9 PRINCIPLES OF ACCOUNTS – PAPER 02 – GENERAL PROFICIENCY – MAY/JUNE 2016

Section I

1 **(a)** Other features of a partnership agreement include:
- Capital to be contributed by each partner
- Salaries to be paid to partners
- Procedures for the admission of new partners

(2 marks)

(b) Profits or losses should be shared equally if the partnership agreement is silent on this matter or if no partnership agreement exists.

(1 mark)

(c) Items to be considered for the Appropriation a/c:
- Net Profit before interest $77,404
- Loan Interest (6% of $41,000)
- Interest on Drawings (Metevier 5% of $3,600 and Moreno 5% of $1,920)
- Interest on Capital
  Note: First determine EACH partner's capital contribution based on the ratio 7:5 (Metevier: Moreno)
  (i) Metevier 7/12 × $120,000 = $70,000
  (ii) Moreno 5/12 × $120,000 = $50,000
  Interest on Capital:
  (i) Metevier 10% of $70,000
  (ii) Moreno 10% of $50,000
- Profits/Losses will be shared equally as the profit/loss sharing ratio is *not* given.

Metevier and Moreno
Profit Appropriation Account for the year ended 31 December 2015

	$	$
Net Profit (before interest)		77,404
Less: Loan interest (6% of $41,000)		(2,460)
Net Profit after interest		74,944
Add: Interest on drawings		
Metevier (5% of $3,600)	180	
Moreno (5% of $1,920)	96	276
		75,220
Less: Interest on Capital		
Metevier (10% of $70,000)	7,000	
Moreno (10% of $50,000)	5,000	(12,000)
Residual Profit		63,220
Share of Profits		
Metevier (1/2 of $63,220)		31,610
Moreno (1/2 of $63,220)		31,610
		63,220

(9 marks)

(d) Items to be considered for the Statement of Financial Position:

- Note the Loan (Long-Term Liability) of $41,000 from part (c)
- The Capital (Financed By) section will include:
  - The balances on the capital accounts
  - Relevant items from the Appropriation Account

Metevier and Moreno
Statement of Financial Position as at 31 December 2015

	$	$	$
Fixed Assets			220,000
Current Assets		18,000	
Less: **Current Liabilities**		(48,576)	
Working Capital			(30,576)
			189,424
Less: **Long-Term Liabilities**			
Loan			(41,000)
			148,424
Financed By:	**Metevier**	**Moreno**	
Capital Accounts (Balance)	70,000	50,000	120,000
Current Accounts			
Interest on Capital	7,000	5,000	
Share of Profits	31,610	31,610	
	38,610	36,610	
Less: Drawings	(3,600)	(1,920)	
Interest on drawings	(180)	(96)	
	34,830	34,594	69,424
			189,424

(8 marks)

Note: It is the author's opinion that consideration should be given to the Loan (Long-Term Liability), as it is a balance given at the date of the preparation of the statement of Financial Position in part (c). This, however, will lead to the Statement not balancing by the amount of the Loan ($41,000).

(Total 20 marks)

2 (a)

Tova Joyce
Revised Closing Inventory

Date	Details	$	Date	Details	$
2015			2015		
Dec 31	Balance	8,670	Dec 31	Drawings	900
			31	Returns Outwards	185
			31	Balance c/d	7,585
		8,670			8,670
2016					
Jan 1	Balance b/d	7,585			

Statement showing the calculation of revised closing inventory as at 31 December 2015

	$	$
Valuation of Closing Inventory at 31/12/2015		8,670
Less: Drawings	900	
Returns Outwards	185	(1,085)
Revised Closing Inventory at 31/12/2015		7,585

(4 marks)

(b)

Tova Joyce
Bank Account

Date	Details	$	Date	Details	$
2015			2015		
Dec 31	Debtor	200	Dec 31	Balance	6,340
31	Balance c/d	8,040	31	Equipment (error)	1,900
		8,240			8,240
			2016		
			Jan 1	Balance b/d	8,040

Statement showing the calculation of new bank overdraft (balance) as at 31 December 2015

	$
Bank overdraft at 31 December 2015	(6,340)
Add: Receipt from debtor	200
	(6,140)
Less: Purchase of equipment	(1,900)
Revised Bank overdraft at 31/12/2015	(8,040)

(3 marks)

(c)

Statement Showing Calculation of Net Profit for the year ended 31 December 2015

	$	$
Gross Profit (before changes and corrections)		46,690
Less: Change in valuation of Closing Inventory		
(8,670 – 7,585) (from part (a))		(1,085)
		45,605
Less: Expenses		
Depreciation: Equipment		
((58,000 + 1,900) × 25%)	14,975	
Insurance expense	320	
Donation	300	
Bad debt (430 – 200)	230	(15,825)
Net Profit		29,780

Note:

- There is a reduction in the value of closing inventory upon revaluation in part (a). This will lead to cost of goods sold being understated and hence gross profit being overstated. Thus we must deduct the amount by which inventory is overstated ($1,085) to reduce gross profit to the correct amount.
- Depreciation must be calculated on the correct value of equipment, which is the old ($58,000) + new ($1,900) equipment
- Bad debts = The amount owed by J. Lawrence ($430) – The amount paid ($200) = $230

(5 marks)

(d)

Tova Joyce
Statement of Financial Position (Balance Sheet) as at 31 December 2015

	Cost	Accumulated Depreciation	NBV
Fixed Assets	$	$	$
Buildings	46,100	—	46,100
Equipment (58,000 + 1,900)	59,900	14,975	44,925
	106,000	14,975	91,025
Current Assets			
Inventory	7,585		
Accounts Receivable (6,910 – 230)	6,680		
Cash in hand	3,120	17,385	
Less: **Current Liabilities**			
Accounts payable	4,990		
Bank Overdraft [from part (b)]	8,040	(13,030)	
Working Capital			4,355
			95,380
Financed By:			
Opening Capital			66,500
Add: Net Profit [from part (c)]			29,780
Less: Drawings [from part (a)]			(900)
Closing Capital			95,380

Note:
- Equipment at cost = Balance given ($58,000) + Equipment not recorded ($1,900) = $59,900
- Accounts Receivable = Balance given ($6,910) + Bad debts ($230) = $6,680

(8 marks)

(Total 20 marks)

3 (a)

Items to update the Cash Book	Effect on the Cash Book
• Correction of error in Cash Book: Cheque overstated (Cash Book figure $1,328 *minus* Bank Statement Figure $1,238 = $ 90)	• Increases Bank by $90 (Debit Bank)
• Bank Changes not entered in the cash book $100	• Reduces Bank by $100 (Credit Bank)
• Standing Order: Payment of insurance $900	• Reduces Bank by $900 (Credit Bank)
• Direct Credit: Dividend received $2,100	• Increases Bank by $2,100 (Debit Bank)
• Dishonoured Cheque: Yellow's cheque of $300 returned	• Reduces Bank by $300 (Credit Bank)

Items to Prepare the Bank Reconciliation Statement	When starting the BRS with the updated Cash Book balance:
• Bank lodgments/deposits not credited $8,000	• Deduct the deposits as these have not been added in the bank's records
• Unpresented cheques $5,200	• Add Unpresented Cheques (as these have not been deduced in the bank's books)

(i)

Grenade
Updated Cash Book as at 30 September

Date	Details	$	Date	Details	$
Sept 30	Correction of error (cheque overstated)	90	Sept 30	Balance	3,400
30	Dividends: Red Ltd. (Direct Credit)	2,100	30	Bank Charges	100
30	Balance c/d	2,510	30	Insurance (standing order)	900
			30	Yellow (dishonoured cheque)	300
		4,700			4,700
			Oct 1	Balance b/d	2,510

(9 marks)

(ii)

Grenade
Bank Reconciliation Statement as at 30 September

	$
Overdraft as per cash book	(2,510)
Add: Unpresented cheques	5,200
	2,690
Less: Bank lodgments/deposits not credited	(8,000)
Overdraft as per bank statement	(5,310)

(4 marks)

(b) Two bank statement items which would be used to adjust the net income, if the net income was calculated before the bank statement was received are: Bank charges and Insurance. (Both items would increase expenses and cause net income to be reduced.)

(2 marks)

(c) Internal users of accounting information include: managers, employees and the board of directors. External users of accounting information include: financial (lending) institutions, creditors, government and potential investors.

(2 marks)

(d)

Situation	Accounting Concept/Principle Violated
A business owner pays the wage of his housekeeper and changes it to business expenses	Business Entity Concept (Business activities should be treated separately from the personal activities of owners)
A business owner plans to sell old equipment next year at a profit of $6,000 but he records that amount as profit in this year's income statement	Realisation Concept (Profits should only be recorded when they have occurred i.e. been realised)
Every year a business owner uses different methods to depreciate his non-current assets	Consistency Concept (The same accounting principles and conventions should be used from year to year in the preparation of accounts and financial statements)

(3 marks)

(Total 20 marks)

Section II

4

Items for the Manufacturing Account	Items for the Income Statement
• Raw materials at 1 January 2015 \$5,000 (NB This is opening stock of RM) • Purchases of raw materials \$112,000 • Factory workers' wages \$48,000 • Raw materials at 31 December 2015 \$90,000 (NB This is closing stock of raw materials) • License fee (12,900 sets × \$2 = \$25,800) (NB This is a direct cost and thus part of prime cost) • Depreciation on plant and machinery \$7,360 (Factory overhead) • Depreciation on fixtures and fittings (20% per annum using the straight line method) Rate × Cost/Book Value = 20% of \$27,500 = \$5,500 40% to Factory Overheads = 40% of \$5,500 = \$2,200 (Factory Overhead) • Repairs to fixtures and fittings 40% to Factory = 40% of \$4,000 = \$1,600 (Factory Overhead)	• Sales \$278,800 • Finished table and chair sets on hand at 1 January 2015 \$66,000 (NB This is opening stock of finished goods) • Office workers' wages \$35,000 • Finished table and chair sets on hand \$12,700 (NB This is closing stock of finished goods) • 60% of Depreciation on fixtures and fittings to Administration Costs = 60% of \$5,500 =\$3,300 • Repairs to fixtures and fittings 60% to Administration Costs = 60% of \$4,000 =\$2,400

(a)

Little People Furnishings
Manufacturing Account for the year ended 31 December 2015

Raw Materials	**$**	**$**
Opening stock of Raw Materials (01/01/15)		5,000
Add: Purchases		112,000
Cost of raw materials available for use		117,000
Less: Closing stock of raw materials (31/12/15)		(90,000)
Cost of raw materials used		27,000
Add: Direct labour (Factory workers' wages)		48,000
License fees (12,900 × $2)		25,800
Prime Cost		100,800
Factory Overheads		
Depreciation: Plant and Machinery	7,360	
Fixtures and Fittings (40% of (20% of $27,500))	2,200	
Repairs to fixtures and fittings (40% of $4,000)	1,600	
Total Factory Overheads		11,160
Production Cost of goods completed		111,960

(11 marks)

(b)

Little People Furnishings
Income Statement for the year ended 31 December 2015

	$	$
Sales		278,000
Less: Cost of goods sold		
Stock of finished goods (01/01/15)	66,000	
Add: Production cost of goods completed	111,960	
	177,960	
Less: Stock of finished goods (31/12/15)	(12,700)	(165,260)
Gross Income		112,740
Less: Administration Expenses		
Office workers' wages	35,000	
Depreciation: Fixtures and Fittings (60% of (20% of $27,500))	3,300	
Repairs to fixtures and fittings (60% of $4,000)	2,400	40,700
Net Income		72,040

(7 marks)

(c) Unit cost of production for the year
= Total cost of production ÷ Total units produced
= \$72,040 ÷ 12,900
= \$5.58/unit (i.e. per table and chair set)

(2 marks)

(Total 20 marks)

5 (a)

St. James Sports and Cultural Club
Statement of Affairs as at 1 July 2014

	Cost	Accumulated depreciation	NBV
	$	**$**	**$**
Fixed Assets			
Premises	150,000	30,000	120,000
Equipment	70,000	22,000	48,000
	220,000	52,000	168,000
Loans to members			3,100
Current Assets			
Inventories	1,300		
Periodicals and Magazines	4,200		
Subscriptions in arrears	2,500		
Bank	10,900		
Cash	700	19,600	
Less: **Current Liabilities**			
Creditors (Bar)	3,200		
Prepaid subscriptions	1,700		
Bank fees owing	700	(5,600)	
Working Capital			14,000
			185,100
Financed By:			
Accumulated Fund			185,100

(7 marks)

(b) Note:

- Balances at 1 July 2014 are opening balances
- Balances at 30 June 2015 are ending balances
- Subscriptions are a form of *revenue* to the club, so the following rules should be observed when preparing the subscriptions account:

(i) Subscriptions in *arrears* (accrued)
Shown as a *debit* balance brought forward/down
(therefore ending balances will be shown as a *credit* balance c/d first)

(ii) Subscriptions in *advance* (prepaid)
Shown as a *credit* balance brought forward/down
(therefore ending balances will be shown as a *debit* balance c/d first)

- The amount *due for the year* (i.e. the total annual subscription)
  = Number of members × Annual subscription
  = 320 × $100 = $32,000
- The double entry to transfer the amount due for the year to the Income and Expenditure account on 30 June 2015 is
  Debit: Subscriptions A/C
  Credit: Income and Expenditure A/C
- After entering all the above amounts, the difference between the two sides will give the *payments received* during the year. This is entered on the credit side on 30 June 2015.

Subscriptions Account for the year ended 30th June 2015

Date	Details	$	Date	Details	$
2014			2014		
July 1	Accrued Balance b/f	2,500	July 1	Prepaid Balance b/f	1,700
2015			2015		
Jun 30	Income and Expenditure	32,000	Jun 30	Bank/Cash	33,500
30	Prepaid Balance c/d	2,100	30	Accrued Balance c/d	1,400
		36,600			36,600
July 1	Accrued Balance b/d	1,400	July 1	Prepaid Balance b/d	2,100

(7 marks)

(c) Note:

- Purchases are 3.5 times the average inventory for the year
- Average inventory = (Opening inventory + Closing Inventory) ÷ 2
  = ($1,300 + $1,800) ÷ 2
  = $1,550
- Purchases = 3.5 × $1,550 = $5,425

Bar Trading Account for the year ended 30th June 2015

	$	$
Sales (Bar takings)		12,450
Less: Cost of goods sold		
Opening inventory	1,300	
Purchases: 3.5 × ((1,300 + 1,800) ÷ 2)	5,425	
	6,725	
Less: Closing inventory	(1,800)	(4,925)
Gross Profit		7,525
Less: Bar Expenses		(1,900)
Net Profit from bar		5,625

(6 marks)

(Total 20 marks)

6 **(a)** Features/Principles of Co-operatives include:

- Open Membership
- Democratic Control
- Limited interest on capital investments
- Patronage refund
- Continuous education
- Co-operation among co-operatives

(3 marks)

(b)

Items for the Appropriation Account

- Surplus for the year \$21,000
- Undistributed surplus b/f (at 1 January 2015) \$7,450
- Transfer to Statutory Reserve Fund (20% of \$21,000 = \$4,200)
- Transfer to Education Fund (10% of \$21,000 = \$2,100)
- Proposed Dividends = 5% of Members' Investment
  = 5% of \$165,000
  = \$8,250

Note: Members' Investment = Number of members × 10 shares × \$10/share = 1,650 × 10 × \$10 = \$165,000

Items for the Statement of Financial Position

- Cash in hand and at bank (Current Asset) \$12,050
- Accounts payable (Current Liability) \$1,600
- Investments in other co-operatives \$183,430
- Non-current (i.e. Fixed) assets at cost \$40,000
- Inventory of unsold goods (closing stock) \$800
- Accrued (unpaid) General Expenses \$554 (Current Liability)
- Interest due on investments (Accrued income) \$7,524
- Statutory Reserve Fund = Balance at 1 Jan 15 \$30,000 + New Transfer \$4,200 =\$34,200
- Education Fund = Balance at 1 Jan 15 \$18,200 + New Transfer \$2,100 = \$20,300
- Undistributed Surplus for the year (calculated in the Appropriation Account)

Delcer High School Co-operative
Appropriation Account for the year ended 31 December 2015

	$	$
Surplus		21,000
Add: Undistributed Surplus b/f		7,450
		28,450
Less: Appropriations		
Transfers to reserves		
Statutory Reserve Fund (20% of 21,000)	4,200	
Education Fund (10% of 21,000)	2,100	
Proposed Dividends (5% of 165,000)	8,250	(14,550)
Undistributed Surplus c/f to next year		13,900

(8 marks)

(c)

Delcer High School Co-operative
Statement of Financial Position as at 31 December 2015

Employment of Capital	$	$	$
Non-Current Assets at Cost			40,000
Investments			183,430
Current Assets			
Inventory	800		
Accrued revenue (interest)	7,524		
Bank & Cash	12,050	20,374	
Less: **Current Liabilities**			
Accounts payable	1,600		
Accrued expenses	554		
Proposed dividends	8,250	(10,404)	
Working Capital			9,970
			233,400
Financed By:			
Capital			
Share Capital			165,000
Reserves			
Statutory Reserve Fund (30,000 + 4,200)		34,200	
Education Fund (18,200 + 2,100)		20,300	
Undistributed Surplus		13,900	68,400
			233,400

(9 marks)

(Total 20 marks)

7 **(a)** To prepare the Payroll Form, note the following:

(i) Gross Income: given

(ii) Taxable Income = Gross Income – Non-taxable Income

- S. Darbeau = \$4,800 – \$2,500 = \$2,300
- E. Jacob = No taxable income as gross income of \$2,400 falls within the non-taxable income range of \$2,500
- R. Sharpe = \$8,000 – \$2,500 = \$5,500

(iii) Calculate income taxes using the appropriate tax rate

Name	**Tax (Tax Rate × Taxable Income)**
S. Darbeau	Taxable Income of \$2,300 falls in the range \$1 to \$2,500 (Tax Rate 0%) Tax = 0% of \$2,300 = \$0
E. Jacob	Taxable Income is \$0 therefore no tax is paid
R. Sharpe	Taxable Income of \$5,500 falls into three ranges: • Taxable Income from \$1 to \$2,500 taxed at 0% (\$0 Tax) • Taxable Income from \$2,501 to \$5,000 (\$2,500) taxed at 15% Tax = 0.15 × \$2,500 = \$375 • Taxable income from \$5,001 and over (\$500) taxed at 30% Tax = 0.3 × \$500 = \$150 Total Tax = \$0 + \$375 + \$150 = \$525

(iv) Income after tax = Gross Income – Income Tax

- S. Darbeau = \$4,800 – \$0 = \$4,800
- E. Jacob = \$2,400 – \$0 = \$2,400
- R. Sharpe = \$8,000 – \$525 = \$7,475

Name	Gross Income	Non-Taxable Income	Taxable Income	Applicable Tax Rate	Income Tax	Income After Tax
	\$	\$	\$		\$	\$
S. Darbeau	4,800	2,500	2,300	0%	0	4,800
E. Jacob	2,400	2,500	—	—	0	2,400
R. Sharpe	8,000	2,500	5,500	0%, 15% and 30%	525	7,475

(7 marks)

(b)

National Insurance = 5% of Gross Pay

- S. Darbeau = 5% of \$4,800 = \$240
- E. Jacob = 5% of \$2,400 = \$120
- R. Sharpe = 5% of \$8,000 = \$400

Health Insurance = 4% of Taxable Income

- S. Darbeau = 4% of $2,300 = $92
- E. Jacob = 4% of $0 = $0
- R. Sharpe = 4% of $5,500 = $220

Pension Contribution = 1% of Gross Pay

- S. Darbeau = 1% of $4,800 = $48
- E. Jacob = 1% of $2,400 = $24
- R. Sharpe = 1% of $8,000 = $80

Total Deductions = National Insurance + Health Insurance + Pension Contributions

- S. Darbeau = $240 + $92 + $48=$380
- E. Jacob = $120 + $0 + $24 = $144
- R. Sharpe = $400 + $220 + $80 = $700

Net Pay = Income After Tax – Total Deductions

- S. Darbeau = $4,800 – $380 = $4,420
- E. Jacob = $2,400 – $144 = $2,256
- R. Sharpe = $7,475 – $700 = $6,775

Name	Income After Tax	National Insurance	Health Insurance	Pension Contribution	Total Deduction	Net Pay
	$	$	$	$	$	$
S. Darbeau	4,800	240	92	48	380	4,420
E. Jacob	2,400	120	0	24	144	2,256
R. Sharpe	7,475	400	220	80	700	6,775

(8 marks)

(c) (i) Statutory deductions are deductions which must be made by law, from an employee's gross pay e.g. income tax. Non-statutory deductions are voluntary deductions from pay, which are made upon an employee's request e.g. trade union dues.

(2 marks)

(ii) Three source documents of the payroll are: time cards, time books and electronic clock cards.

(3 marks)

(Total 20 marks)