

# 8 PRINCIPLES OF ACCOUNTS – PAPER 02 – GENERAL PROFICIENCY – MAY/JUNE 2015

## Section I

Date	Account to be Debited	Account to be Credited	Note
2014			
April 1	Bank \$7,800	Capital \$7,800	
5	Purchases \$1,620	Yazmin Company \$1,620	The purchases price will be the list price of \$1,800 minus the trade discount of \$180 (10% of \$1,800) N.B. The trade discount is not recorded
6	(i) Bank \$120 (ii) Jon (Debtor) \$170 (\$290 – \$120)	(i) Sales \$120 (ii) Sales \$170	(i) Record the amount of the sale paid by cheque (\$120) (ii) The remainder \$170 (\$290 – \$120) is the amount which Jon still owes
10	Drawings \$60	Purchases \$60	This represents a withdrawal of stock by the owner for his personal use
15	Equipment \$3,500	Equipo Company \$3,500	
16	Yazmin Company \$160	Returns outwards \$160	
20	Equipo Company \$250	Equipment \$250	N.B. This is <i>not</i> recorded in the returns outwards account as it is not a return of stock
25	Yazmin Company \$1,460	(i) Discount received \$73 (ii) Bank \$1,387	<ul style="list-style-type: none"> <li>The amount still owed to Yazmin Company is \$1,460 (\$1,620 – \$160 Returns outwards)</li> <li>A discount received is earned as payment is made within 30 days (5% of \$1,460 = \$73)</li> <li>Amount paid by cheque = Amount Owed (\$1,460) – Discount Received (\$73) = \$1,387</li> </ul>
28	Equipo Company \$3,250	Discount received \$50 Bank \$3,200	<ul style="list-style-type: none"> <li>Amount owed to Equipo Company = Original Purchase Cost – Return = \$3,500 – \$250 = \$3,250</li> <li>Amount to be paid = Amount Owed (\$3,250) – Discount \$50 = \$3,200</li> </ul>

**General Ledger  
Capital**

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 30	Balance c/d	7,800	Apr 1	Bank	7,800
			May 1	Balance b/d	7,800

**Bank**

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 1	Capital	7,800	Apr 25	Yazmin Company	1,387
6	Sales	120	28	Equipo Company	3,200
			30	Balance c/d	3,333
		7,920			7,920
May 1	Balance b/d	3,333			

**Purchases**

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 5	Yazmin Company	1,620	Apr 10	Drawings	60
			30	Balance c/d	1,560
		1,620			1,620
May 1	Balance b/d	1,560			

**Yazmin Company**

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 16	Returns outwards	160	Apr 5	Purchases	1,620
25	Discounts received	73			
25	Bank	1,387			1,620
		1,620			

**Jon**

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 6	Sales	170	Apr 30	Balance c/d	170
May 1	Balance b/d	170			

### Sales

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 30	Balance c/d	290	Apr 6	Bank	120
			6	Jon	170
		290			290
			May 1	Balance b/d	290

### Drawings

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 10	Purchases	60	Apr 30	Balance c/d	60
May 1	Balance b/d	60			

### Equipment

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 15	Equipo Company	3,500	Apr 20	Equipo Company	250
			30	Balance c/d	3,250
		3,500			3,500
May 1	Balance b/d	3,250			

### Equipo Company

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 20	Equipment	250	Apr 15	Equipment	3,500
28	Discount Received	50			
28	Bank	3,200			3,500
		3,500			

### Returns Outwards

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 30	Balance c/d	160	Apr 16	Yazmin Company	160
			May 1	Balance b/d	160

### Discounts Received

Date	Details	\$	Date	Details	\$
2014			2014		
Apr 30	Balance c/d	123	Apr 25	Yazmin Company	73
			28	Equipment	50
		123			123
			May 1	Balance b/d	123

(16 marks)

(b)

### Len Hanson Trial Balance as at 30 April 2014

	Debit	Credit
	\$	\$
Capital		7,800
Bank	3,333	
Purchases	1,560	
Jon	170	
Sales		290
Drawings	60	
Equipment	3,250	
Returns Outwards		160
Discounts Received		123
	8,373	8,373

(4 marks)

(Total 20 marks)

2 (a) Distinguishing features of a partnership:

- A minimum of 2 and a maximum of 20 partners.
- Partners can form a Deed of Partnership/Partnership Agreement to guide the internal running of the business.
- Governed by the Partnership Act.

(2 marks)

(b) Barney has a *credit* balance brought down of \$2,500. This represents the amount of undrawn profits to which the partner is entitled. Swiper has a *debit* balance brought down of \$600 as indicated by the brackets. This represents that he has withdrawn \$600 in excess of what he is entitled to.

(2 marks)



(c) Note:

- Interest on Capital = Rate of Interest  $\times$  Partner's Capital  
 Barney = 5% of \$60,000 =  $0.05 \times \$60,000 = \$3,000$   
 Swiper = 50% of \$35,000 =  $0.05 \times \$35,000 = \$1,750$
- Interest on Drawings is calculated based on time, i.e. from the time the drawings were taken to the end of the financial year.  
 Calculated as: Drawings  $\times$  Rate  $\times$  Time  
 (i) Barney: 1 October 2014 to 31 March 2015  
 = 6 months  
 $\$4,000 \times 10\% \times 6/12 = \$200$   
 (ii) Swiper: 1 January 2015 to 31 March 2015  
 = 3 months  
 $\$12,000 \times 10\% \times 3/12 = \$300$
- Profit/Loss sharing ratio is Barney: Swiper, 3:2. Therefore Barney gets 3/5 and Swiper gets 2/5 of profits/losses.

**Barney and Swiper**

**Profit and Loss Appropriation Account for the year ended 31 March 2015**

	\$	\$	\$
Net Income			82,000
Add: Interest on Drawings			
Barney ((10% of 4,000) $\times$ 6/12)		200	
Swiper ((10% of 12,000) $\times$ 3/12)		300	500
			82,500
Less: Salary – Barney			
Interest on Capital		36,000	
Barney	3,000		
Swiper	1,750	4,750	(40,750)
Residual Profit			41,750
Share of profits:			
Barney (3/5 $\times$ 41,750)			25,050
Swiper (2/5 $\times$ 41,750)			16,700
			41,750

(9 marks)

- (d) Note: The Current Accounts are prepared using the opening balances given, drawings and the relevant transfers from the Profit and Loss Appropriation Account.

**Barney and Swiper  
Current Accounts**

2014		Barney	Swiper	2014		Barney	Swiper
		\$	\$			\$	\$
Apr 1	Balance b/f		600	Apr 1	Balance b/f	2,500	
2015				2015			
Mar 31	Drawings	4,000	12,000	Mar 31	Profit and Loss		
31	Profit and Loss				Appropriation		
	Appropriation				Account:		
	Interest on	200	300		Salary	36,000	-
	Drawings				Interest on capital	3,000	1,750
31	Balances c/d	62,350	5,550		Share of profit	25,050	16,700
		66,550	18,450			66,550	18,450
				Apr 1	Balances b/d	62,350	5,550

(7 marks)

(Total 20 marks)

3 (a)

**Seris Lann  
Income Statement for the year ended 31 December 2014**

	\$	\$
Sales		363,170
Less: Cost of goods sold		
Cost of goods available for sale	206,850	
Less: Closing inventories	(24,550)	(182,300)
Gross Profit		180,870
Less: Expenses		
Insurance (3,790 – 1,070)	2,720	
Interest expense	9,360	
Salaries and wages	90,820	
Miscellaneous expenses (4,880 + 4,220)	9,100	(112,000)
Net Profit		68,870

Note:

- Insurance expense = Insurance Paid – Insurance Prepaid  
= \$3,790 – \$1,070 = \$2,720
- Miscellaneous expenses  
= Miscellaneous expenses paid + Miscellaneous expenses owing  
= \$4,880 + \$4,220 = \$9,100

(8 marks)

**(b)** (i) Total Non-Current (Fixed) Assets:

	\$
Plant and machine	163,450
Closing inventories	37,000
Long-term investments	38,580
	<u>239,030</u>

(2 marks)

(ii) Total Current Assets:

	\$
Accounts receivable	8,070
Closing Inventories	24,550
Pre-paid Insurance	1,070
	<u>33,690</u>

(2 marks)

(iii) Total Current Liabilities:

	\$
Accounts payable	3,910
Bank overdraft	6,180
Miscellaneous expenses owing	4,220
	<u>14,310</u>

(2 marks)

**(c)** To decide whether Seris Lann should be given the bank loan, the Acid Test Ratio can be used:

- Acid Test Ratio =  $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$   
=  $\frac{\$33,690 - \$24,550}{\$14,310}$   
= 0.64 : 1

An acid test ratio of 0.64 : 1 means that the firm's most liquid current assets can cover or pay for current liabilities approximately 0.64 times over. This shows poor liquidity as the ratio is below the benchmark of 1:1. Seris Lann will most likely be unable to meet loan and interest installments and should therefore not be given the bank loan.

(4 marks)

(d) Advantages of using a computer system to maintain accounts:

- Faster than a manual system
- Documents such as invoices can be produced automatically.

Disadvantages of using a computer-based system:

- Cost of training staff in the use of the system may be high
- Essential to back up data frequently.

(2 marks)

(Total 20 marks)

## Section II

4 Note:

- Compare the Bank Statement to the Cash Book, checking for items which:
  - Appear on the Bank Statement but *not* the Cash Book. These will be used to update the Cash Book.

Item	Effect on Cash Book	Treatment in Cash Book
Oct 15 – Standing Order \$1,000	Reduces bank	Credit Bank
Oct 21 – Debit Transfer \$825	Reduces bank	Credit Bank
Oct 29 – Credit Transfer \$4,000	Increases bank	Debit Bank
Oct 30 – Bank Charges \$400	Reduces bank	Credit Bank

- Appear on the Cash Book but *not* the Bank Statement. These will be used to prepare the Bank Reconciliation Statement (BRS).

Item	Preparing the BRS starting with the Updated Cash Book balance
Oct 10 – Light and Power (Unpresented Cheque)	Add
Oct 24 – D. Elwin (Bank Deposit not credited)	Deduct



(a)

Cash Book					
2014		\$	2014		\$
Oct 31	Credit Transfer	4,000	Oct 31	Balance	1,780
31	Balance c/d	5	31	Standing Order	1,000
			31	Debit Transfer	825
			31	Bank Charges	400
		4,005			4,005
			Nov 1	Balance b/d	5

(6 marks)

(b)

**Orvie Elwin**  
**Bank Reconciliation Statement as at 31 October 2014**

	\$
Overdraft as per cash book	(5)
Add: Unpresented cheques	180
	175
Less: Bank lodgments not credited	(500)
Overdraft as per bank statement	(325)

(5 marks)

(c) Note:

- All credit sales (involving debtors) will go to the Sales Day Book.
- All credit purchases (involving creditors) will go to the Purchases Day Book.
- The returns by Jack Long and June Phillip (two debtors) are returns inwards, which will go to the Returns Inwards Day Book.

**Sales Day Book**

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Date	Details	Folio	Amount (\$)
Apr 11	Jack Long	SL	6,000
18	Mary King	SL	2,600
24	June Phillip	SL	3,800
30	Transferred to the Sales Account in the General Ledger	GL	12,400

**Purchases Day Book**

**Pg. 19**

Date	Details	Folio	Amount (\$)
Apr 5	Up Top Ltd.	PL	2,500
19	Harry and Sons	PL	3,800
27	Sealey's Ltd.	PL	4,250
30	Transferred to the Purchases Account in the General Ledger	GL	10,550

**Returns Inwards Day Book**

**Pg. 19**

Date	Details	Folio	Amount (\$)
Apr 16	Jack Long	SL	300
28	June Phillip	SL	150
30	Transferred to the Returns Inwards Account In the General Ledger	GL	450

(9 marks)

**5 (a) (i) Note:**

The Accounts Receivable Control Account is the Debtors Control Account. Items for Accounts Receivable Control Account:

- Balances b/f at September 2013, \$5,010 (Debit)
- Credit Sales \$262,920 (Debit)
- Cash received from accounts receivable \$257,800 (Credit)
- Discounts allowed \$1,040 (Credit)
- Sales returns \$1,290 (Credit)
- Interest on late payments received from accounts receivable \$660 (Credit)
- Balances c/d at 31 August 2013 \$7,800 (Credit c/d)

**Accounts Receivable Control Account**

2013		\$	2014		\$
Sept 1	Balances b/f	5,010	Aug 31	Cash	257,800
2014			31	Discounts Allowed	1,040
Aug 31	Sales	262,920	31	Sales Returns	1,290
31	Balances c/d	660	31	Interest on late payments received	660
			31	Balances c/d	7,800
		268,590			268,590
Sept 1	Balances b/d	7,800	Sept 1	Balances b/d	660

(6 marks)

(ii) Note: The Accounts Payable Control Account is the Creditors Control Account. Items for Accounts Payable Control Account:

- Balances b/f at September 2013 \$3,950 (Credit)
- Credit purchases \$196,700 (Credit)
- Cash paid to accounts payable \$194,400 (Debit)
- Discounts received \$3,560 (Debit)
- Purchases returns \$1,740 (Debit)
- Refunds for overpayments from accounts payables \$1,880 (Credit)
- Balances c/d at 31 August 2013 \$2,830 (Debit c/d)

**Accounts Payable Control Account**

2014		\$	2013		\$
Aug 31	Cash	194,400	Sept 1	Balances b/f	3,950
			2014		
31	Discounts Received	3,560	Aug 31	Purchases	196,700
31	Purchases Returns	1,740	31	Refunds (overpayments)	1,880
31	Balances c/d	2,830			
		202,530			202,530
			Sept 1	Balances b/d	2,830

(5 marks)

**(b) (i)**

**Sedeno Knitted Goods**

**Manufacturing Account for the year ended 30 November 2014**

	\$
Raw materials consumed	138,500
Add: Direct Labour (Production Wages)	45,700
Direct packaging expenses	2,400
Prime Cost	186,600
Add: Factory Overheads	51,900
	238,500
Add: Opening work-in-progress	3,600
	242,100
Less: Closing work-in-progress	(4,800)
Total Cost of Production	237,300

(ii)

**Sedeno Knitted Goods**  
**Trading Account for the year ended 30 November 2014**

	<b>\$</b>
Sales	355,950
Less: Cost of goods sold	
Total cost of production	(237,300)
Gross Profit	118,650

(9 marks)

Note:

- Mark up = 50% of Total Cost of Production  
= 50% of \$237,300  
= \$118,650
- Sales = Total Cost of Production + Mark Up  
= \$237,300 + \$118,650  
= \$355,950

(Total 20 marks)

6 (a) (i)

**Calculations of Subscriptions Outstanding**

Date	Working Column	\$
1 Jan 14	40 members × \$200	8,000
31 Jan 14	60 members × \$200	12,000

**Calculations of Subscriptions in Advance**

Date	Working Column	\$
1 Jan 14	110 members × \$200	22,000
31 Jan 14	98 members × \$200	19,600

(5 marks)

(ii)

**Subscriptions Account for the year ended 31 December 2014**

2014		\$	2014		\$
Jan 1	Accrued bal b/f	8,000	Jan 1	Prepaid balance b/f	22,000
Dec 31	Income and expenditure	360,000	Dec 31	Bank/Cash	353,600
31	Prepaid bal c/d	19,600	31	Accrued bal c/d	12,000
		387,600			387,600
2015			2015		
Jan 1	Accrued bal b/d	12,000	Jan 1	Prepaid bal b/d	19,600

(8 marks)



Note:

- Subscriptions due for the year (and to be taken to the Income and Expenditure Account)  
 $= \text{Number of registered members} \times \text{Annual Subscriptions}$   
 $= 1,800 \text{ members} \times \$200 = \$360,000$

(b)

Classification of Expenditure

Item No.	Description	Expenditure Type	Accounts where item should be reported	
			Income & Expenditure Account	Balance Sheet
0	Paid salaries to office	Revenue	✓	
	Invested in an ID card-making machine, \$5,000	Capital		✓ (Fixed Asset)
	Paid for printing of the party's Manifesto booklet for its annual convention meeting, \$20,000	Revenue	✓ (Expense)	
	Made a downpayment of \$60,000 for the purchase of a new bus	Capital		✓ (Fixed Asset)
	Paid \$100,000 for building works which extended and improved the party's headquarters building	Capital		✓ (Fixed Asset)
	Paid for advertisement for a political rally, \$25,000	Revenue	✓ (Expense)	

(4 marks)

(c)

**PPP Party**  
**Receipts and Payments Account for the period ended 31 December 2014**

Receipts	\$	Payments	\$
Subscriptions	353,600	ID card machine	5,000
		Printing expense	20,000
		Down payment on new bus	60,000
		Building (extension)	100,000
		Advertising expense	25,000
		Cash and Bank balance	143,600
		31 Dec 14	
	353,600		353,600

(3 marks)

Note:

- (i) The Subscriptions figure is the Cash/Bank figure (for receipts of subscriptions) from the Subscriptions Account.
- (ii) The Cash and Bank balance at 31 December 2014 is the difference between the two sides of the Receipts and Payments Account.

(Total 20 marks)

7 (a)

**Vegi Lands Farmer's Co-operative**  
**Appropriation Account for the year ended 31 December 2014**

	\$	\$
Surplus		65,000
Add: Undistributed Surplus b/f		125,000
		190,000
<b>Less: Appropriations</b>		
Transfers to Reserves		
Members Educational Fund (20% of \$190,000)	38,000	
Disaster Relief Fund (30% of \$190,000)	57,000	
Patronage refund (5% of \$350,000)	17,500	
Proposed Dividends (100,000 × \$0.50)	50,000	(162,500)
Undistributed surplus c/f to next year		27,500

(11 marks)

Note:

- Total Surplus = Surplus for the year (\$65,000)  
+ Undistributed surplus from previous years (\$125,000)  
= \$190,000
- Number of Shares = Share Capital ÷ Share price  
= \$500,000 ÷ \$5  
= 100,000 shares
- Proposed Dividends = Number of shares × Rate of Dividend  
= 100,000 × \$0.50 = \$50,000

(b) (i)

**Flat Lands Cane Farmers Co-operative**  
**Balance Sheet extract as at 31 December 2014**

Financed By:	\$	\$
<u>Capital</u>		
Ordinary Share Capital		200,000
<u>Reserves</u>		
Undistributed Surplus	73,900	
Members welfare fund	40,000	
Flood relief fund	95,000	208,900
		408,900

(4 marks)

(ii) a)

<b>Total Non-Current (Fixed) Assets</b>	<b>\$</b>
Building (cost \$250,000 – Accumulated Depreciation \$35,000)	215,000
Investment in Vegi Lands Co-operative	45,000
Long-term Loans to members	120,000
	380,000

(3 marks)

b)

<b>Total Current Assets</b>	<b>\$</b>
Interest rent revenue outstanding	8,000
Inventories	26,000
	34,000

(3 marks)

(Total 20 marks)