READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.
DO NOT WRITE IN ANY BARCODES.

Answer all questions.
You may use a calculator.

Where layouts are to be completed, you may not need all the lines for your answer.
The businesses mentioned in this Question Paper are fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

For Examiner's Use

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
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<tr>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
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</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This document consists of 18 printed pages and 2 blank pages.
Mai Wang is a sole trader who keeps a full set of double entry records including a three column cash book.

On 1 July 2011 Mai Wang had $250 cash in hand and a bank overdraft of $4500.

Mai Wang’s transactions for the month of July 2011 included the following:

July 2  Cash sales, $342, of which $300 was paid into the bank on that date

9    Received a cheque from Mark Fu in settlement of his account of $150 less 2% cash discount

15   Withdrew $500 from the bank for personal use

23   Paid Sally Tan $468 by cheque after deducting cash discount of 2½% cash discount

29   A cheque received in June for $330 from Mulyani Ltd was dishonoured and returned by the bank

30   Paid all the remaining cash into the bank except $100

REQUIRED

(a) Enter the above transactions in Mai Wang’s cash book on the page opposite.

Balance the cash book at 31 July and bring down the balances on 1 August 2011.

The cash book is printed on the next page.
<table>
<thead>
<tr>
<th>Bank</th>
<th>Details</th>
<th>Cash</th>
<th>Discount Allowed</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Mai Wang’s bank statement showed a debit balance of $4873 on 31 July 2011.

REQUIRED

(b) State the bank balance that should be shown in the balance sheet of Mai Wang at 31 July 2011. State whether it is an asset or a liability.

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

(c) Explain the meaning of each of the following terms.

(i) Bank reconciliation statement

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

(ii) Cheques not yet credited

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

(iii) Cheques not yet presented.

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

[Total: 18]
Question 2 is on the next page
The financial year of Kapiti Ltd ends on 31 August.

The following information is available.

<table>
<thead>
<tr>
<th>Issue share capital</th>
<th>80 000 5% preference shares of $1 each</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>400 000 ordinary shares of $0.50 each</td>
</tr>
<tr>
<td>1 September 2010</td>
<td>Retained profit</td>
</tr>
<tr>
<td></td>
<td>General reserve</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>90 000</td>
</tr>
<tr>
<td></td>
<td>88 000</td>
</tr>
</tbody>
</table>

During the year ended 31 August 2011 the company paid an interim dividend of $0.05 per share on the ordinary shares.

On 31 August 2011 it was decided to:

1. Pay the preference share dividend in full.
2. Transfer $25 000 to a general reserve.
3. Pay a final dividend of $0.10 per share on the ordinary shares.

The profit for the year ended 31 August 2011 before the preference share dividend was $174 000.

REQUIRED

(a) Calculate the profit for the year ended 31 August 2011 after taking into account the preference share dividend.

Show your workings.

(b) Prepare the profit and loss appropriation account of Kapiti Ltd for the year ended 31 August 2011

Start with the profit for the year after the preference share dividend you calculated in (a)
Kapiti Ltd
Profit and Loss Appropriation Account for the year ended 31 August 2011

(c) State the amount that would be shown for each of the following in the balance sheet of Kapiti Ltd at 31 August 2011.

(i) General reserve $ ...........................................
(ii) Retained profit $ ...........................................

(d) Explain whether the interim ordinary share dividend would appear in the balance sheet of Kapiti Ltd on 31 August 2011.
(e) Explain the meaning of the term “limited liability”.

Kapiti Ltd requires extra finance. It is considering increasing the total preference share capital to $100,000 by the issue of additional 5% preference shares of $1 each.

REQUIRED

(f) (i) State two features of preference shares.

1 .............................................................................................................................................

2 ............................................................................................................................................. [4]

(ii) State how much money the company could raise from the issue of preference shares.

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

(iii) State the amount of additional preference dividend which would have to be paid each year if the extra shares are issued.

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

(iv) State one way in which the issue of preference shares may affect the existing ordinary shareholders.

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

[Total: 27]
Ajit Singh is a trader. He maintains a full set of books of prime (original) entry and prepares a sales ledger control account and a purchases ledger control account at the end of each month.

REQUIRED

(a) State two advantages of preparing control accounts.

(i) 
(ii) [2]

(b) State one reason why it is possible to have a credit balance brought down on a sales ledger control account.

Ajit Singh provided the following information for the month of October 2011.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1 Debit balances in sales ledger</td>
<td>$15,940</td>
</tr>
<tr>
<td>October 31 Totals for the month</td>
<td></td>
</tr>
<tr>
<td>Credit sales</td>
<td>$14,820</td>
</tr>
<tr>
<td>Cash sales</td>
<td>$5,630</td>
</tr>
<tr>
<td>Cheques received from credit customers</td>
<td>$15,252</td>
</tr>
<tr>
<td>Cheques paid to credit suppliers</td>
<td>$17,670</td>
</tr>
<tr>
<td>Discounts allowed</td>
<td>$355</td>
</tr>
<tr>
<td>Discounts received</td>
<td>$298</td>
</tr>
<tr>
<td>Returns by credit customers</td>
<td>$1,280</td>
</tr>
<tr>
<td>Returns to credit suppliers</td>
<td>$996</td>
</tr>
<tr>
<td>Bad debts written off</td>
<td>$105</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>$680</td>
</tr>
<tr>
<td>Interest charged by credit supplier on overdue account</td>
<td>$15</td>
</tr>
<tr>
<td>Interest charged to credit customer on overdue account</td>
<td>$10</td>
</tr>
<tr>
<td>Contra entry</td>
<td>$485</td>
</tr>
<tr>
<td>November 1 Debit balances in sales ledger</td>
<td>?</td>
</tr>
<tr>
<td>Credit balances in sales ledger</td>
<td>$100</td>
</tr>
</tbody>
</table>
REQUIRED

(c) Select the relevant figures and prepare Ajit Singh’s sales ledger control account for the month of October 2011.

Where a traditional “T” account is used it should be balanced and the balances brought down on 1 November 2011.

Where a three column running balance account is used the balance column should be up-dated after each entry.

Ajit Singh
Sales ledger control account
Ajit Singh’s financial year ended on 31 October 2011. His sales for the year were as follows.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit sales</td>
<td>165,900</td>
</tr>
<tr>
<td>Cash sales</td>
<td>71,000</td>
</tr>
</tbody>
</table>

Ajit Singh allows his credit customers one month in which to pay their accounts.

**REQUIRED**

**(d)** Using the debit balance on 1 November on the sales ledger control account you prepared in (c) and the above information, calculate the collection period for trade receivables. Your answer should be rounded up to the next whole day.

Show your workings.

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

**(e)** State and explain whether you think that Ajit Singh will regard the collection period for trade receivables as satisfactory.

Will he be satisfied? ........................................................................................................................................

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

**(f)** State one possible advantage to Ajit Singh of being able to collect the trade receivables before the due date.

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

[Total: 21]
Ahmed El Din is a manufacturer of men’s suits. He purchases fabric from several suppliers which his workforce makes into suits for sale to wholesalers and large retailers.

Ahmed El Din’s financial year ends on 30 September.

He provided the following information.

At 1 October 2010 | At 30 September 2011
---|---
Inventory – raw materials | $17,300 | $19,400
  finished goods | $29,300 | $31,200
Work in progress | $9,200 | $10,400
Direct factory wages accrued | $2,300 | $2,750
Factory general expenses prepaid | -$ | $250

For the year ended 30 September 2011

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>858,000</td>
</tr>
<tr>
<td>Raw materials purchased</td>
<td>203,300</td>
</tr>
<tr>
<td>Direct factory wages</td>
<td>199,500</td>
</tr>
<tr>
<td>Indirect factory wages</td>
<td>42,600</td>
</tr>
<tr>
<td>Factory general expenses</td>
<td>122,400</td>
</tr>
</tbody>
</table>

Additional information on 30 September 2011:

1. On 1 October 2010 the factory machinery was valued at $132,500. Additional machinery costing $5,900 was purchased during the year. There were no sales of machinery during the year. On 30 September 2011 the factory machinery was valued at $124,000.

2. Inventories are valued at the lower of cost and net realisable value.

3. During the year ended 30 September 2011 Ahmed El Din took finished goods costing $900 for his own use. No entries have been made in the accounting records.

REQUICKED

(a) Prepare the manufacturing account of Ahmed El Din for the year ended 30 September 2011.
(b) Prepare the income statement of Ahmed El Din showing the calculation of his gross profit for the year ended 30 September 2011.

Ahmed El Din
Income Statement for the year ended 30 September 2011

(c) Explain how the prudence principle has been applied in the preparation of the manufacturing account. Give an example to illustrate your answer.

(d) Explain how the accruals (matching) principle has been applied in the preparation of the manufacturing account. Give an example to illustrate your answer.
(e) Explain how the business entity principle has been applied in the preparation of the income statement. Give an example to illustrate your answer.

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

[Total: 26]
5 Susan Morgan is a trader. Her financial year ends on 31 July. She provided the following information:

<table>
<thead>
<tr>
<th>ratio</th>
<th>Year ended 31 July 2010</th>
<th>Year ended 31 July 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>percentage of gross profit to sales</td>
<td>21%</td>
<td>25%</td>
</tr>
<tr>
<td>percentage of net profit to sales</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**REQUIRED**

(a) Suggest two reasons for the increase in the percentage of gross profit to sales.

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

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

(ii) ..........................................................................................................

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

(b) Suggest two reasons for the increase in the percentage of net profit to sales.

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

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

(ii) ..........................................................................................................

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

(c) Using the information in the table above, calculate the percentage of expenses to sales for each year. Show your workings.

(i) Year ended 31 July 2010

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

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

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

(ii) Year ended 31 July 2011

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

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

........................................................................................................... [1]
(d) Explain how the change in the percentage of expenses to sales has affected the efficiency of the business.

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

Susan Morgan provided the following information at 31 July 2011.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>$4500</td>
</tr>
<tr>
<td>Trade payables</td>
<td>$5600</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>$3800</td>
</tr>
<tr>
<td>Petty cash</td>
<td>$50</td>
</tr>
<tr>
<td>Balance at bank</td>
<td>$1000</td>
</tr>
</tbody>
</table>

REQUIRED

(e) Calculate Susan Morgan’s current ratio. The calculation should be correct to two decimal places.

Show your workings.

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

(f) Calculate Susan Morgan’s quick ratio. The calculation should be correct to two decimal places.

Show your workings.

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

(g) Susan Morgan’s quick ratio at 31 July 2010 was 1.05:1.

State and explain whether you think that Susan Morgan will be satisfied with the change in the quick ratio.

Will she be satisfied?.........................................................................................................................

Explanation........................................................................................................................................[3]
(h) Explain why it is important for Susan Morgan to have an adequate amount of working capital.

(i) State and explain the effect of each of the following transactions on Susan Morgan’s working capital.

The first one has been completed as an example.

(i) Susan Morgan paid $10 000 additional capital into the business bank account.

**Effect**

Working capital increases by $10 000

**Explanation**

The current assets increase by $10 000 as the bank balance increases. There is no change in the current liabilities.

(ii) Payment of $20 from petty cash for office expenses.

**Effect**


**Explanation**

[2]

(iii) Payment of $240 by cheque to Jones, a creditor, in full settlement of $250 owing.

**Effect**


**Explanation**

[2]

(iv) Receipt of $230 in cash from the sale of goods (cost price $270).

**Effect**


**Explanation**

[2]
(j) State **one** reason why **each** of the following business people are interested in Susan Morgan’s financial statements.

(i) Bank manager

(ii) Employee

(iii) Supplier of goods on credit

(iv) Potential purchaser of the business.

[Total: 28]