

7 PRINCIPLES OF ACCOUNTS – PAPER 02 – GENERAL PROFICIENCY – MAY/JUNE 2014

Section I

- 1 (a) Thirst's Capital = Total Capital \$60,000 – Swigger's Capital \$40,000 = \$20,000

(1 mark)

(b) Note:

- Amounts are calculated only for SIX months

Swigger and Thirst
The Profit and Loss Appropriation Account for the six months ended 30 June 2013

	\$	\$	\$
Profits			15,380
Add: Additional revenues			620
			16,000
Add: Interest on drawings:			
Swigger ((5% of \$8,000) × 6/12)		200	
Thirst ((5% of \$600) × 6/12)		15	215
			16,215
Less: Interest on capital			
Swigger ((10% of \$40,000) × 6/12)	2,000		
Thirst ((10% of \$20,000) × 6/12)	1,000	3,000	
Salary: Thirst (\$18,000 × 6/12)		9,000	(12,000)
Residual profit			4,215
Share of profits			
Swigger (2/3 × \$4,215)			2,810
Thirst (1/3 × \$4,215)			1,405
			4,215

(12 marks)

(c)

**Swigger and Thirst
Current Accounts**

2013		Swigger \$	Thirst \$	2013		Swigger \$	Thirst \$
Jun 30	Drawings	8,000	600	Jun 30	Profit and Loss Appropriation Account: Interest on capital	2,000	1,000
Jun 30	Profit and Loss Appropriation Account: Interest on drawings	200	15		Salary	-	9,000
Jun 30	Balance c/d		10,790	Jun 30	Share of profits	2,810	1,405
		8,200	11,405		Balance c/d	3,390	
						8,200	11,405
Jul 1	Balance b/d	3,390		July 1	Balance b/d		10,790

(7 marks)

(Total 20 marks)

- 2 (a) Control accounts would be useful to JT Enterprises as they:
- Help in the location of errors
 - Provide information for management such as total debtors

(1 mark)

(b) (i)

**JT Enterprises
Purchases Ledger (Accounts Payable) Control Account**

2014		\$	2014		\$
Apr 1	Balances b/f	310	Apr 1	Balances b/f	5,100
Apr 30	Purchases returns	620	Apr 30	Purchases	63,720
30	Payments to suppliers	59,970	30	Late payment change	45
30	Discounts received	1,200	30	Balances c/d	270
30	Bank (prepayment)	3,450			
30	Set-off (SLC)	375			
30	Balances c/d	3,210			
		69,135			69,135
May 1	Balances b/d	270	May 1	Balances b/d	3,210

(8 marks)

Note:

- (1) Items which *increase* the amounts owed to creditors appear on the credit side.
- (2) Items which *reduce* the amounts owed to creditors appear on the debit side.
- (3) When a firm is both a supplier and a customer to another firm, a 'set-off' is used to write off or reduce the amounts both parties owe to each other. The double entry to record a set-off is as follows:

Debit: Creditor's Account (and hence the Purchases Ledger Control A/C)
Credit: Debtor's Account (and hence the Sales Ledger Control A/C)

With the smaller of the amounts owed. Here, it will be \$375

- (4) The debit closing balance represents a debit balance brought down, and so will first be shown as a credit balance carried down.

(ii)

JT Enterprises					
Sales Ledger (Accounts Receivable) Control Account					
2014		\$	2014		\$
Apr 1	Balances b/f	9,360	Apr 1	Balances b/f	470
30	Sales	87,890	30	Sales returns	1,330
30	Returned cheques	970	30	Receipts from customers	69,110
30	Balances c/d	550	30	Discounts allowed	1,200
			30	Bad debts	1,320
			30	Set-off (PLC)	375
			30	Balances c/d	24,965
		98,770			98,770
May 1	Balances b/d	24,965	May 1	Balances b/d	550

(11 marks)

Note:

- Items which *increase* the amounts debtors owe appear on the *debit* side.
- Items which *reduce* the amounts debtors owe appear on the *credit* side.
- Refer to the previous note on the set-off.
- The credit closing balance represents a credit balance brought down and so will first be shown as a debit balance carried down.

(Total 20 marks)

3 (a) Note:

- The opening balance for the bank account is shown in the 'T' account as the balance brought forward.
- Only opening balances (i.e. balances at 1 January 2013) are used for the Statement of Affairs as at 1 January 2013.

Jack Rapper
Statement of Affairs as at 1 January 2013

	\$	\$
Fixed Assets		
Motor vehicles (cost)		25,000
Current Assets		
Inventories	8,945	
Accounts receivable	10,200	
Prepaid expenses (utilities)	600	
Bank	14,500	
Cash	760	
	35,005	
Less: Current Liabilities		
Accounts payable	(6,400)	
Working capital		28,605
		53,605
Financed By:		
Capital		53,605

(6 marks)

(b) Note:

- Since all sales were on credit terms, a Sales (Accounts Receivable/Debtors) Ledger Control Account (SLC) can be prepared to determine sales for the year.
- Accounts to be considered for the SLC:
 - Opening accounts receivable at 1 January 2013 (\$10,200)
 - Receipts from accounts receivable \$69,200 (obtained from the debit side of the bank account)
 - Closing accounts receivable at 31 December 2013 (\$8,400).
- After entering these amounts in the SLC, the difference between the two sides will give the sales figure for the year.

Sales Ledger Control A/c

2013		\$	2013		\$
Jan 1	Balances b/f	10,200	Dec 31	Bank	69,200
Dec 31	Sales	67,400	Dec 31	Balances c/d	8,400
		77,600			77,600

(4 marks)

(c) Items to consider for the Income Statement:

- Sales \$67,400 (from the SLC)
- Opening inventories \$8,945 (at 1 January 2013)
- Closing inventories \$9,800 (at 31 January 2013)
- Purchases \$38,300 (Given)
- Check the Bank Account (credit side) for all payments of expenses and purchases of new assets
- Check the additional information for any accruals and prepayments (to make adjustments to expenses paid) and fixed asset balances
- Adjustments for expenses:
 - (i) Wages due for the year = Wages paid \$8,600 + Wages owing at end \$750 = \$9,350
 - (ii) Utilities due for the year = Opening prepaid utilities \$600 + Utilities paid \$9,100 = \$9,700
 - (iii) Depreciation on Motor Vehicles = 5% of Cost
 = 5% of (Opening balance \$25,000 + New purchase \$15,000)
 = 5% of \$40,000
 = \$2,000
- Other expenses (since these have no adjustments the amounts paid will be amounts due for the year): Rent \$6,000 and General Office Expenses \$4,700

Jack Rapper

Income Statement for the year ended 31 December 2013

	\$	\$
Sales		67,400
Less: Cost of goods sold		
Opening inventories	8,945	
Add: Purchases	38,300	
	47,245	
Less: Closing Inventories	(9,800)	(37,445)
Gross Profit		29,955
Less: Expenses		
Wages (\$8,600 + \$750)	9,350	
Utilities (\$600 + \$9,100)	9,700	
Depreciation – Motor Vehicles	2,000	
Rent	6,000	
General office expenses	4,700	(31,750)
Net Loss		(1,795)

(10 marks)

(Total 20 marks)

Section II

- 4 (a) (i) A 'fixed asset' is an asset which will be kept in the business for more than 12 months. It is not bought for resale and is used to generate income, e.g. machinery.

(2 marks)

(ii) 'Useful life' refers to the length of time that a fixed asset will be used to generate economic returns to the business e.g. three years.

(2 marks)

(iii) 'Net book value' refers to that portion of the cost of an asset which has not been depleted through use. It is calculated as the original cost of the asset minus the accumulated depreciation on the asset, e.g. if an asset was purchased for \$4,000 and the accumulated depreciation is \$2,500, the net book value will be \$1,500.

(2 marks)

- (b) (i) Depreciation charge on delivery van for the year ended 30 April 2014 using the straight line method:

= Rate of Depreciation \times Cost Price of Delivery Van

= 30% of \$200,000

= $0.3 \times \$200,000$

= \$60,000

(3 marks)

(ii)

Farley Caterers
Balance Sheet (extract) as at 30 April 2014

	Cost	Accumulated Depreciation	NBV
Fixed Assets	\$	\$	\$
Delivery van	200,000	120,000	80,000

Note:

- Accumulated depreciation at beginning of period (1 May 2013)
= Cost \$200,000 – Net Book Value \$140,000
= \$60,000
- Accumulated depreciation at 30 April 2014
= Accumulated depreciation at 1 May 2013 \$60,000 + Depreciation charge for the year \$60,000
= \$120,000
- Net book value at 30 April 2014
= Cost – Accumulated Depreciation at 30 April 2014
= \$200,000 – \$120,000 = \$80,000

(4 marks)

(iii) Depreciation charge on industrial stove for the year ended 30 April 2014 using the reducing balance method

$$= \text{Rate of Depreciation} \times \text{Net Book Value}$$

$$= 20\% \text{ of } \$38,400$$

$$= 0.2 \times \$38,400$$

$$= \$7,680$$

(3 marks)

(iv)

Provision for Depreciation A/C – Industrial Stove

2014		\$	2013		\$
Apr 30	Balance c/d	29,280	May 1	Balance b/f	21,600
			2014		
			Apr 30	Profit and Loss	7,680
		29,280			29,280
			May 30	Balance b/d	29,280

Note:

- Accumulated depreciation at 1 May 2013 (Balance b/f at this date on the Provision for Depreciation account)
 $= \text{Cost Price } \$60,000 - \text{Net Book Value } \$38,400$
 $= \$21,600$
- To record depreciation for the year (\$7,680) use the following double entry:
 Debit: Profit and Loss Account
 Credit: Provision for Depreciation Account

(4 marks)

(Total 20 marks)

5 (a)

Items for the Manufacturing Account	Items for the Trading Account
<ul style="list-style-type: none"> • Purchases of direct materials \$65,000 • Rent \$4,500 (75% of \$6,000) • Power \$7,500 (75% of \$10,000) • Carriage inwards on raw materials \$2,000 • Insurance on factory equipment \$3,500 • Direct expenses (factory) \$1,500 • Factory wages \$30,000 • Indirect materials used \$7,000 • Depreciation on factory equipment \$2,500 • Factory manager's salary \$12,000 • Janitor's salary \$6,400 (80% of \$8,000) • Property taxes on factory building \$800 • Direct materials <ul style="list-style-type: none"> (i) 1 January 2013 \$7,500 (opening inventories) (ii) 31 December 2013 \$4,300 (closing inventories) • Work in process <ul style="list-style-type: none"> (i) 1 January 2013 \$2,900 (opening inventories) (ii) 31 December 2013 \$3,300 (closing inventories) 	<ul style="list-style-type: none"> • Sales \$190,000 • Finished goods <ul style="list-style-type: none"> (i) 1 January 2013 \$21,000 (opening inventories) (ii) 31 December 2013 \$24,200 (closing inventories) • Production cost of goods completed (calculated in the manufacturing account)

J.B. Manufacturing Company
Manufacturing Account for the year ended 31 December 2013

Raw Materials	\$	\$
Opening Inventories		7,500
Add Purchases of Direct Materials		65,000
Carriage inwards on raw materials		2,000
Cost of raw materials available for use		74,500
Less: Closing inventories		(4,300)
Cost of raw materials consumed		70,200
Direct Labour – factory wages		30,000
Direct expenses – factory		1,500
Prime cost		101,700
Factory Overheads		
Rent (75% of \$6,000)	4,500	
Power (75% of \$10,000)	7,500	
Indirect materials used	7,000	
Depreciation on factory equipment	2,500	
Factory manager's salary	12,000	
Janitor's salary (80% of \$8,000)	6,400	
Property taxes on factory building	800	
Insurance on factory equipment	3,500	
Total Factory Overheads		44,200
		145,900
Add: Opening work in process		2,900
		143,000
Less: Closing work in process		(3,300)
Production cost of goods completed		139,700

(16 marks)

(b)

JB Manufacturing Company
The Trading Account for the year ended 31 December 2013

	\$	\$
Sales		190,000
Less: Cost of goods sold		
Opening inventories of finished goods	21,000	
Add: Production cost of goods completed	139,700	
	160,700	
Less: closing inventories of finished goods	(24,200)	(136,500)
Gross Income		53,500

(4 marks)

(Total 20 marks)

6 (a)

Young Achievers Credit Union Co-operative
General Journal

Date	Details	Debit	Credit
2014		\$	\$
Jan 1	Cash	36,000	
	Membership Fees Revenue		36,000
	To record: Payment of membership fees by members		
1	Cash	600,000	
	Share Capital		600,000
	To record: Purchase of shares by members		

Note:

- Membership fees revenue = Number of members paying fees × Membership Fee of \$3/member
= 12,000 members × \$3
= \$36,000
- Share Capital = Number of members × Number of shares per member × Price of shares
= 12,000 members × 5 shares × \$10/share
= \$600,000

(7 marks)

- (b) (i) Calculation for the cost of drinks sold for the BBQ fundraising activity

	\$
Opening stock of drinks	650
Add: Purchases of drinks	1,200
	1,850
Less: Closing stock of drinks	(1,170)
Cost of drinks sold	680

(4 marks)

- (ii)

**Young Achievers Credit Union Co-operative
Income Statement for BBQ Fundraiser for
the Month ended March 2014**

	\$	\$
BBQ ticket sales		6,840
Less: Cost of goods sold		
Cost of drinks sold	680	
Add: Purchases of meats	950	(1,630)
Gross profit		5,210
Less: BBQ expenses		
Advertising	200	
Wages	750	950
Net Profit		4,260

(6 marks)

- (iii) Total Income for the month of March 2014

	\$
Net Profit from BBQ Fundraiser	4,260
Add: Interest earned on deposits	4,240
Interest from loans to members	3,960
Total Income	12,460

(3 marks)

(Total 20 marks)

7 (a) Source documents used in preparing payrolls

- Attendance Register/Time Book
- Electronic Clock Cards

(2 marks)

(b) Statutory deductions are deductions which must be made by law from pay, e.g. taxation and national insurance.

Voluntary deductions, however, are deductions which are optional, i.e. they are made upon the employee's request, e.g. private pension plans and union dues.

(2 marks)

(c)

Calculations for the Payroll Sheet (All figures rounded to the nearest dollar)
<ul style="list-style-type: none"> • Overtime hours/days = Time Worked – Normal Hours/Days <ul style="list-style-type: none"> (i) Sales attendant = 45 hours – 40 hours = 5 hours (ii) Cashier = 5 days – 5 days = 0 days
<ul style="list-style-type: none"> • Normal Pay = Normal Time × Normal Rate <ul style="list-style-type: none"> (i) Sales attendant = 40 hours × \$10/hr = \$400 (ii) Cashier = 5 days × \$120/day = \$600
<ul style="list-style-type: none"> • Overtime Pay Rate = 1.5 × Normal Rate <ul style="list-style-type: none"> (i) Sales attendant = 1.5 × \$10/hour = \$15/hour (ii) Cashier = 1.5 × \$120/day = \$180/day
<ul style="list-style-type: none"> • Overtime Pay = Overtime Hours/Days × Overtime Rate <ul style="list-style-type: none"> (i) Sales attendant = 5 hours × \$15/hr = \$75 (ii) Cashier = 0 days × \$180/day = \$0
<ul style="list-style-type: none"> • Gross Pay = Normal Pay + Overtime Pay <ul style="list-style-type: none"> (i) Sales attendant = \$400 + \$75 = \$475 (ii) Cashier = \$600 + \$0 = \$600
<ul style="list-style-type: none"> • Social Security = 5% of Gross Pay <ul style="list-style-type: none"> (i) Sales attendant = 0.05 × \$475 = \$24 (ii) Cashier = 0.05 × \$600 = \$30
<ul style="list-style-type: none"> • Pension Fund = 1% of Gross Pay <ul style="list-style-type: none"> (i) Sales attendant = 0.01 × \$475 = \$5 (ii) Cashier = 0.01 × \$600 = \$6
<ul style="list-style-type: none"> • Taxable Income = Gross Pay – Tax Deductibles (Non-Taxable Income) = Gross Pay – (Social Security + Pension Fund) <ul style="list-style-type: none"> (i) Sales attendant = \$475 – (\$30 + \$5) = \$440 (ii) Cashier = \$600 – (\$30 + \$6) = \$564
<ul style="list-style-type: none"> • Income Tax = 10% of Taxable Income <ul style="list-style-type: none"> (i) Sales attendant = 0.1 × \$440 = \$44 (ii) Cashier = 0.1 × \$564 = \$56
<ul style="list-style-type: none"> • Total deductions = Social Security + Pension Fund + Income Tax <ul style="list-style-type: none"> (i) Sales attendant = \$24 + \$5 + \$44 = \$73 (ii) Cashier = \$30 + \$6 + \$56 = \$92
<ul style="list-style-type: none"> • Net Pay = Gross Pay – Total Deductions <ul style="list-style-type: none"> (i) Sales attendant = \$475 – \$73 = \$402 (ii) Cashier = \$600 – \$92 = \$508