There are 10 parts to Question 1.

For each of the parts (a) to (j) below there are four possible answers A, B, C and D. Choose the one you consider correct and place a tick (✓) in the box to indicate the correct answer.

1 (a) Businesses use financial records to prepare financial statements (final accounts).

Which record is used in the preparation of the balance sheet?

A bank statement
B cash book
C purchases journal
D sales journal

(b) Which documents received by a business are used to write up the purchases returns journal?

A credit notes
B debit notes
C statements
D sales invoices

(c) A business keeps a petty cash book with an imprest amount of $300. During September the following transactions take place:

<table>
<thead>
<tr>
<th>Description</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>imprest restored on 1 September</td>
<td>100</td>
</tr>
<tr>
<td>petty cash drawn from bank on 15 September</td>
<td>150</td>
</tr>
<tr>
<td>expenses paid from petty cash</td>
<td>400</td>
</tr>
</tbody>
</table>

What amount will be required to restore the imprest on 30 September?

A $50
B $250
C $400
D $550
(d) Which error would not be revealed by a trial balance?

A completely omitting a transaction
B incorrectly balancing an account
C making only one entry for a transaction
D recording a transaction twice on the same side

(e) Which will be shown on a bank statement?

A cash paid into bank not yet credited
B cheque dishonoured
C cheque drawn not yet presented
D petty cash payment

(f) What is meant by the realisation concept?

A Revenue and profit should not be anticipated.
B Revenue is recognised as being earned when ownership of goods passes to the customer.
C Similar items should be accounted for in a similar way from one accounting period to the next.
D Transactions must be expressed in monetary terms.

(g) A business values its inventory (stock) of items X and Y. The following information is available.

<table>
<thead>
<tr>
<th>item</th>
<th>amount</th>
<th>cost price per unit</th>
<th>net realisable value per unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>300 units</td>
<td>$3</td>
<td>$4</td>
</tr>
<tr>
<td>Y</td>
<td>600 units</td>
<td>$6</td>
<td>$5</td>
</tr>
</tbody>
</table>

What is the total value of the inventory (stock)?

A $3900
B $4200
C $4500
D $4800
(h) What is the effect of not including intangible assets on the balance sheet?

A. overstate the value of the non-current (fixed) assets
B. overstate the value of the working capital
C. understate the value of the current assets
D. understate the total value of the assets [1]

(i) Which will appear in the income statement (profit and loss account) of a limited company?

A. debenture interest paid
B. preference share dividend paid
C. retained profit brought forward
D. transfer to general reserve [1]

(j) A trader does not keep proper accounting records. Her capital at the end of the financial year is higher than at the start. She has not introduced any further capital during the year.

What does this show?

A. A net loss has been made during the year. [1]
B. Annual drawings are greater than the net profit.
C. Assets less liabilities have reduced during the year.
D. Net profit is greater than annual drawings.
2  (a) Give two ratios used to measure the profitability of a business.

(i) .......................................................... ..........................................................

........................................................................................................................................

(ii) .............................................................................................................................. [2]

(b) In the table below, place a tick (✓) under the correct heading to show whether the item is a current asset or a current liability:

<table>
<thead>
<tr>
<th></th>
<th>Current asset</th>
<th>Current liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory (stock)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables (creditors)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables (prepayments)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[3]

c) In the table below, place a tick (✓) to show where an entry for a dishonoured cheque would be made in the cash book.

<table>
<thead>
<tr>
<th></th>
<th>Bank column</th>
<th>Cash column</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit side</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit side</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[1]

d) Name the final account in which discount allowed should be shown.

........................................................................................................................................ [1]

e) Imran buys a new machine but the cost is entered in the repairs account. Name the type of error which has been made.

........................................................................................................................................ [1]
(f) State which accounting principle is being followed when a business makes a provision for a doubtful debt.  

[1]

(g) Whangi’s business had credit purchases for the year ended 31 March 2010 of $45 500, and carriage inwards of $2500.

His inventory (stock) at 1 April 2009 was $4000 and at 31 March 2010 was $5600.

His trade payables (creditors) at 31 March 2010 were $3 750.

(i) Calculate his rate of inventory (stock) turnover. Give your answer to two decimal places. Show all your workings.

[4]

(ii) Calculate his payment period for trade payables (creditors) in days. Give your answer to the nearest whole day. Show all your workings.

[4]
(h) Hooper’s financial year ended on 31 March 2010. He paid wages for the year of $32,800.

He had wages outstanding as follows:

\[
\begin{array}{ll}
\text{at 1 April 2009} & 300 \\
\text{at 31 March 2010} & 450 \\
\end{array}
\]

Write up the wages account in his ledger for the year ended 31 March 2010. Show the amount transferred to the income statement (profit and loss account).

Hooper  
Wages account

[5]

[Total: 22]
Arthur and Nancy formed a partnership on 1 May 2009 to start a business selling furniture. Their partnership agreement states:

1. Interest on capital is to be allowed at 3% per annum.
2. Salary of $15 000 per annum is to be paid to Arthur.
3. Interest is to be charged on drawings at 4% per annum on total drawings.
4. Arthur and Nancy are to share the balance of profits or losses in the ratio 2:3.

The initial capital introduced on 1 May 2009 was:

<table>
<thead>
<tr>
<th></th>
<th>Arthur</th>
<th>$30 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nancy</td>
<td>$40 000</td>
<td></td>
</tr>
</tbody>
</table>

The partners’ drawings for the year ended 30 April 2010 were:

<table>
<thead>
<tr>
<th></th>
<th>Arthur</th>
<th>$35 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nancy</td>
<td>$15 000</td>
<td></td>
</tr>
</tbody>
</table>

The net profit of the partnership for the year ended 30 April 2010 was $89 000.

**REQUIRED**

(a) Calculate the interest on capital paid to each partner for the year ended 30 April 2010.

Show all your workings.

(i) Arthur

(ii) Nancy
(b) Calculate the interest on drawings charged to each partner for the year ended 30 April 2010.

Show all your workings.

(i) Arthur

......................................................................................................................................................... [2]

(ii) Nancy

......................................................................................................................................................... [2]

(c) Show how the balance of the net profit for the year ended 30 April 2010 was divided between Arthur and Nancy. Show all your workings.

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......................................................................................................................................................... [7]
(d) Write up Arthur’s current account for the year ended 30 April 2010.

Arthur
Current account

(e) Arthur thinks that the partners should reduce the rate of interest charged on their drawings.

Show, by placing a tick (✓) in the table below, the effect this would have on his total earnings from the partnership:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase</td>
<td></td>
</tr>
<tr>
<td>Reduce</td>
<td></td>
</tr>
<tr>
<td>Unchanged</td>
<td></td>
</tr>
</tbody>
</table>

[Total: 23]
The following summary list of balances was taken from the books of Deali, a sole trader, on 31 March 2010.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>$125,000</td>
</tr>
<tr>
<td>Inventory (stock)</td>
<td>$14,500</td>
</tr>
<tr>
<td>Ordinary goods purchased (Purchases)</td>
<td>$76,000</td>
</tr>
<tr>
<td>Bank (overdraft)</td>
<td>$2,300 Cr</td>
</tr>
<tr>
<td>Equipment</td>
<td>$9,000</td>
</tr>
<tr>
<td>Trade receivables (debtors)</td>
<td>$1,700</td>
</tr>
<tr>
<td>Trade payables (creditors)</td>
<td>$2,800</td>
</tr>
<tr>
<td>Expenses</td>
<td>$37,500</td>
</tr>
<tr>
<td>Capital</td>
<td>$15,500</td>
</tr>
<tr>
<td>Drawings</td>
<td>$8,000</td>
</tr>
</tbody>
</table>

**REQUIRED**

(a) Give one reason for preparing a trial balance.

........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................ [1]
(b) Prepare Deali’s trial balance at 31 March 2010.

Show any difference you find as a balance on a suspense account.

Deali
Trial Balance at 31 March 2010

After the trial balance had been prepared, it was found that an error had been made in the books of account. Sales of $1100 had been entered in the cash book but not posted to the ledger.

REQUIRED

(c) Show the journal entry, with narrative, to correct this error.

<table>
<thead>
<tr>
<th>Date</th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[11]

[5]
(d) Deali had inventory (stock) of $18 000 at 31 March 2010.

Assuming that the journal entry in part (c) has been posted, complete Deali’s summary income statement (trading and profit and loss account) for the year ended 31 March 2010.

Deali
Summary Income Statement (Trading and Profit and Loss Account)
for the year ended 31 March 2010

<table>
<thead>
<tr>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>(i)</td>
</tr>
<tr>
<td>Inventory (stock) at 1 April 2009</td>
<td>(ii)</td>
</tr>
<tr>
<td>Ordinary goods purchased (Purchases)</td>
<td>(iii)</td>
</tr>
<tr>
<td>Inventory (stock) at 31 March 2010</td>
<td>(iv)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(v)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>(vi)</td>
</tr>
<tr>
<td>Expenses</td>
<td>(vii)</td>
</tr>
<tr>
<td>Net profit</td>
<td>(viii)</td>
</tr>
</tbody>
</table>

[Total: 25]
5 (a) Explain what is meant by

(i) a bad debt

(ii) a provision for doubtful debts.

Umtali sells goods on credit and his terms are for settlement within 30 days.

At 31 March 2010 the total of his trade receivables (debtors) was $12 600 and included the following:

<table>
<thead>
<tr>
<th>Date</th>
<th>Customer</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 January 2010</td>
<td>Veeku</td>
<td>300.00</td>
</tr>
<tr>
<td>31 January 2010</td>
<td>Wlanda</td>
<td>550.00</td>
</tr>
</tbody>
</table>

At 31 March 2010 Umtali decided to:

1. write off the balances owed by Veeku and Wlanda as bad debts.
2. set up a provision for doubtful debts of 4% of the remaining balance of trade receivables (debtors). He had not previously made such a provision.

REQUIRED

(b) Show the journal entry to write off the bad debts. A narrative is not required.

<table>
<thead>
<tr>
<th>Date</th>
<th>Dr $</th>
<th>Cr $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[4]
(c) Calculate the amount of the provision for doubtful debts at 31 March 2010.

..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
.......................................................................................................................................................... [3]

(d) Show the journal entry to create the provision for doubtful debts. A narrative is not required.

<table>
<thead>
<tr>
<th></th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[4]

(e) Assuming that the journal entries in part (d) above are posted, write up the bad debts account and the provision for doubtful debts account in Umtali’s ledger below for the year ended 31 March 2010.

Show the transfer to the income statement (profit and loss account) and bring down any balances at 1 April 2010.

(i) 

Umtali
Bad debts account

..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
.......................................................................................................................................................... [2]

(ii) 

Umtali
Provision for doubtful debts account

..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
..........................................................................................................................................................
.......................................................................................................................................................... [2]
(f) On 15 April 2010, Veeku paid the outstanding amount on his account in full.

Write up the bad debts recovered account for the month of April 2010.

Umtali
Bad debts recovered account

[Total: 21]
6 Accounting statements can be used for decision-making purposes.

REQUIRED

(a) Give two examples of interested parties, other than the owner or shareholders, who may use accounting statements for decision-making purposes.

(i) .................................................................................................................................
(ii) ................................................................................................................................. [4]

(b) Selkirk Ltd decides to extend and improve their factory building. Show by placing a tick (✓) in the table below which items of expenditure should be treated as capital and which as revenue.

<table>
<thead>
<tr>
<th></th>
<th>Capital</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>New factory extension</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repainting old factory</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Architect’s fees for designing extension</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New plant and equipment for extension</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[4]

The cost of the new factory extension is $30 000 and the architect’s fees are 10% of this amount.

The cost of the new plant and equipment is $6000.

Selkirk Ltd decides to depreciate all the costs of the new factory extension on the straight line basis over its useful life of 20 years. The factory extension is not expected to have any residual value after this time.

The company decides to depreciate the new plant and equipment on the straight line basis over its useful life of four years. The plant is expected to have a residual value of $800 after that time.

REQUIRED

(c) (i) Calculate the depreciation charge for a full year for the new factory extension.

Show all your workings.

............................................................................................................................................ [4]
(ii) Calculate the depreciation change for a full year for the new plant and equipment.

........................................................................................................................................ [3]

(d) It is not usual to charge depreciation on land. Suggest two reasons why depreciation should not be charged on land.

(i) ........................................................................................................................................ [4]

(ii) ........................................................................................................................................ [4]

[Total: 19]