} &= \frac{\$45\,000 - \$15\,000}{\$150\,000} \times 100 \\
 &= \frac{\$30\,000}{\$150\,000} \times 100 \\
 &= 20.00\% \\
 \\ 
 \text{(iv) Working capital (current ratio)} &= \frac{\$28\,000 + \$30\,000}{\$43\,000 + \$15\,000} \\
 &= \frac{\$58\,000}{\$58\,000} \\
 &= 1:1
 \end{aligned}$$

- (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**

<b>(i)</b>	Gross profit/sales	$\frac{\$174\,600 - (\$6\,350 + \$89\,150 - \$8\,200)}{\$174\,600} \times 100$	50%
<b>(ii)</b>	Net profit/sales	$\frac{\$87\,300 - \$69\,840}{\$174\,600} \times 100$	10%
<b>(iii)</b>	Rate of inventory turnover	$\frac{\$6\,350 + \$89\,150 - \$8\,200}{(\$6\,350 + \$8\,200)/2} \times 365$	30.4 days
<b>(iv)</b>	Working capital (current) ratio	$\frac{\$24\,600}{\$16\,400}$	1.5 : 1
<b>(v)</b>	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**

<b>(a) (i)</b>	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%
<b>(ii)</b>	Working capital ratio (current ratio)	=	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
		=	$\frac{\$60\,000 + \$16\,000}{\$35\,000 + \$5\,000}$
		=	1.90:1
<b>(iii)</b>	Quick ratio (acid test)	=	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$
		=	$\frac{\$35\,000 + \$5\,000}{\$16\,000}$
		=	0.40:1

- (iv) Profit for the year to capital percentage =  $\frac{\text{Profit for the year}}{\text{Capital}} \times 100$   
 =  $\frac{\$200\,000 - \$130\,000 - \$65\,000}{\$100\,000} \times 100$   
 = 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

$$\begin{aligned} \text{Liquid ratio} &= \frac{\text{Liquid Assets}}{\text{Current Liabilities}} \\ 30 \text{ September } 2009 &= \frac{\$50\,000 + \$15\,000}{\$30\,000} \\ &= \frac{\$65\,000}{\$30\,000} = 2.17:1 \\ 30 \text{ September } 2010 &= \frac{\$90\,000}{\$75\,000 + \$45\,000} = 0.75:1 \end{aligned}$$

- (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**

<b>(a)</b>	<b>(i)</b>	<b>Calculation of Revenue</b>	<b>\$</b>
		Opening inventory	5 500
		Purchases	72 000
		Closing inventory	<u>(7 500)</u>
		Cost of sales	70 000
		Gross profit (\$70 000 × 50%)	<u>35 000</u>
		Revenue (sales) for the year	<u>105 000</u>

$$\begin{aligned}
 \text{(ii) Inventory turnover rate} &= \frac{\text{Cost of Sales}}{\text{Average Inventory}} \\
 &= \frac{\$70\,000}{(\$5\,500 + \$7\,500)/2} \\
 &= 10.8 \text{ times}
 \end{aligned}$$

$$\begin{aligned}
 \text{(iii) Profit for the year (\$)} &= \text{Gross Profit} - \text{Operating expenses} \\
 &= \$35\,000 - \$23\,500 \\
 &= \$11\,500
 \end{aligned}$$

$$\begin{aligned}
 \text{(iv) Profit for the year / Revenue (\%)} &= \frac{\text{Profit for the year}}{\text{Net sales}} \times 100 \\
 &= \frac{\$11\,500}{\$105\,000} \times 100 \\
 &= 11\%
 \end{aligned}$$

$$\begin{aligned}
 \text{(v) Profit for the year / Capital (\%)} &= \frac{\text{Profit for the year}}{\text{Capital}} \times 100 \\
 &= \frac{\$11\,500}{\$75\,000} \times 100 \\
 &= 15.3\%
 \end{aligned}$$

(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.

		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**

<b>(a)</b>	<b>(i)</b>		<b>\$</b>
		Opening Inventory	18 000
		Purchases (balancing figure)	<u>178 000</u>
			196 000
		Closing Inventory	<u>(36 000)</u>
		Cost of Sales [ $\$200\,000 - (\$200\,000 \times \frac{25}{125})$ ]	<u>160 000</u>
	<b>(ii)</b>	Gross profit (\$160 000 × 25%)	\$40 000
		Profit for the year (\$200 000 × 6%)	<u>(12 000)</u>
		Expenses	<u>28 000</u>

- |       |                                       |   |   |
|-------|---------------------------------------|---|---|
|       |                                       | = | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ $\frac{\$36\,000 + \$24\,000}{\$10\,000 + \$40\,000}$ $1.20:1$ |
| (iii) | Working capital ratio (current ratio) | = | $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$ $\frac{\$24\,000}{\$50\,000}$ $0.5:1$       |
- (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 =  $\frac{\text{Cost of Sales}}{(\text{Opening Inventory} + \text{Closing Inventory})/2}$   
 =  $\frac{\$56\,000}{(\$6\,000 + \$8\,000)/2}$   
 = 8 times
- (b) (i) Gross profit /Sales (%) =  $\frac{\text{Gross Profit}}{\text{Net sales}} \times 100$   
 =  $\frac{\$80\,000 - \$56\,000}{\$80\,000} \times 100$   
 = 30%
- (ii) Gross profit /Sales (%) has reduced from 40% to 30%. 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) =  $\frac{\$8\,000 + \$16\,000}{\$2\,000 + \$14\,000}$   
 =  $\frac{\$24\,000}{\$16\,000}$   
 = 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)	<u>3 500</u>
	Revised profit	<u>13 100</u>

- (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)	<u>130 000</u>
Gross profit (\$30 000 + \$40 000)	70 000
Expenses	<u>40 000</u>
Profit for the year (\$200 000 × 15%)	<u>30 000</u>

(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 (b) 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 =  $\frac{\text{Cost of Sales}}{\text{Average Inventory}}$   
 =  $\frac{\$320\,000}{(\$25\,000 + \$65\,000)/2}$   
 = 7.1 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	<u>4 130</u>	26 000
<b>Current Liabilities</b>		
Trade payables	8 800	
Bank overdraft	<u>4 200</u>	<u>(13 000)</u>
Working capital		<u>13 000</u>

(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) =  $\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}}$

$$= \frac{\$26\,000 - \$10\,670}{\$13\,000}$$

$$= 1.17:1$$

- (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)	<b>Purchases</b>	=	Cost of sales	+	Closing inventory	-	Opening Chemistry
		=	\$90 000	+	\$21 159	-	\$14 841
		=	\$96 318				
(iii)	<b>Profit</b>	=	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	<u>170 000</u>
	290 000
<b>Closing inventory at 1 April 2013. (balancing figure)</b>	<b><u>(50 000)</u></b>
Cost of Sales	<u>240 000</u>

- (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) =  $\frac{\$50\,000 + 11\,000 + 5\,000}{60\,000}$

$$= \frac{66\,000}{60\,000}$$

$$= 1.1:1$$

(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	<u>122 000</u>
	142 000
Less Closing inventory	<u>(16 000)</u>
Cost of Sales	<u>126 000</u>

$$\begin{aligned}
 \text{Gross profit/sales (\%)} &= \frac{\text{Gross Profit}}{\text{Revenue}} \times 100 \\
 &= \frac{\$168\,000 - \$126\,000}{\$168\,000} \times 100 \\
 &= 25\% \\
 \\
 \text{Rate of mentor turnover} &= \frac{\text{Cost of sale}}{\text{Average inventory}} \\
 &= \frac{\$126\,000}{(\$20\,000 + \$16\,000)/2} \\
 &= 7 \text{ times} \\
 \\
 \text{Working capital (current) ratio} &= \frac{\text{Current Asset}}{\text{Current liabilities}} \\
 &= \frac{\$16\,000 + \$24\,500 + \$1\,500}{\$35\,000} \\
 &= 1.2:1
 \end{aligned}$$

(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	$\frac{\$15\,500 + \$24\,500}{2} \times 8$	\$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	$[\$200\,000 \times (20\% - 7\%)]$	\$26 000
Net profit	$\$200\,000 \times 7\%$	\$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
		=	$(\$750\,000 \times 20\%)$	-	$(\$105\,000)$
		=	\$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**

<b>(a)</b>	<b>(i)</b>	Sales	=	Cost of sales	+	Gross profit		
			=	\$125 000	+	(\$125 000 × 20%)		
				\$150 000				
	<b>(ii)</b>	Purchases	=	Cost of sales	+	Closing inventory	–	Opening inventory
			=	\$125 000	+	\$35 000	–	\$15 000
			=	\$145 000				
	<b>(iii)</b>	Expenses	=	Gross Profit	–	Profit for the year		
			=	(\$125 000 × 20%)	–	(\$150 000 × 5%)		
			=	\$17 500				

<b>(b)</b>	<b>Workings</b>	<b>31 March 2015</b>	<b>31 March 2014</b>
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**

<b>(a)</b>	<b>(i)</b>	Sales	=	Cost of sales	+	Gross profit		
			=	\$90 000	+	(\$90 000 × 40%)		
				\$126 000				
	<b>(ii)</b>	Purchases	=	Cost of sales	+	Closing inventory	–	Opening inventory
			=	\$90 000	+	\$37 000	–	\$11 000
			=	\$116 000				
	<b>(iii)</b>	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 from 2 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 [ $\$380\,000 - (\$380\,000 \times 25\%)$ ] + 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 ( $\$380\,000 \times 25\%$ ) – 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	$\frac{\$100\,000 + \$200\,000}{\$750\,000} \times 100$	40%	37.5%
Return on capital employed (ROCE)	$\frac{\$100\,000}{\$250\,000 + \$80\,000} \times 100$	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	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 \$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 ( $\frac{1}{5}$ )	+\$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) $\times$ 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**

<b>(W 1)</b>	Cost of Sales	=	Opening Inventory	+	Purchases	–	Closing Inventory
		=	\$29 000	+	\$170 000	–	\$31 000
		=	\$168 000				
<b>(W 2)</b>	Gross Profit	=	Revenue (Sales)	–	Cost of Sales		
		=	\$224 000 ('a' part)	–	\$168 000 (W 1)		
		=	\$56 000				
<b>(W 3)</b>	Profit for the year	=	Revenue (Sales)	$\times$	5%		
		=	\$224 000 ('a' part)	$\times$	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

- (b) Prepare the bank reconciliation statement at 30 April 2014. [5]
- (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	<u>9 650</u>
	<u>52 150</u>		<u>52 150</u>
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.	<i>Decreased \$40 000</i>	<i>No effect</i>	<i>Decreased</i>
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

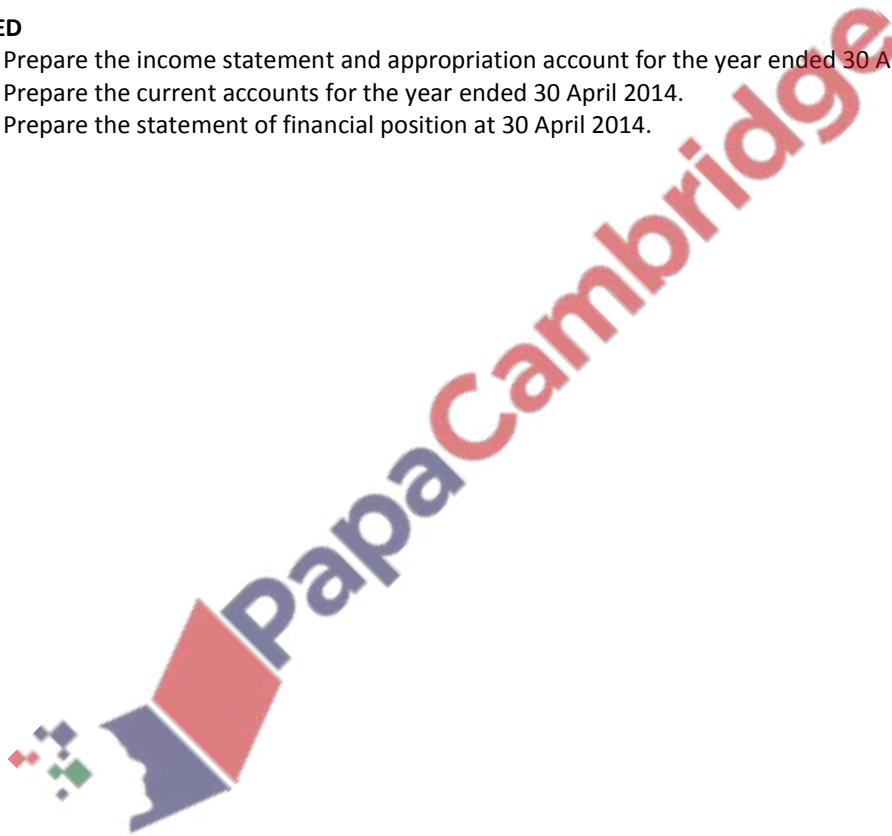
**Additional information**

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.	<i>Commission</i>
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]

Cadmere 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**

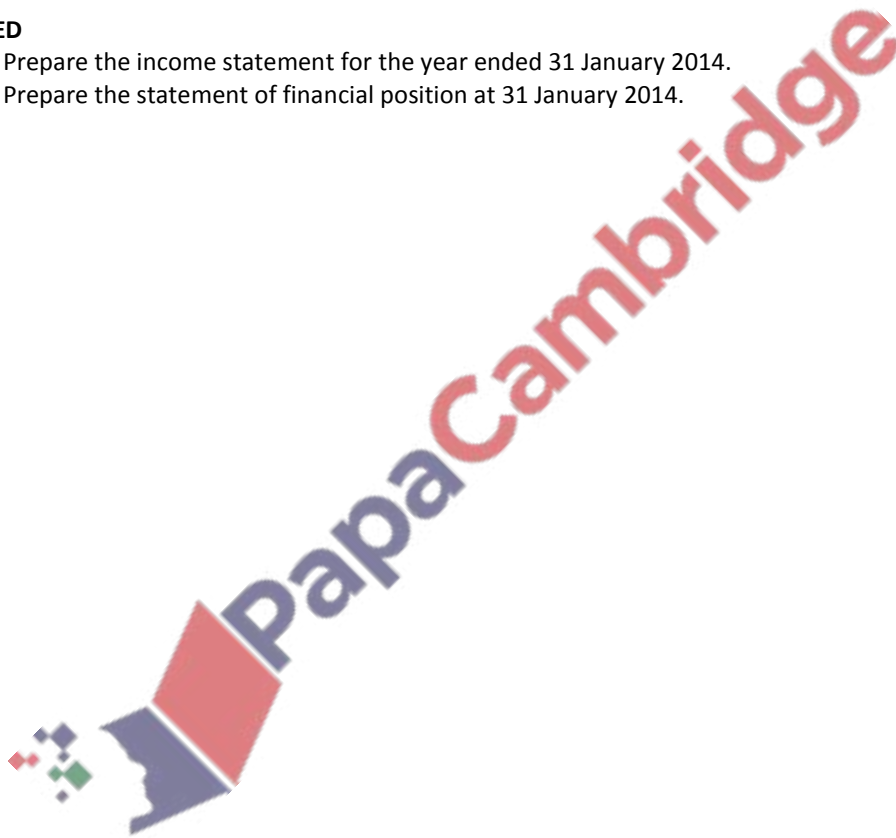
- 1 Inventory was valued at \$15 600.



- 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	<i>Purchase invoice</i>	<i>Purchases journal</i>	<i>No effect</i>
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

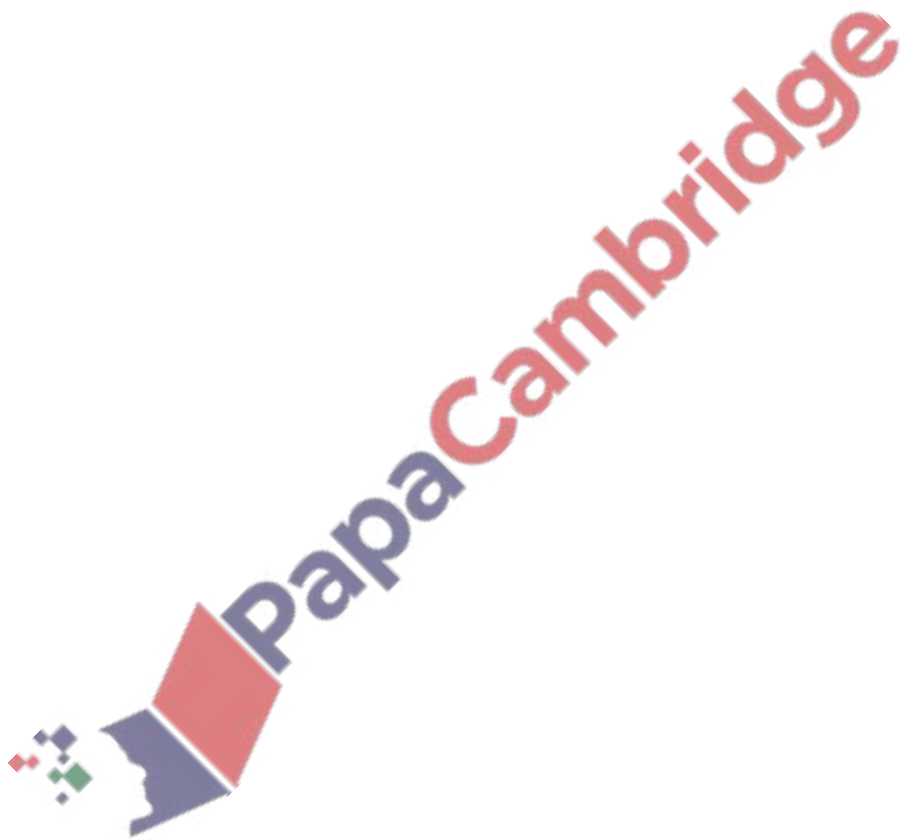
(ii) office fixtures at 10% using the straight-line method.

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	<i>Purchase invoice</i>	<i>Purchases journal</i>
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
	<u>47 200</u>		<u>47 200</u>
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.	<i>Sales invoice</i>	<i>Sales journal</i>	<i>Yash</i>	<i>Sales</i>
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**

<b>1</b>	Payments for February	\$
	Wages	15 200
	General expenses	7 900

<b>2</b>	<b>Balances at</b>	<b>1 February 2015</b>	<b>28 February 2015</b>
		\$	\$
	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	<i>Consistency</i>
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	<i>Cheque Counterfoil</i>	<i>Cash book</i>	<i>+30</i>
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	Year ended 31 March 2015
	\$	\$
Premises		
Motor vehicles		
Computers		

- (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. [6]
  - 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. [2]
  - Accruals/Matching
  - Dual aspect
  - Going concern
  - Materiality
  - Money measurement

**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	<u>1 350</u>
	<u>7 350</u>		<u>7 350</u>
		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

- (c) Comment on the changes to Xever's business over the two years under the following headings. [8]
- (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)	

- (d) Explain **each** of the following accounting terms. [2]
  - (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  $\frac{3}{5}$  Aina and  $\frac{2}{5}$  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.

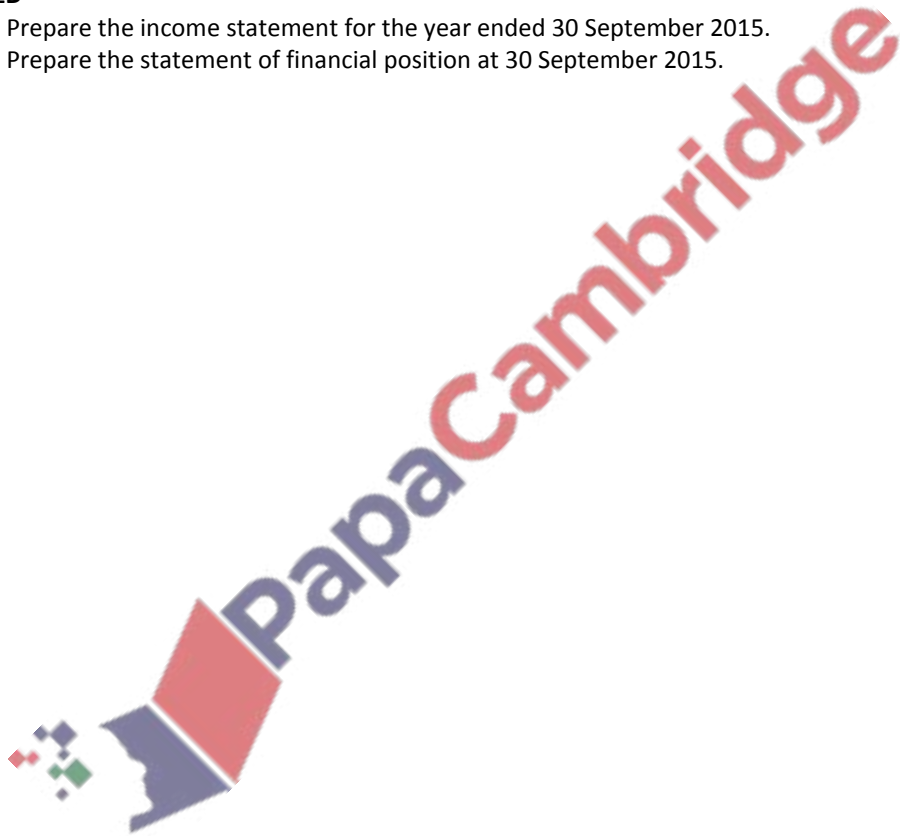
	\$
Revenue	315 000
Purchases	165 000
Returns outwards	2 600
Wages and salaries	34 800
Motor vehicle expenses	17 200
Commission receivable	12 500
Rent	15 000
Provision for doubtful debts	1 000
6% Bank loan (repayable 30 June 2019)	30 000
Bank interest paid	1 200
Inventory at 1 October 2014	36 800
Heat 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	<u>625</u>	30	Balance c/d	<u>705</u>
		<u>2 520</u>			<u>2 520</u>
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	<i>Increase</i>	<i>4 000</i>
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)	<i>Sales invoice</i>	<i>Sales journal</i>	<i>+300</i>
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.

	<b>\$</b>
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
<i>There is only one method of charging depreciation.</i>		✓
<b>Depreciation is the cash set aside for non-current asset replacement.</b>		
<b>Depreciation is an application of the going concern concept.</b>		

- (c) Calculate the: [2]
  - (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	<u>2 200</u>	20
	<u>35 700</u>	

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 (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
- (ii) liquidity over the two years.

[4]

[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	<u>180</u>	<u>\$6</u>	<u>250</u>	<u>110</u>	<u>150</u>	<u>50</u>	<u>?</u>
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.	<i>+\$15 000</i>	<i>No effect</i>	<i>+\$15 000</i>
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]

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### 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.	<i>Sales Journal</i>	<i>Noah</i>	<i>Revenue (Sales)</i>	<i>+\$600</i>
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.

<b>Receipts</b>	
31 December 2015	Rent received by cheque \$6 700
30 April 2016	Rent received by cheque \$3 100
<b>Payments</b>	
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	<i>Historic cost</i>
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]