6 PRINCIPLES OF ACCOUNTS – PAPER 02 – GENERAL PROFICIENCY – MAY/JUNE 2013

Section I

1 Notes:

Items for the Income Statement	Items for the Balance Sheet
• Sales Commission due for the year = Sales commissions received \$115,500 + Sales commissions outstanding \$14,100 = **\$129,600** • Rent due for the year = Rent paid \$13,300 + Rent owing \$3,000 =**\$16,300** • Insurance due for the year = Insurance paid \$7,100 – Insurance prepaid \$1,800 = **\$5,300** • Delivery expenses **\$11,500** • Salesmen's wages **\$46,700** • Loan interest **\$5,500** • Depreciation for the year on delivery van (using reducing balance method) = Rate of depreciation × Net book value = 20% of (cost – accumulated depreciation at start of year) = 0.2 × (60,000 – 12,000) =**\$9,600**	• Capital **\$88,000** • Sales commissions outstanding **\$14,100** (accrued revenue, therefore current asset) • Bank **\$121,400** (current asset) • Rent owing \$**3,000** (current liability) • Insurance prepaid **\$1,800** (current asset) • 5-year bank loan **\$50,000** (long-term liability) • Accumulated/Total depreciation for the year = Accumulated depreciation at start \$12,000 + depreciation for the year \$9,600 = **\$21,600**

(a)

ConEct
Income Statement for the year ended 31 January 2012

	$	$
Sales (115,500 + 14,100)		129,600
Gross Income		129,600
Less: Expenses		
Rent (13,300 + 3,000)	16,300	
Insurance (7,100 – 1,800)	5,300	
Delivery expenses	11,500	
Salesmen's wages	46,700	
Loan interest	5,500	
Depreciation: delivery van (20% of (60,000 – 12,000))	9,600	(94,900)
Net Income		34,700

(12 marks)

ConEct
Balance Sheet as at 31 January 2012

	Cost $	Accumulated Depreciation $	NBV $
Fixed Assets			
Delivery Van	60,000	21,600	38,400
Current Assets			
Prepaid expenses (Insurance)	1,800		
Accrued revenues (Sales Commission)	14,100		
Bank	121,400	137,300	
Less: **Current Liabilities**			
Accrued expenses (Rent)		(3,000)	
Working Capital			134,300
			172,700
Less: **Long-Term Liabilities**			
5-year bank loan			(50,000)
Net Assets			122,700
Financed By:			
Capital (01/01/12)			88,000
Add: Net Income			34,700
Capital (31/12/12)			122,700

(8 marks)

(Total 20 marks)

2 **(a)**

Source of Information	Book of Original Entry
Total refund to debtors	Cash Book
Total dishonoured cheques	Cash Book
Total credit sales	Sales Journal
Total returns inwards	Returns Inwards Journal
Receipts from debtors	Cash Book
Total discounts allowed	Cash Book
Total bad debts	General Journal

(6 marks)

(b)

L. Somerset
Purchases Ledger Control Account for the month ended 31 October 2012

2012		$	2012		$
Oct 1	Balances b/f	1,450	Oct 1	Balances b/f	25,400
31	Returns outwards	1,200	31	Purchases	123,900
31	Payments to Creditors	100,300	31	Bank (Refund)	1,180
31	Discounts received	2,500	31	Returned (Dishonoured) Cheque	3,300
31	Set off (Debtors Ledger)	620	31	Refund from Creditor (overpayment)	284
31	Balances c/d	47,994			
		154,064			154,064
			Nov 1	Balances b/d	47,994

(9 marks)

(c)

L. Somerset
General Journal

Date	Details	Dr	Cr
2012		$	$
Nov 1	Equipment	2,100	
	Purchases		2,100
	To record: Correction of error where purchase of equipment was recorded as purchase of stock		
1	Bank	270	
	Suspense		270
	To record: Correction of error where a cheque issued was overstated in the bank account		

(5 marks)

Note:

(i) Equipment is *debited* to enter the new equipment in the correct account.

(ii) Purchases is *credited* to remove the incorrect entry from this account.

Note:

(i) The cheque was overstated in the bank account by \$270 (\$12,960 – \$12,690). Bank was incorrectly reduced by \$270 and must now be increased by this amount. (Hence bank is *debited* with \$270.)

(ii) The Suspense Account is *credited* as this error affects the trial balance agreement.

(Total 20 marks)

3 **(a)** (i) At 30 June 2011, Current Ratio is 2:1 on current liabilities of \$12,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$2:1 = \frac{\text{Current Assets}}{\$12,000}$$

Current Assets = \$12,000 × 2 = \$24,000

(2 marks)

(ii) At 30 June 2012, Current Ratio is 4:1 on current assets of \$60,000

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$4:1 = \frac{\$60,000}{\text{Current Liabilities}}$$

$$\text{Current Liabilities} = \frac{\$60,000}{4}$$

= \$15,000

(2 marks)

(b) (i) Average Stock = (Opening Stock + Closing Stock) ÷ 2

= (\$6,800 + \$4,400) ÷ 2

= \$5,600

(2 marks)

(ii) Stock turn = Cost of goods sold/Cost of sales ÷ Average Stock

= \$118,400 ÷ \$5,600

= Approximately 21 times

(2 marks)

(iii) Gross Profit Percentage = $\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1}$

$= \frac{\$131,600}{\$250,000} \times \frac{100}{1}$

= 52.6%

(2 marks)

(c) Note:

- The Current Liabilities figure of $15,000 at 30 June 2012 will be obtained from your answer in (a) (ii).
- Long-Term Liabilities = Total Liabilities $67,400 – Current Liabilities $15,000 = $52,400
- Net Profit is obtained from the Income Statement in part (a)

Reisse Holdings
Summarized Balance Sheet as at 30 June 2012

	$	$
Fixed Assets		125,000
Current Assets	60,000	
Less: **Current Liabilities**	15,000	
Working Capital		45,000
		170,000
Less: **Long-Term Liabilities**		(52,400)
Net Assets		117,600
Financed By:		
Opening Capital		71,600
Add: Net Profit		69,900
Less: Drawings		(23,900)
Closing Capital		117,600

(6 marks)

(d) Return on Capital Employed (ROCE)

$\frac{\text{Net Profit}}{\text{Capital Employed}} \times \frac{100}{1}$

Capital Employed (Average Capital)

= (Opening Capital + Closing Capital) ÷ 2

= ($71,600 + $117,600) ÷ 2

= $94,600

ROCE = $\frac{\$69,900}{\$94,600} \times \frac{100}{1}$

= (approx.) 74%

(2 marks)

(e) Performance of Reisse Holdings for the year ended 30 June 2012:

- The stock turn was 21 times for the year. This means that stock was bought and replaced 21 times during the year, indicating a relatively high rate of sales and profitability.
- The gross profit percentage was 52.6%, which shows that for every $100 of sales, $52.60 in gross profit was made before any expenses were paid. This is a relatively high ratio and indicates that the company has efficiently managed its cost of goods and sold its goods at the right price to attain a high gross profit.
- The Return on Capital Employed was 74% indicating that for every $100 of capital invested, a net profit of $74 was made. This is a very high ratio showing that the business was very effective in using the capital invested to generate profits.

(2 marks)

(Total 20 marks)

Section II

4 **(a)** Note:

- Inventory at 1 January 2012 is opening inventory.
- Inventory at 31 December 2012 is closing inventory.

Fashion Forward
Statement showing Cost of Raw Materials Consumed
for the year ended 31 December 2012

Raw Materials	**$**	**$**
Opening inventory		5,700
Purchases	137,100	
Add: Carriage inwards	3,400	
Less: Returns outwards	(2,400)	138,100
Cost of raw materials available		143,800
Less: Closing inventory		(8,160)
Cost of raw materials consumed		135,640

Note:

- Opening inventory = 300m × $19/m = $5,700
- Purchases = (4,500 × $19/m) + (2,150m × $24/m)
  = $85,500 + $51,600 = $137,100
- Returns outwards = 100m × $24/m = $2,400
- Closing inventory = 340m × $24/m = $8,160

(8 marks)

(b)

Fashion Forward
Statement showing Cost of Direct Labour for the year ended 31 December 2012

Direct labour (wages)	**$**
Cutters (4,500 dresses × $15 each)	67,500
Stitches (4,120 dresses × $12 each)	49,440
Pressers (4,000 dresses × $5 each)	20,000
Total cost of direct labour	136,940

(4 marks)

(c)

Fashion Forward
Manufacturing Account for the year ended 31 December 2012

	$	**$**
Cost of raw materials consumed		135,640
Direct labour		136,940
Direct expenses		8,900
Prime cost		281,480
Factory overheads		
Salary of factory manager	38,050	
Factory power	8400	
General factory expenses	18,050	
Annual depreciation on plant and machinery	16,000	80,500
		361,980
Add: Opening work-in-progress		2,010
		363,990
Less: Closing work-in-progress		(3,790)
Total cost of production of goods completed		360,200

(8 marks)

(Total 20 marks)

5 **(a)** Note:

- Basic/Normal hours – 40 hours/week
- Basic Pay – $30/hour
- Overtime Pay = $30/hour × 1.5 (time and a half) = $45/hour

(i) Gross pay for Mark = 27 hours × \$30/hour = \$810
(Since Mark worked less than the basic 40-hour week, he is only paid at the basic rate)

(3 marks)

(ii) John worked 46 hours = 40 basic hours + 6 overtime hours
Gross pay = (40 hours × \$30/hour) + (6hours × \$45/hour)
= \$1,200 + \$270
= \$1,470

(7 marks)

(b)

El's Creation
Payroll Form

	A	B	C	D	E
Employees	**Gross Pay b/f**	**Social Security (5% of Gross Pay)**	**Taxable Pay (Gross Pay minus Social Security)**	**Income Tax (10% of Taxable Income)**	**Net Pay (Gross Pay minus Deductions)**
	\$	**\$**	**\$**	**\$**	**\$**
Mark	810	40.50 (5% of 810)	769.50 (810 – 40.50)	76.95 (10% of 769.50)	692.55 (810 – (40.50 + 76.95))
El	1,470	73.50 (5% of 1,470)	1,396.50 (1,470 – 73.50)	139.65 (10% of 1,396.50)	1,256.85 (1,470 – (73.50 + 139.65))

Note:
- Deductions are Social Security and Income Tax.

(8 marks)

(c) Statutory deductions are deductions, which must be made by law, from an employee's gross pay, e.g. income tax.

Voluntary deductions however, are deductions made from pay at an employee's request, e.g. contributions to clubs.

(2 marks)

(Total 20 marks)

6 **(a)** (i) Fixed assets will consist of: Net book value of equipment, Loans to members and Long-term investments in other co-operatives.

(2 marks)

(ii) Current liabilities will consist of: Telephone bill unpaid, Interest income received in advance and Mortgage interest outstanding.

(2 marks)

(iii)

Sautec Credit Union
Balance Sheet (extract) as at 1 January 2013

Financed By:	**$**
Reserves	
Members welfare fund	60,000
Education fund	30,000
Unappropriated profits	42,860
	132,860

(3 marks)

(b) (i)

Sautec Credit Union
General Journal

Date	**Details**	**Dr**	**Cr**
2013		**$**	**$**
Jan 2	Bank	100,000	
	Share Capital		100,000
	To record: The sale of 100,000 shares at $1 each		
2	Bank	10,500	
	Registration Fees Revenue		10,500
	To record: Payment of registration fees by new members (2,100 members × $5 fee/member)		

(7 marks)

(ii)

Bank Account

2013		$	2013		$
Jan 1	Balance b/f	42,500	Jan 2	Advertising	31,000
2	Share Capital	100,000	2	Office expenses	6,000
2	Registration Fees Revenue	10,500	31	Balance c/d	116,000
		153,000			153,000
Feb 1	Balance b/d	116,000			

Note: Receipts are debits in the bank account, while payments are credits.

(6 marks)

7 **(a)** Revenue expenditure will include: factory wages, electricity bills and rent (as these are expenditures incurred in the daily running of the business). Capital expenditure will include: the purchase of the packaging machine (as it involves the purchase of a fixed asset).

(2 marks)

(b) (i) a)

Purchases Ledger
S. Francis

2013		$	2013		$
Jan 22	Bank	22,900	Jan 1	Purchases	13,300
31	Discounts received	150	15	Purchases	9,600
31	Bank	4,850	29	Purchases	7,100
31	Balance c/d	2,100			
		30,000			30,000
			Feb 1	Balance b/d	2,100

Note:

- S. Francis is a creditor as credit purchases are made from him.
- S. Francis's account will therefore appear in the Purchases Ledger.
- Payment on 22 January = $22,900
  (Amount owed at 1 January $13,300 + Amount owed at 15 January $9,600).
- On 31 January, discount of 3% received on $5,000 to be paid ($150).
  Amount to be paid by cheque $4,850 ($5,000 – $150).

b)

Sales Ledger
V. Taylor

2013		$	2013		$
Jan 8	Sales	14,300	Jan 10	Returns inwards	1,390
16	Sales	10,090	30	Discounts allowed	460
27	Sales	15,800	30	Bank	22,540
			31	Balance c/d	15,800
		40,190			40,190
Feb 1	Balance b/d	15,800			

3Note:

- V. Taylor is a debtor as credit sales are made to him
- His account therefore appears in the Sales Ledger.
- On 10 January, $1,390 returns inwards.
- Total amounts owed on 8 and 16 January ($14,300 + $100,390) – Returns on 16 January ($1,390) = $23,000
  On 30 January, 2% Discount allowed given on $23,000 ($460)
  Amount to be paid (on 30 January) = $23,000 – Discount allowed $460 = $22,540

c)

Cash Book
Bank A/C (only)

2013		Disc	Bank	2013		Disc	Bank
		$	$			$	$
Jan 1	Capital		6,890	Jan 22	S. Francis		22,900
1	Loan (Credit Union)		25,000	31	S. Francis	150	4,850
30	V. Taylor	460	22,540	31	Factory wages		8,000
31	Balance c/d		3,080	31	Factory manager		3,500
				31	Electricity		1,040
				31	Rent		2,600
				31	Packaging machine		13,620
				31	Loan Credit Union		1,000
		460	57,510			150	57,510
				Feb 1	Balance b/d		3,080

(18 marks)

Note:

- The Bank Account is usually shown in the Cash Book, which is a ledger.
- Discounts columns must also be presented together with the Bank Account in the Cash Book.
- The opening bank balance of $31,890 will be split between the Credit Union Loan of $25,000 and capital of $6,890 ($31,890 – $25,000).
- Receipts (shown on the debit side) will consist of V. Taylor's payment to the business on 30 January. The discount allowed must also be presented.
- Payments (shown on the credit side) will consist of the payments to S. Francis on the 22 Jan and 31 Jan (Note: the discount received must be shown) and the other payments by cheque made on 31 Jan.
- The discounts columns are totalled and *not* balanced.