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Accounting Ratios

Important Formulas:

-> Sales - Cost of sales = Gross profit

or

Sale = Cost of Sales + Gross profit

or

Cost of sales = Sales - Gross profit

-> Cost of Sales = Opening inventory + Purchases - Closing inventory

-> Gross profit - Expenses = Net profit

or

Gross profit = Expenses + Net profit

or

Expenses = Gross profit - Net profit

Ratios are prepared in order to analyse and interpret the final accounts of a business in order to assess its performance and progress. There are three types of ratios:

1. Profitability Ratios
2. Liquidity Ratios
3. Efficiency Ratios

Profitability Ratios:

Profit Mark-up refers to Profit as a percentage of Cost of Sales. Gross Profit Mark-up expresses Gross Profit as a percentage of Cost of Sales, whereas Net Profit Mark-up refers to Net Profit as a percentage of Cost of Sales.

Profit Margin refers to Profit as a percentage of Sales. Gross Profit Margin expresses Gross Profit as a percentage of Sales, whereas Net Profit Margin refers to Net Profit as a percentage of Sales.

Profitability Ratios	Formula
• Gross Profit Margin	$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$
• Net Profit Margin	$\frac{\text{Net Profit}}{\text{Sales}} \times 100$
• Net Profit Mark-up	$\frac{\text{Net Profit}}{\text{Cost of Sales}} \times 100$
• Gross Profit Mark-up	$\frac{\text{Gross Profit}}{\text{Cost of Sales}} \times 100$

Liquidity Ratios:

These ratios are used to check whether the business will be able to pay its debts urgently if the need arises and will not go bankrupt. It tests how much liquid, that is solvent the business is.

Liquidity Ratios	Formula
• Working Capital	Current Assets – Current Liabilities
• Current Ratio	$\frac{\text{Current Asset}}{\text{Current Liability}}$
• Acid Test Ratio	$\frac{\text{Current Asset} - \text{Inventory}}{\text{Current Liability}}$

-Current Ratio: This expresses the liquidity of the business. The ideal Current Ratio falls between 1:1.5 and 1:2. Lower than 1:1.5, the business is thought to be in a position to face insolvency.

-Acid Test Ratio: This is a much better check on liquidity as it excludes inventory from Current Assets. This is done due to the reason that inventory takes time to be sold and therefore, might not be that much liquid. The ideal ration lies between 1:1 and 1:1.5.

Efficiency Ratios:

These ratios are used to check how efficient the business is in employing its resources and using its investment in order to make a gain.

Efficiency Ratios	Formula
• Return on Capital Employed	$\frac{\text{Profit}}{\text{Capital Employed}} \times 100$
• Inventory Turnover	$\frac{\text{Cost of Sales}}{\text{Average Inventory}}$

Capital Employed = Total Asset - Current Liability or Non Current Liability + Capital

Average Inventory = (Opening Inventory + Closing Inventory) / 2

May/June 2015 – 22

- 4 Xever provided the following information for the year ended 31 March 2015.

	\$
Capital	40 000
Bank loan (repayable 1 Jan 2020)	10 000
Inventory 1 April 2014	15 000
Inventory 31 March 2015	35 000
Cost of sales	125 000
Trade receivables	25 000
Trade payables	70 000
Bank overdraft	30 000
Mark up 20%	
Profit margin (profit for the year to revenue)	5%

REQUIRED

- (a) Calculate the following for the year ended 31 March 2015.

(i) Revenue [2]

(ii) Purchases [2]

(iii) Expenses for the year [2]

- (b) Calculate the following ratios, correct to **two** decimal places. The previous year's ratios are shown in the last column.

	Workings	31 March 2015	31 March 2014
Gross profit margin (gross profit to revenue)			25.61%
Return on capital employed (ROCE)			12.00%
Rate of turnover of inventory			2.82 times
Quick ratio (acid test ratio)			0.91:1

- (c) Comment on the changes to Xever's business over the two years under the following headings.

(i) Profitability [3]

(ii) Liquidity [3]

[Total: 20]

May/June 2015 – 21

- 4 John provided the following information for the year ended 31 March 2015.

	\$
Revenue	900 000
Inventory 1 April 2014	65 000
Inventory 31 March 2015	35 000
Expenses	105 000
Owner's capital	300 000
Long term loan	150 000
Mark up	20%

REQUIRED

- (a) Calculate for the year ended 31 March 2015:

- (i) Cost of goods sold [2]
- (ii) Profit for the year [2]

- (b) Calculate the following ratios.

	Workings	31 March 2015	31 March 2014
Profit margin (profit for the year to revenue)			5%
Rate of inventory Turnover			7 times
Return on capital employed (ROCE)			4%

- (c) Give **two** comments on the performance of John's business over the two years. [6]

Oct/Nov 2014 – 22

- 4 The following information relates to the business of Lili.

	\$
Revenue	200 000
Inventory 1 October 2013	15 500
Inventory 30 September 2014	24 500
Rate of inventory turnover	8 times
Net profit/sales	7%

REQUIRED

- (a) Calculate the following.

	Workings	Answer
cost of sales		
purchases		
percentage gross profit to sales		
expenses		
profit for the year		

[14]

Lili's inventory of \$24 500 needs to be adjusted for the following.

- 1 5 items costing \$10 each had been omitted from the inventory.
- 2 10 items costing \$25 each were damaged and could only be sold for \$15 each.
- 3 4 items were included in the inventory at the list price of \$300 each, having been marked up by 50%.
- 4 1 item costing \$20 was recorded in error in the inventory as \$200.

REQUIRED

(b) Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

Adjustment	Effect on inventory value		Value \$
	increase	decrease	
1	✓		50
2			
3			
4			

[6]

[Total: 20]

Oct/Nov 2014 – 21

4 Lai Yee provided the following information.

	\$
Profit from operations (before bank loan interest)	36 000
Capital	200 000
Trade payables	50 000
Trade receivables	45 000
8% Bank loan (repayable 2024)	100 000
Bank	60 000 Dr
Closing inventory	75 000
Cost of sales	480 000
Revenue	600 000

REQUIRED

(a) Calculate to **one** decimal place: [12]

Ratio	Workings	Answer
Percentage gross profit/sales		
Percentage net profit/sales		
Return on capital employed (ROCE)		
Working capital ratio (Current ratio)		

(b) Comment upon the sufficiency of the working capital ratio (current ratio).

.....

 [2]

Lai Yee is considering ways in which she might improve her return on capital employed (ROCE). She is considering the following proposals.

- 1 Introduce additional capital of \$10 000.
- 2 Repay half of the 8% bank loan.
- 3 Sell \$20 000 non-current assets, saving \$3000 in depreciation.
- 4 Convert \$25 000 of the 8% bank loan into a bank overdraft at 12% interest per annum.

REQUIRED

(c) Complete the following table, by placing a tick (✓) in the appropriate box, to show the effect on the profit for the year and the capital employed. The first item has been completed as an example.

Proposals	Profit for the year			Capital employed		
	increase	decrease	no effect	increase	decrease	no effect
1			✓	✓		
2						
3						
4						

[6]

Lai Yee is also considering improving her profit for the year by:

- 1 revaluing her business premises to the market value of \$120 000 (cost \$100 000)
- 2 removing the provision for doubtful debts.

REQUIRED

(d) Name which accounting concept would not be complied with if Lai Yee implemented her proposals.

Proposal 1

Proposal 2 [2]

[Total: 22]

May/June 2014 – 22

- 4 Najla provided the following information for the year ended 31 March 2014.

	\$
Revenue	168 000
Inventory 1 April 2013	20 000
Inventory 31 March 2014	16 000
Purchases	122 000
Trade receivables	24 500
Trade payables	35 000
Capital	100 000
Bank	1 500 Dr

REQUIRED

- (a) Calculate the:

Cost of goods sold

Gross profit/sales percentage

Rate of inventory turnover

Working capital ratio (current ratio)

[10]

In the previous year, ended 31 March 2013, Najla calculated the following ratios:

Gross profit /sales percentage	20%
Rate of inventory turnover	6 times
Working capital ratio (current ratio)	1.7:1

REQUIRED

- (b) Comment upon the performance of Najla under the following headings, using the information above and your answer in (a).

Controlling inventory

Ability to pay trade payables

[4]

- (c) Suggest **two** possible reasons for the change in gross profit/sales percentage.

[4]

Najla is considering the following proposals to improve his working capital.

- 1 Sell obsolete inventory costing \$1000 for cash \$500.
- 2 Sell non-current assets for \$3000 cash.
- 3 Allow trade receivables to pay debts of \$4000 less 5% cash discount.
- 4 Bring \$5000 additional capital into the business: Motor vehicle \$3000 and cash \$2000.

REQUIRED

(d) Complete the following table showing the changes to working capital. The first proposal has been completed as an example.

Proposals	Working capital		Amount of change (\$)
	increase	decrease	
1		✓	\$500
2			
3			
4			

[6]
[Total: 22]

May/June 2014 – 21

4 Demetris is a trader, buying and selling goods on credit. The following information was available on 31 March 2014.

	\$
Revenue	300 000
Inventory 31 March 2014	50 000
Purchases	170 000
Capital	100 000
Bank	5 000 Dr
Trade payables	60 000
Trade receivables	11 000
Gross profit/sales	20%

REQUIRED

- (a) Calculate the:
- (i) Cost of goods sold. [2]
 - (ii) Inventory at 1 April 2013. [3]
- (b) Suggest **two** possible effects of holding too much inventory. [2]
- (c) Calculate, to **two** decimal places, the:
- (i) Working capital ratio (current ratio) [3]
 - (ii) Quick ratio (acid test ratio) [3]
- (d) Comment upon the sufficiency of the working capital ratio (current ratio). [2]

During the year ended 31 March 2014, Demetris took the following actions.

- 1 Repaid a \$40 000 long term bank loan.
- 2 Purchased \$20 000 of non-current assets on credit.
- 3 Sold inventory for \$20 000 on credit (cost \$15 000).

REQUIRED

- (e) Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio) for each of the actions **1 to 3** above. The first item has been completed as an example.

	Current assets	Current liabilities	Working capital ratio (current ratio)
1 Repaid a \$40 000 long term bank loan.	<i>Decreased \$40 000</i>	<i>No effect</i>	<i>Decreased</i>
2 Purchased \$20 000 of non-current assets on credit.			
3 Sold inventory for \$20 000 on credit (cost \$15 000).			

[6]
[Total: 21]

May/June 2013 – 22

- 4 Baljit provided the following information for the year ended 30 April 2013.

	\$
Inventory 1 May 2012	14 841
Inventory 30 April 2013	21 159
Cost of goods sold	90 000
Administration expenses	4 890
Selling expenses	7 485
Capital employed 1 May 2012	101 250
Mark up	25%

REQUIRED

- (a) Calculate for the year ended 30 April 2013:

- (i) Sales [2]
- (ii) Purchases [2]
- (iii) Profit for the year [2]

- (b) Calculate the following ratios. Comparative figures for the previous year are shown in the last column.

	Workings	30 April 2013	30 April 2012
Gross profit margin (gross profit to sales)			25%
Net profit margin (net profit to sales)			11%
Rate of inventory turnover			8 times / 45.6 days
Return on capital employed (ROCE)			12%

[8]

(c) Give **two** comments on the performance of Baljit's business over the two years. [6]

(d) Suggest **three** actions Baljit may take to improve her rate of inventory turnover. [6]

[Total: 26]

May/June 2013 – 21

2 Tay supplied the following information for year ended 30 April:

1	2013	
		\$
	Revenue	60 000
	Cost of sales	48 000
2	2012	
	Revenue	58 000
	Gross profit to sales ratio	33.3%

REQUIRED

(c) Calculate Tay's gross profit to sales ratio for the year ended 30 April 2013. [2]

(d) Compare the gross profit to sales ratio in 2012 with your answer in (c) and suggest **three** possible causes for any changes that may have taken place. [6]

(e) Make **two** suggestions on how Tay may use the gross profit to sales ratio. [4]

[Total: 12]

- 3 The following balances were extracted from the books of Alex Penn on 31 March 2013.

	\$
Equipment (net book value)	40 000
Delivery vans (net book value)	22 000
Inventory	10 670
Trade receivables	11 200
Other receivables	4 130
Bank overdraft	4 200
Trade payables	8 800
6% Bank loan (repayable 23 May 2016)	15 000
Capital 31 March 2013	70 000
Drawings	10 000

During the year Penn had purchased non-current assets to the value of \$20 000.

REQUIRED

- (a) Calculate the working capital. [2]
- (b) Calculate the following to two decimal places:
- (i) Working capital ratio (current ratio) [2]
- (ii) Quick ratio (acid test ratio) [2]

For the year ended 31 March 2012 Penn's working capital ratio (current ratio) was 3:1 and his quick ratio (acid test ratio) was 1:1.

- (c) Suggest **three** reasons why Penn's liquidity position may have changed. [6]
- (d) Suggest **two** courses of action Penn could take to improve his liquidity. [6]

[Total: 18]

Oct/Nov 2012 – 22

- 4 Chow is in business buying and selling goods on credit. The following information was available:

	\$
Cost of sales	320 000
Inventory at 1 October 2011	25 000
Inventory at 30 September 2012	65 000
Expenses	60 000
Trade receivables	70 000
Trade payables	75 000
Bank overdraft	15 000
Mark up	25%

REQUIRED

- (a) Calculate the following for the year ended 30 September 2012.
- | | |
|---|-----|
| (i) Profit for the year | [3] |
| (ii) Rate of turnover of inventory | [3] |
| (iii) Gross profit to sales percentage | [3] |
| (iv) Net profit to sales percentage | [3] |
| (v) Working capital ratio (current ratio) | [3] |
- (b) Chow's rate of turnover of inventory last year was 4 times. Suggest **two** possible reasons for any change between the years. [2]
- (c) Comment upon Chow's working capital ratio (current ratio) at 30 September 2012. [2]
- (d) Suggest **one** way in which Chow could improve his liquidity. [1]
- [Total: 20]**

May/June 2012

- 4 Jones is a trader, buying and selling goods on credit. The following balances were available on 30 April 2012.

	\$
Capital	350 000
Revenue	200 000
Expenses	40 000
Inventory 30 April 2012	25 000
Trade payables	50 000
Trade receivables	47 000
Bank overdraft	10 000
 Net profit/sales	 15%

REQUIRED

- (a) Calculate the cost of sales. Show your workings. {5}
- (b) Calculate, to two decimal places, the following ratios: {3}
- | | |
|--|-----|
| (i) Percentage net profit/capital | |
| (ii) Working capital ratio (current ratio) | [3] |
| (iii) Quick ratio (acid test) | [3] |

Jones has been considering how he might improve his working capital ratio (current ratio). The following proposals have been made.

- 1 Obtain a long term loan from the bank, \$5000.
- 2 Pay half the trade payables in exchange for a cash discount of 4%.
- 3 Sell non-current assets with a net book value of \$12 000 for \$8000.

REQUIRED

(c) Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio). The first item has been completed as an example.

	Current assets	Current liabilities	Working capital ratio (current ratio)
1	+\$5 000	No effect	Increase
2			
3			

[6]

[Total: 20]

Oct/Nov 2011

4 The following information was extracted from the books of Anika.

	\$
Revenue (sales) for the year ended 30 September 2011	80 000
Purchases for the year ended 30 September 2011	58 000
Inventory at 1 October 2010	6 000
Inventory at 30 September 2011	8 000
Bank overdraft at 30 September 2011	2 000
Trade payables at 30 September 2011	14 000
Trade receivables at 30 September 2011	16 000

REQUIRED

(a) Calculate the following:

(i) cost of sales [3]

(ii) rate of inventory turnover. [3]

(b) (i) Calculate the gross profit/ sales percentage. [3]

(ii) Anika's gross profit/sales percentage for the year ended 30 September 2010 was 40%.

Suggest **two** possible reasons for the change in the gross profit/sales percentage between 30 September 2010 and 30 September 2011. [2]

- (c) Calculate the working capital (current) ratio correct to **one** decimal place. [3]

Anika is considering taking the following actions to improve her working capital.

- 1 Obtain a long-term loan of \$10000.
- 2 Hold a sale of 'slow moving' inventory with an original cost of \$4000, the sale to raise \$3200 in cash.
- 3 Purchase non-current assets of \$8000 and additional inventory of \$2000.
- 4 Pay accounts payable of \$5000, taking a cash discount of 4%.

REQUIRED

- (d) Complete the following table showing the changes to working capital. The first transaction has been completed as an example.

Action	Working capital (Increase, decrease, unchanged)	Amount of change (\$)
1 Obtain a long term loan, \$10000.	<i>Increased</i>	<i>\$10,000</i>
2 Sale of inventory (cost \$4000) for \$3200 cash.		
3 Purchase non-current assets \$8000 and inventory \$2000, on credit.		
4 Pay accounts payable, \$5000, taking cash discount of 4%.		

[6]

[Total: 20]

May/June 2011

- 4 Mary is in business buying and selling goods on credit. The following information was available at 30 April 2011.

	\$
Inventory 1 May 2010	5 500
Inventory 30 April 2011	7 500
Capital 30 April 2011	75 000
Operating expenses for the year	23 500
Purchases for the year	72 000
Mark up	50%

REQUIRED

- (a) Calculate for the year ended 30 April 2011:
- (i) Revenue (sales) [3]
 - (ii) Rate of inventory turnover (correct to **one** decimal place) [3]
 - (iii) Profit for the year (net profit) [2]
 - (iv) Percentage net profit /revenue (correct to **one** decimal place) [3]
 - (v) Percentage net profit / capital (correct to **one** decimal place). [3]
- (b) Explain why businesses with a high rate of inventory turnover often have a low percentage net profit to revenue. [2]

(c) Mary is considering ways in which she might increase her rate of inventory turnover.

For each of the options below, place a (✓) to indicate whether the option would increase or decrease the rate of inventory turnover.

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.		
(ii) Increase the inventory by \$20 000.		
(iii) Raise selling prices by 10%.		

[3]
[Total: 19]

Oct/Nov 2010

4 Windy Ltd is in business buying and selling goods on credit. The following balances were taken from the books of Windy Ltd.

	Year ended 30 September 2009	Year ended 30 September 2010
	\$	\$
Non-current (fixed) assets	80 000	200 000
Inventory (stock)	55 000	60 000
Trade receivables (debtors)	50 000	90 000
Trade payables (creditors)	30 000	75 000
Amount due in more than one year (long-term loan)	-	50 000
Bank	15 000	-
Bank overdraft	-	45 000

REQUIRED

(a) Calculate the following. Give your answers to two decimal places. Show your workings.

(i) Current ratio at 30 September 2009

Current ratio at 30 September 2010 [4]

(ii) Quick (acid test) ratio at 30 September 2009

Quick (acid test) ratio at 30 September 2010 [4]

- (b) Suggest one reason for the change in liquidity between 30 September 2009 and 30 September 2010. [2]
- (c) Suggest four actions which Windy Ltd might take to improve its bank balance. [8]
[Total: 18]

May/June 2010 – 22

- 4 Paula Lim supplied the following information relating to her financial year ended 30 April 2010.

	\$
Revenue (sales)	250 000
Inventory (stock) 1 May 2009	10 000
Inventory (stock) 30 April 2010	25 000
Gross profit to sales	40%
Profit for the year (net profit) to sales	8%

REQUIRED

Calculate the following for the year ended 30 April 2010. Show **all** your workings.

- (a) Cost of sales [3]
- (b) Raw materials (purchases) [4]
- (c) Expenses [3]
- (d) Rate of inventory (rate of stock) turnover [3]

[Total: 13]

May/June 2010 – 21

- 4 Zaynah is in business buying and selling goods on credit. The following balances were extracted from her books on 30 April 2010.

	\$
Revenue (Sales)	200 000
Cost of sales	130 000
Expenses	65 000
Inventory (stock) 1 May 2009	20 000
Inventory (stock) 30 April 2010	60 000
Trade receivables (debtors)	16 000
Trade payables (creditors)	35 000
Loans repayable within 12 months (Bank overdraft)	5 000
Closing capital	100 000

REQUIRED

- (a) Calculate, to **one** decimal place, the following ratios for the year ended 30 April 2010. Clearly show **all** workings.

(i) Gross profit to revenue (sales) percentage [3]

(ii) Working capital ratio (current ratio) [3]

(iii) Quick ratio (acid test) [4]

(iv) Profit for the year (net profit) to capital percentage [4]

- (b) Comment on the following ratios at 30 April 2010: [2]

(i) Quick ratio (acid test)

(ii) Profit for the year (net profit) to capital percentage. [2]

In the previous year, ended 30 April 2009, the business of Zaynah achieved the following ratios:

Gross profit to revenue (sales) percentage	50%
Working capital ratio (current ratio)	1.7:1

REQUIRED

- (c) Suggest **one** possible reason for the change over the year ended 30 April 2010 in the:

(i) gross profit to sales percentage; [2]

(ii) working capital ratio (current ratio). [2]

[Total: 22]

Sole Trader

Format for Income Statement:

Gravity Institute			
Income Statement			
For the year ended, 31 Dec _____.			
	\$	\$	\$
Revenue (Sales)		XXX	
Less: Return Inwards		<u>(XX)</u>	XXX
Less: Cost of Sales			
Opening Inventory		XX	
Add: Purchases		XX	
Less: Return Outwards		(X)	
Add: Carriage Inwards		<u>XX</u>	
		XXX	
Less: Closing Inventory		<u>(XX)</u>	<u>(XXX)</u>
Gross Profit			XXX
Add: Other Income			
Discount Received		XX	
Gain on disposal		XX	
Decrease in Provision for Doubtful Debts		<u>XX</u>	<u>XX</u>
			XXX
Less: Expenses			
Carriage Outward			
Provision for Depreciation		XX	
Bad Debts		XX	
Bank Interest		XX	
Increase in Provision for Doubtful Debts		X	
Loss on Disposal		<u>X</u>	<u>(XX)</u>
Net Profit/Loss			<u>XXX</u>

Format for Statement of Financial Position:

Gravity Institute			
Statement of Financial Position			
As at 31 Dec _____.			
	\$	\$	\$
Non-Current Assets:			
Building		XXX	
Less: Aggregate Depreciation		(XX)	XXX
Equipment		XXX	
Less: Aggregate Depreciation		(XX)	XXX
			XXX
Current Assets:			
Inventory		XXX	
Trade Receivable	XX		
Less: Provision for Doubtful Debts	(X)	XX	
Other receivable		XX	
Cash		XX	
Bank		XX	<u>XXX</u>
			XXX
Capital & Liabilities:			
Capital at start			XX
Add: Net Profit			<u>XX</u>
			XX
Less: Drawings			(XX)
Capital at end			XX
Non current Liability			
Bank Loan			XX
Current Liability			
Trade Payables		XX	
Bank overdraft		XX	
Others payable		XX	<u>XX</u>
			<u>XX</u>

May/June 2014 – 22

- 5 Franco is in business as a sole trader. The following balances were extracted from his books on 31 January 2014.

	\$
Land and buildings (cost)	150 000
Fixtures and fittings (cost)	30 000
Computer equipment (cost)	70 000
Provisions for depreciation:	
Land and buildings	20 000
Fixtures and fittings	13 500
Computer equipment	34 000
Disposal account	500 Cr
8% Bank loan (repayable 30 April 2020)	100 000
Bank	17 430 Dr
Trade receivables	45 000
Trade payables	37 650
Provision for doubtful debts	1 400
Revenue	362 500
Purchases	172 400
Returns inwards	7 200
Returns outwards	8 800
Inventory at 1 February 2013	17 970
Distribution expenses	16 300
Insurance	5 900
Light and heat	7 850
Wages and salaries	69 500
Marketing expenses	31 000
General expenses	9 200
Commission received	11 400
Drawings	20 000
Capital	80 000

Additional information at 31 January 2014

- 1 Inventory was valued at \$15 600.
- 2 Wages and salaries includes \$15 000 drawings by Franco.
- 3 Marketing expenses, \$6 750, were prepaid.
- 4 No interest had been paid on the bank loan.
- 5 Computer equipment costing \$8 000 was purchased by cheque on 25 January 2014. No entries had been made in the books.
- 6 Depreciation policy is as follows:
 - (i) The buildings are depreciated at the rate of 2% per annum using the straight line method. Land and buildings consists of land, cost \$50 000, and buildings, cost \$100 000. No depreciation is charged on the land.
 - (ii) Fixtures and fittings at the rate of 15% per annum using the straight line method.

(iii) Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

7 Trade receivables, \$3000, were considered irrecoverable. A provision for doubtful debts of 5% is to be maintained.

REQUIRED

(a) Prepare the income statement for the year ended 31 January 2014.

(b) Prepare the statement of financial position at 31 January 2014.

[16]

[Total: 40]

May/June 2013 – 22

5 The following balances were extracted from the books of Patricia Chin on 31 March 2013.

	\$
Premises	67 000
Fixtures and fittings (cost)	20 000
Motor vehicle (cost)	18 000
Provisions for depreciation:	
Premises	2 680
Fixtures and fittings	9 600
Motor vehicle	11 520
Revenue	119 140
Purchases	60 200
Purchases returns	2 900
Inventory at 1 April 2012	5 430
Wages	20 960
General expenses	9 100
Insurance	12 600
Motor vehicle expenses	5 670
Discount allowed	1 428
Discount received	884
Trade receivables	7 546
Trade payables	4 920
Provision for doubtful debts	800
Bank overdraft	2 330
7% Bank loan (repayable 30 June 2018)	30 000
Capital	56 000
Drawings	12 840

Additional information

- 1 Inventory at 31 March 2013 was valued at \$4200.
- 2 Insurance relates to a period of fourteen months to 31 May 2013.
- 3 A motor vehicle repair bill \$225 was owing at 31 March 2013.
- 4 Bad debts of \$246 are to be written off.
- 5 During the year Patricia took \$800 from the bank for personal use.
No record of this was made in the books.
- 6 A purchase of fixtures and fittings during the year, \$2000, had been recorded in the general expenses account.

- 7 Premises are depreciated at 2% per annum on cost.
Fixtures and fittings are depreciated at 8% per annum on cost.
Motor vehicles are depreciated at 20% per annum using the diminishing (reducing) balance method.
- 8 The provision for doubtful debts is to be maintained at 6% of trade receivables.

REQUIRED

- (a) Prepare the income statement for the year ended 31 March 2013. [20]
- (b) Prepare the balance sheet (statement of financial position) at 31 March 2013. [20]

[Total: 40]

Oct/Nov 2011 – 22

- 5 Jasmine is a retailer of fashion goods. The following balances were extracted from her books on 30 September 2011.

	\$
Revenue (sales)	210 000
Purchases	113 500
Goods returned by customers	8 120
Goods returned to suppliers	3 400
Inventory at 1 October 2010	9 430
Carriage	1 700
Insurance	5 600
Light and heat	6 300
Staff wages	27 000
Advertising	10 600
General expenses	15 850
Discount received	1 750
Building costs	20 100
Land and buildings at cost	100 000
Fixtures and fittings at cost	18 000
Computer equipment at cost	12 000
Provisions for depreciation:	
Fixtures and fittings	7 200
Computer equipment	3 600
Disposal account	200 Cr
7% Bank loan repayable 30 March 2014	20 000
Bank overdraft	18 500
Trade receivables	8 200
Trade payables	26 750
Provision for doubtful debts	500
Drawings	15 500
Capital at 1 October 2010	80 000

Additional information:

- 1 Inventory at 30 September 2011 was valued at \$11 780.
- 2 The cost of carriage from suppliers was \$500, the remainder of the cost related to the delivery of goods to customers.
- 3 At 30 September 2011:
 - Heating expenses, \$375, were accrued.
 - Insurance, \$1 120, is prepaid.
- 4 The 7% bank loan was received on 1 April 2011. Interest is payable on each anniversary of the loan.
- 5 Buildings costs consists of \$16 000 to build an extension to the building and \$4 100 to repair the heating system.
- 6 Depreciation is charged on:
 - Fixtures and fittings at the rate of 20% per annum on cost using the straight line method.

Computer equipment at the rate of 30% per annum using the diminishing (reducing) balance method.

7 A provision for doubtful debts is to be maintained at 5% of trade receivables.

REQUIRED

(a) Prepare the income statement for Jasmine for the year ended 30 September 2011. [24]

(b) Prepare the balance sheet of Jasmine at 30 September 2011. [16]

[Total: 40]

Oct/Nov 2010

5 The following balances were extracted from the books of Doji, a trader, on 30 September 2010:

	\$
Ordinary goods purchased (purchases)	70 000
Carriage inwards	3 000
Revenue (sales)	155 000
Sales returns	9 500
Non current (fixed) assets:	
Motor vehicles	42 000
Office equipment	26 000
Provisions for:	
depreciation on motor vehicles	8 000
depreciation on office equipment	4 000
Provision for doubtful debts	1 000
Salaries	23 750
Rent and rates	6 800
Discount received	5 600
Sundry expenses	14 150
Advertising	6 200
Trade payables (creditors)	18 300
Trade receivables (debtors)	23 000
Inventory (stock) at 1 October 2009	11 500
Bank overdraft	16 000
Capital	40 000
Drawings	12 000

Additional information at 30 September 2010

- 1 Inventory (stock) was valued at \$14 600.
- 2 During the year Doji took goods costing \$1250 for his own use. No entries have been made in the books.
- 3 Advertising, \$300, was prepaid. Salaries, \$2600, were accrued.
- 4 Depreciation is to be charged as follows:
motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method;
office equipment at the rate of 10% per annum using the straight line method.
- 5 Trade receivables (debtors) include a debt of \$4250 which is considered irrecoverable and is to be written off. The provision for doubtful debts is to be maintained at 4% of all remaining debts.
- 6 On 1 April 2010 Doji made a short-term loan, \$10 000, to the business. This was included in error in the capital account. Interest payable at 5% per annum has not been entered in the books.

REQUIRED

- (a) Prepare the income statement (trading and profit and loss accounts) of Doji for the year ended 30 September 2010. [22]
- (b) Prepare the balance sheet of Doji at 30 September 2010. [18]

[Total: 40]

May/June 2009

- 5 Sue Searle is in the import business. The following balances were extracted from her books on 31 March 2009.

	\$
Sales	95 800
Purchases	48 340
Returns outwards	960
Stock at 1 April 2008	10 780
Wages of motor vehicle driver	11 500
Motor vehicle running expenses	6 500
Motor vehicles at cost	20 000
Provision for depreciation of motor vehicle at 1 April 2008	15 000
Premises	60 000
Provision for depreciation of premises at 1 April 2008	12 000
Rent and insurance	7 700
Light and heat	4 950
General and marketing expenses	6 200
Discount received	5 300
Provision for doubtful debts	560
8% Bank loan repayable 30 June 2011	30 000
Cash	270
Bank overdraft	1 680
Debtors	18 500
Creditors	9 750
Drawings	11 310
Capital at 1 April 2008	35 000

Additional information

- 1 Stock at 31 March 2009 was valued at \$12 600.
- 2 The motor vehicle is used to bring purchases to the business premises of Sue Searle and to deliver goods to customers. The motor vehicle is used 20% of the time to collect purchases and 80% to deliver goods to customers.
- 3 Depreciation is to be charged on the premises at the rate of 2% per annum on cost using the straight line method and on the motor vehicle at 20% per annum using the diminishing (reducing) balance method.
- 4 The loan interest is outstanding at 31 March 2009.
- 5 Insurance, \$450, was prepaid at 31 March 2009.
- 6 Electricity for lighting, \$130, was due at 31 March 2009.
- 7 The provision for doubtful debts is to be maintained at 2% of debtors.

REQUIRED

- (a) Prepare the trading and profit and loss account for Sue Searle for the year ended 31 March 2009. [18]
- (b) Prepare the balance sheet of Sue Searle at 31 March 2009. [14]

[Total: 32]

May/June 2007

- 5 Marie Delaney is a trader. The following balances were extracted from her books on 30 April 2007.

	\$
Purchases	106 300
Carriage on purchases	2 450
Sales	197 600
Wages and salaries	33 600
Motor expenses	14 700
Rent and rates paid	22 620
Bank interest and charges	310
Interest paid on loan from Keiley	375
Discounts received	680
Sundry expenses	9 600
Loan from Keiley at 1 May 2006	10 000
Debtors	16 550
Creditors	7 975
Stock at 1 May 2006	8 620
Fixtures and equipment at cost	8 440
Motor vehicles at cost	12 400
Provision for depreciation of motor vehicles	4 960
Bank overdraft	8 450
Capital	21 475
Drawings	15 175

Additional information:

- 1 Stock at 30 April 2007 was valued at \$9920.
- 2 At 30 April 2007:
 - (i) Wages and salaries, \$3280, were accrued.
 - (ii) Rent, \$1620, was prepaid.
- 3 Depreciation is to be charged on fixtures and equipment at 25%.
- 4 Motor vehicles are to be depreciated using the diminishing (reducing) balance method at 40% per annum.
- 5 Marie Delaney pays back the loan at the rate of \$2000 per annum on 1 May each year. The balance of Marie Delaney's loan account at 30 April 2006 was \$12 000 and the amount in the list of balances above includes the repayment for 1 May 2006.

Interest is paid quarterly at the rate of 5% per annum on the outstanding balance at 1 May each year, after the annual repayment has been made.

REQUIRED

- (a) Prepare the trading and profit and loss accounts for the year ended 30 April 2007. [21]
- (b) Prepare the balance sheet at 30 April 2007. [14]

[Total: 35]

Oct/Nov 2006

- 5 Celia Davidson is in the import/export business. The following balances were extracted from her books on 30 September 2006.

	\$	\$
Sales		306 000
Carriage on sales	28 300	
Purchases	147 600	
Carriage on purchases	12 800	
Stock at 1 October 2005	13 400	
Wages and salaries	51 100	
Rent rates and insurance	6 900	
Advertising costs	11 800	
Motor vehicle expenses	2 700	
Office expenses	17 400	
Provision for doubtful debts		360
Cash at bank	7 140	
Motor vehicles at cost	15 500	
Provision for depreciation of motor vehicles at 1 October 2005		3 100
Debtors	38 000	
Creditors		15 500
Drawings	12 320	
Capital at 1 October 2005		40 000
	<u>364 960</u>	<u>364 960</u>

Additional information

- 1 Stock at 30 September 2006 was valued at \$14 100.
- 2 During the year Celia Davidson took goods costing \$1300 for her own use. No entries have been made in the books.
- 3 Depreciation is to be charged on the motor vehicles at 20 % per annum using the straight line method.
- 4 Wages and salaries, \$1900, were owing at 30 September 2006.
- 5 Insurance, \$400, was prepaid at 30 September 2006.
- 6 The provision for doubtful debts is to be maintained at 2 % of debtors.
- 7 Celia Davidson made a long-term loan, \$5000, at 3 % per annum to the business on 1 October 2005. This was included in error in capital. The interest has not been entered in the books.

REQUIRED

- (a) Prepare the Trading and Profit and Loss Accounts of Celia Davidson for the year ended 30 September 2006. [19]
- (b) Prepare the Balance Sheet of Celia Davidson as at 30 September 2006. [16]

[Total: 35]

Oct/Nov 2005

- 5 Karl Ward imports and sells furniture. The following balances were extracted from his books on 30 September 2005.

	\$	\$
Sales		137 900
Stock at 1 October 2004	6 900	
Purchases	41 200	
Carriage inwards	9 400	
Carriage outwards	1 300	
Wages and salaries	34 700	
Insurance	1 800	
Rent and rates paid	10 800	
Motor vehicle expenses	4 200	
General expenses	22 850	
Discounts received		800
Bank overdraft		700
Motor vehicles at cost	32 000	
Provision for depreciation of motor vehicles at 1 October 2004		16 000
Trade creditors		3 140
Drawings	17 690	
Capital at 1 October 2004		24 300
	182 840	182 840

Additional information

1. Stock at 30 September 2005 was valued at \$7500.
2. During the year Karl Ward took goods costing \$4300 for his own use. No entries have been made in the books.
3. Depreciation is to be charged on the motor vehicles using the diminishing (reducing) balance method at 50% per annum.
4. Wages and salaries, \$6800, were owing at 30 September 2005.
5. The amount for insurance represents insurance cover for the 18 month period from 1 October 2004 to 31 March 2006.

REQUIRED

- (a) Prepare the Trading and Profit and Loss Accounts of Karl Ward for the year ended 30 September 2005. [19]
- (b) Prepare the Balance Sheet of Karl Ward as at 30 September 2005. [16]

[Total: 35]

May/June 2005

- 5 The following balances were extracted from the books of Sandy Marsh, a trader, on 30 April 2005.

	\$
Sales	196 300
Purchases	83 500
Wages and salaries	66 400
Rent and rates paid	9 900
Discount received	1 400
General expenses	21 100
Debtors	16 300
Creditors	6 800
Fixtures and fittings at cost	12 200
Provision for depreciation on fixtures and fittings at 1 May 2004	7 320
Stock at 1 May 2004	13 350
Cash at bank	970
Capital at 1 May 2004	25 000
Drawings	13 100

Additional information

1. Stock at 30 April 2005 was valued at \$12 600.
2. At 30 April 2005 rent prepaid was \$900.
3. Wages and salaries of \$5500 were accrued at 30 April 2005.
4. Fixtures and fittings are to be depreciated by 20% per annum on cost.
5. A provision for doubtful debts of 3% of debtors at 30 April 2005 is to be created.
6. The bank statement for the business was received on 30 April 2005. It included an entry of \$120 for bank charges. Sandy Marsh has not entered this item in her books.

REQUIRED

- (a) Prepare the Trading and Profit and Loss Accounts of Sandy Marsh for the year ended 30 April 2005. [17]
- (b) Prepare the Balance Sheet of Sandy Marsh as at 30 April 2005. [18]

[Total: 35]

Oct/Nov 2004

- 5 John Cosway is a trader. The following balances were extracted from his books on 31 August 2004.

	\$
Purchases	67 600
Sales	121 300
Wages and salaries	23 700
Rent and rates paid	7 350
Insurance	1 480
Carriage on purchases	1 260
Discounts received	460
Sundry expenses	10 760
Rent received	1 750
Debtors	11 250
Creditors	7 200
Bank overdraft	1 560
Stock at 1 September 2003	9 650
Capital at 1 September 2003	29 000
Fixtures and equipment at cost	10 000
Drawings	18 220

Additional information

1. Stock at 31 August 2004 was valued at \$11 200.
2. At 31 August 2004 rates prepaid were \$150.
3. Wages and salaries of \$2350 were accrued at 31 August 2004.
4. Accountancy fees of \$1500 for the year are accrued at 31 August 2004.
5. A provision for doubtful debts of 4% of debtors at 31 August 2004 is to be created.
6. Fixtures and equipment are to be depreciated by \$2000 for the year.

REQUIRED

- (a) Prepare the Trading and Profit and Loss Accounts of John Cosway for the year ended 31 August 2004. [20]
- (b) Prepare the Balance Sheet of John Cosway as at 31 August 2004. [15]

[Total: 35]

Manufacturing Accounts

ZAID Manufacturing			
Manufacturing Account			
For the year ended, 31 Dec ____.			
		\$	\$
Direct RM Consumed:			
Opening Inventory (RM)			
Add: Purchase of RM		XX	
Less: Purchase Returns of RM		(XX)	
Add: Carriage Inwards on RM		<u>XX</u>	
		XXX	
Less: Closing Inventory (RM)		(XX)	XXX
Add: Direct Labour/Factory Wages			XXX
Direct Factory Overheads/ Direct Expense			XXX
Prime Cost			XXX
Add: Indirect Factory Overheads			
Supervisors Salaries & Wages		XX	
Insurance		XX	
Indirect Overheads		XX	
Rent		XX	
Heat & Light		XX	
Depreciation of Factory Equipment		XX	XXX
Add: Change in Work-In-Progress			
Opening Inventory (WIP)		XX	
Less: Closing Inventory		(XX)	XXX
Cost of Production			XXXX

Changes to Income Statement & Statement of Financial Position:

The formats for Income Statement and the Statement of Financial Position somewhat remain identical to that of a sole trader except for few minor changes.

In the Income Statement, the Cost of Sales appears like this:

	\$	\$	\$
Cost of Sales:			
Opening Inventory (FG)		XX	
Add: Cost of Production		XX	
Add: Purchase (FG)	XX		
Less: Purchase Return (FG)	(XX)	XX	
		XXX	
Less: Closing Inventory (FG)		(XXX)	XXX

In the Statement of Financial Statement, the Current Assets section appears like this:

	\$	\$	\$
Current Assets:			
Inventory – Raw Materials	XX		
– Work In Progress	XX		
– Finished Goods	XX	XXX	
Trade Receivable		XX	
Other Receivables		XXX	
Bank/Cash		XXX	
		XXX	

May/June 2015 - 21

- 5 The following balances were extracted from the books of Spiron Manufacturing on 30 April 2015.

	\$
Factory machinery (cost)	80 000
Office fixtures (cost)	20 000
Provision for depreciation	
Factory machinery	60 000
Office fixtures	8 000
Purchases of raw materials	85 000
Inventory at 1 May 2014	
Raw materials	10 150
Work in progress	15 000
Finished goods	21 200
Revenue	310 000
Purchases of finished goods	19 000
Factory managers' salaries	32 000
Office wages and salaries	41 900
Direct factory expenses	5 600
Indirect factory expenses	9 800
Factory wages	47 000
Rent	10 000
Insurance	8 000
Marketing expenses	12 400
Distribution costs	9 850
Financial expenses	7 650
Provision for doubtful debts	400
Trade receivables	23 900
Trade payables	14 350
Bank	7 700 Dr
Capital	90 000
Drawings	16 600

Additional information at 30 April 2015

- 1 Inventory was valued as follows:

	\$
Raw materials	12 750
Work in progress	16 200
Finished goods	18 700

- 2 Insurance and rent are to be apportioned 80% to the factory and 20% to the office.
- 3 Financial expenses owing were \$850.
- 4 Marketing expenses of \$600 were prepaid.
- 5 Depreciation is to be charged as follows:
- (i) Factory machinery at 25% per annum using the diminishing (reducing) balance method
 - (ii) Office fixtures at 15% using the straight-line method.
- 6 A debt of \$1900 was considered irrecoverable. A provision for doubtful debts is to be maintained at 5%.

REQUIRED

- (a) Prepare the manufacturing account for the year ended 30 April 2015. Show clearly the prime cost and the cost of production. [13]
- (b) Prepare the income statement for the year ended 30 April 2015.
- (c) Prepare the statement of financial position at 30 April 2015.

Oct/Nov 2014 – 21

- 5 Nikolas is a manufacturer. The following balances were extracted from his books on 31 July 2014.

	\$	
Capital	80 000	
Drawings	20 000	
Machinery (cost)	125 000	
Office fixtures (cost)	55 000	
Provisions for depreciation:		
Machinery	75 000	
Office fixtures	16 500	
Bank	27 700	Dr
Purchases of raw materials	132 500	
Inventory at 1 August 2013:		
Raw materials	15 000	
Work in progress	31 400	
Finished goods	40 000	
Revenue	505 000	
Royalties	15 000	
Indirect factory expenses	12 750	
Factory wages	90 800	
Insurance	6 200	
Rent	11 000	
Production managers' salaries	38 250	
Office wages and salaries	56 000	
Selling expenses	19 600	
Distribution costs	31 500	
Sundry office expenses	19 800	
8% Loan (repayable 31 May 2024)	60 000	
Loan interest paid	3 500	
Provision for doubtful debts	1 500	
Trade receivables	58 000	
Trade payables	71 000	

Additional information at 31 July 2014

- 1 Inventory was valued as follows:

	\$
Raw materials	17 500
Work in progress	26 000
Finished goods	42 500

- 2 Sundry office expenses prepaid \$1400.
- 3 Insurance included a payment of \$4800 for the year ended 31 October 2014.
- 4 Insurance and rent are to be apportioned 80% to the factory and 20% to the office.
- 5 Depreciation is to be charged as follows:
- (i) machinery at 20% per annum using the diminishing (reducing) balance method

(ii) office fixtures at 10% using the straight-line method.

6 Nikolas took \$7500 of finished goods for his own use.

7 A debt of \$3000 was considered irrecoverable. A provision for doubtful debts is to be maintained at 4%.

REQUIRED

(a) Prepare the manufacturing account for the year ended 31 July 2014.

(b) Prepare the income statement for the year ended 31 July 2014.

(c) Prepare the statement of financial position at 31 July 2014.

May/June 2014 – 22

- 3 Cadmore Limited is a manufacturing business. The following information is available for the month of April 2014.

	\$
Inventory at 1 April 2014:	
Raw materials	10 830
Work in progress	12 700
Finished goods	25 800
Factory wages	60 690
Office wages	24 750
Purchases of raw materials	80 670
Depreciation of factory machinery	7 000
Depreciation of office equipment	5 000
Rent of factory building	2 000
Rent of office building	1 000
Royalties	7 500
Factory management salaries	10 750
Office management salaries	32 000
Revenue	290 450
Insurance	1 250
General expenses	8 000

Additional information

- 1 Inventory at 30 April 2014:

Raw materials	12 400
Work in progress	9 980
Finished goods	24 700

- 2 Insurance is to be apportioned 80% to the factory, 20% to the office.
 3 General expenses: \$5000 relate to the factory and \$3000 to the office.

REQUIRED

- (a) (i) Explain the term direct cost.

.....
 [1]

- (ii) State **two** direct costs incurred by Cadmore Limited.

.....

 [2]

- (b) Prepare the manufacturing account of Cadmore Limited for the month ended 30 April 2014.

May/June 2013 – 21

- 5 The following balances were extracted from the books of Paul Lee, a manufacturer, on 31 May 2013.

	\$
Capital	220 000
Drawings	10 800
Factory machinery (cost)	210 000
Office equipment (cost)	60 000
Provision for depreciation:	
Factory machinery	75 600
Office equipment	21 600
Inventory at 1 June 2012:	
Raw materials	33 000
Work in progress	36 000
Finished goods	66 444
Purchases of raw materials	133 687
Revenue	426 088
Transport costs	29 400
Wages and salaries	140 600
Rent and rates	28 000
Indirect factory expenses	18 423
Lighting and heating	23 140
Selling and administration expenses	10 742
Bad debts	1 000
Loan interest paid	2 000
Trade payables	43 690
Trade receivables	34 400
Bank	658 Cr
6% Loan (repayable on 23 June 2018)	50 000

Additional information:

- 1 Inventory values at 31 May 2013:

	\$
Raw materials	38 000
Work in progress	42 600
Finished goods	71 200

- 2 Transport costs are allocated 65% to raw materials and 35% to delivery of finished goods.
- 3 Wages and salaries include \$56 000 for production managers' salaries. The remaining balance is split 40% direct labour, 35% indirect labour and 25% office salaries.
- 4 Rent and rates are apportioned factory 80% and office 20%.
- 5 Lighting and heating are apportioned factory 70% and office 30%.
On 31 May 2013 these were in arrears by \$860.
- 6 On 31 May 2013 selling and administration expenses had been prepaid by \$230.
- 7 A provision for doubtful debts, representing 4% of trade receivables, is to be created.

- 8 Factory machinery is depreciated at 20% per annum using the diminishing (reducing) balance method. Office equipment is depreciated at 12% per annum on cost.

REQUIRED

- (a) Prepare the manufacturing account for the year ended 31 May 2013. [15]
- (b) Prepare the income statement for the year ended 31 May 2013. [13]
- (c) Prepare the balance sheet (statement of financial position) at 31 May 2013. [12]

[Total: 40]

Oct/Nov 2012

- 5 The following balances were extracted from the books of Khan, a manufacturer, on 31 July 2012:

	\$	
Factory equipment (cost)	160 000	
Office equipment (cost)	40 000	
Provisions for depreciation:		
Factory equipment	56 000	
Office equipment	26 000	
Office equipment disposal account	500	Dr
Bank	9 700	Dr
Capital	200 000	
Inventory at 1 August 2011:		
Raw materials	26 000	
Work-in-progress	36 000	
Finished goods	48 000	
Purchases of raw materials	183 000	
Direct factory expenses	38 000	
Indirect factory expenses	19 700	
Production wages	164 500	
Rent and rates	22 000	
Production management salaries	63 000	
Office wages and salaries	69 500	
Revenue	680 000	
Marketing expenses	27 850	
Distribution costs	62 000	
General office expenses	6 700	
8% Loan – repayable 31 December 2025	35 000	
Loan interest paid	2 100	
Provision for doubtful debts	3 000	
Trade receivables	75 000	
Trade payables	53 550	

Additional information at 31 July 2012:

- 1 Inventory was valued as follows:

	\$
Raw materials	29 000
Work-in-progress	40 000
Finished goods	55 000

- 2 Production wages, \$6500, were accrued. Marketing expenses, \$1350, were prepaid.
- 3 Rent and rates are to be apportioned on the basis of area occupied. Three-quarters of the area is occupied by the factory and one-quarter by the administration.
- 4 Contained within the office wages and salaries is \$8000 taken by Khan. He also took finished goods for his own personal use, \$1500.
- 5 Depreciation is to be charged as follows:
 Factory equipment at 20% per annum using the diminishing (reducing) balance method
 Office equipment at 10% per annum on cost using the straight-line method.

6 The provision for doubtful debts is to be maintained at 6% of trade receivables.

REQUIRED

- (a) Prepare the manufacturing account for the year ended 31 July 2012. Show clearly the prime cost and cost of production. [14]
- (b) Prepare the income statement for the year ended 31 July 2012. [13]
- (c) Prepare the balance sheet at 31 July 2012. [13]

[Total: 40]

May/June 2010

- 5 Wang Yee is a manufacturer. The following balances were extracted from his books on 31 January 2010.

	\$
Inventories (stocks) 1 February 2009	
Raw materials	14 700
Work in progress	23 570
Finished goods	35 000
Purchases of raw materials	75 600
Purchases of finished goods	15 500
Direct factory wages	62 140
Rent	28 000
Factory management salaries	31 500
Office salaries	41 600
Revenue (sales)	342 500
Revenue (sales returns)	1 250
Distribution costs	28 650
Sundry office expenses	9 870
Non-current liability (8% loan – repayable 31 December 2015)	40 000
Finance costs (loan interest) paid	2 400
Property (land and buildings) (cost)	80 000
Plant and machinery (cost)	90 000
Office equipment (cost)	30 000
Provision for depreciation of plant and machinery	32 000
Provision for depreciation of office equipment	12 000
Provision for doubtful debts	1 550
Trade receivables (debtors)	45 000
Trade payables (creditors)	60 700
Cash (bank)	33 030 Cr
Capital	110 000
Drawings	17 000

Additional information:

- 1 Inventories (stocks) at 31 January 2010 were valued as follows:

	\$
Raw materials	16 250
Work in progress	18 780
Finished goods	32 500

- 2 At 31 January 2010

 Direct factory wages, \$1 120, were accrued.
 Sundry office expenses, \$630, were prepaid.

- 3

Rent is to be apportioned on the basis of area occupied. Three fifths $\frac{3}{5}$ of the area is occupied by the factory and two fifths $\frac{2}{5}$ by the offices.

- 4 Depreciation is charged on plant and machinery at 20% per annum using the diminishing (reducing) balance method.

- 5 Office equipment is depreciated using the straight-line method at 20% on cost.
Office equipment, \$24 000, was purchased on 31 July 2006.
Additional office equipment, \$6 000, was purchased on 30 September 2009.
No other changes in non-current (fixed) assets occurred in the year ended 31 January 2010.
Depreciation is calculated for the time assets are held in the business.
- 6 The provision for doubtful debts is to be maintained at 4% of trade receivables (debtors).

REQUIRED

- (a) Prepare the manufacturing account of Wang Yee for the year ended 31 January 2010.
Show clearly the cost of raw materials consumed, prime cost and cost of production. [11]
- (b) Prepare the income statement (trading and profit and loss accounts) of Wang Yee for the year ended 31 January 2010. [15]
- (c) Prepare the balance sheet of Wang Yee at 31 January 2010. [14]

[Total: 40]

Oct/Nov 2007

- 4 The following information was extracted from the books of CookSmart Ltd, manufacturer of cooking oil, for the year ended 30 September 2007:

	1 Oct 2006	30 Sept 2007
	\$	\$
Stock – raw materials	18 700	18 100
Stock – containers and packing	34 100	33 800
Stock – work in progress	100	200
Stock – finished goods	56 200	50 300
Purchases – raw materials		111 400
Purchases – containers and packing		176 200
Carriage on raw materials		31 200
Direct factory wages		103 400
Depreciation of factory plant		96 200
Salary of factory supervisor		21 800
Sales		610 700

REQUIRED

Prepare, in good style, the manufacturing account for the year ended 30 September 2007. Show clearly the cost of raw materials consumed, prime cost and cost of production.

Partnership

Partnership refers to a type of business where two or more individuals, or even separate businesses agree to work together under a single business in order to achieve profits. Normally, a maximum limit of 20 partners is permissible but in the case of banks, one can admit only 10.

Whenever these partnerships are made, stress is put on drafting a **Partnership Agreement** in order to avoid possible future disputes, which clearly states the terms of the partnership such as:

- Names of the partners.
- Profit and Loss sharing ratio.
- Amount of capital contributed by each partner.
- Rate of interest on capital and drawings.
- Salaries of partners and the maximum limit for drawings.

Partnership: Capital & Current Account

In the case of Sole Traders, as far as capital was concerned, there was only one account known as Capital account. However, in a partnership, two such accounts are kept, one is the Capital account itself and a new account referred to as Current Account.

Capital Account: This account is the same as the ones in Sole Trader businesses with an increase in capital of the business on the credit side and a decrease or withdrawal of capital on the debit side.

Current Account: This account is specifically kept to record the expenses of each partner as well as income. Income appears on the credit side while expenses appear on the debit side. Debit balance of the current account is a negative balance which is to be subtracted in Statement of Financial Position while a credit balance is a positive balance and is added. The format for the Current Account is as follows:

Current Account					
	Wajahat	Fahd		Wajahat	Fahd
Opening Balance	XX	XX	Opening Balance	XX	XX
Drawings	XX	XX	Interest on Capital (1)	XX	XX
Interest on Drawings (5)	X	X	Interest on Loan (2)	X	X
Loss Share	XX	XX	Salaries (3)	X	X
			Commission (4)	XX	XX
			Profit Share	XXX	XXX
Balance c/d	<u>XX</u>	<u>XX</u>	Balance c/d	<u>XX</u>	<u>XX</u>
	<u>XXX</u>	<u>XXX</u>		<u>XXX</u>	<u>XXX</u>
Balance b/d	XX	XX	Balance b/d	XX	XX

- 1. Interest on Capital:** As it is set as a percentage of the amount of capital invested by each partner, it is an income for the partner and it serves as an incentive for partners to invest more so they can receive more interest. It is not shown under Other Income in the Income Statement and only appears in the Current Account.
- 2. Interest on Loan:** This refers to the interest the business pays on the loan that is provided by the partner. Although an expense of the business and appearing in the Expenses section of the Income Statement, it is an income for the partners and thus, appears on credit side. A 5% Interest on Loan is charged if no percentage is set in the agreement.
- 3. Salaries:** Some partners usually work in their businesses and not just invest. Therefore, they are sometimes entitled to a certain salary for their services, in addition to receiving the profits of the partnership.
- 4. Commission:** This is a bonus provided to partners usually when they bring in more clients than the others or for showing great progress in the partnership.
- 5. Interest on Drawings:** It is set as a percentage of the Drawings of each partner, it is an additional expense for each partner and is charged in order to discourage partners from drawing excessively from the partnership.

Partnership: Appropriation Account

Appropriation account is the extension of the Profit/Loss account, also known as Income Statement, when the business whose Income Statement is being drafted is a partnership business. Just as the name suggests, this account's purpose is to appropriate, or divide, the net profit amongst the partners. It continues directly after the Income Statement and has the following format:

Format for Appropriation Account:

SHAH Partnership			
Appropriation Account			
For the year ended, 31 Dec _____.			
	\$	\$	\$
Net Profit			XXX
Add: Interest on Drawings			
Fahd		XX	
Wajahat		<u>XX</u>	XXX
Less: Interest on Capital			
Fahd		XX	
Wajahat		<u>XX</u>	(XXX)
Less: Bonus/Commission			
Fahd		XX	
Wajahat		<u>XX</u>	<u>(XXX)</u>
			<u>XXXX</u>
Profit/Loss Shared:			
Fahd		XXX	
Wajahat		<u>XXX</u>	<u>XXXX</u>

May/June 2015 – 22

- 5 Farah and Hana are in partnership. The partnership agreement states that they share profits and losses equally. Interest on capital is allowed at the rate of 4% per annum. Interest is charged on drawings made during the year at the rate of 5% per annum. No salaries are paid to the partners.

The following balances were extracted from the books on 30 April 2015.

	\$
Premises (cost)	60 000
Delivery vehicles (cost)	30 000
Office fixtures (cost)	15 000
Provisions for depreciation	
Premises	3 600
Delivery vehicles	10 000
Office fixtures	11 000
Trade payables	7 900
Trade receivables	18 750
Provision for doubtful debts	500
Bank overdraft	12 200
Capital accounts:	
Farah	50 000
Hana	30 000
Current accounts at 1 May 2014:	
Farah	3 250 Cr
Hana	1 850 Cr
Drawings:	
Farah	6 000
Hana	6 000
Purchases	81 250
Revenue	190 000
Returns inwards	8 600
Inventory at 1 May 2014	15 600
Advertising expenses	11 000
Wages and salaries	31 450
Delivery vehicle expenses	14 900
Heat and light	9 750
Other operating expenses	12 000

Additional information

The following information was available 30 April 2015.

- 1 Inventory was valued at \$13 650.
- 2 Advertising expenses prepaid were \$800.
- 3 Heat and light \$150 was outstanding.
- 4 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

Premises at the rate of 2% on cost per annum

Delivery vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

Office fixtures at the rate of 10% per annum using the straight-line method.

- 5 The provision for doubtful debts is to be maintained at 4%.
- 6 A cheque payment of \$550, made to a credit supplier on 15 April, had not been recorded in the books.

REQUIRED

- (a) Prepare the income statement and appropriation account for the year ended 30 April 2015.
- (b) Prepare the current accounts for the year ended 30 April 2015.

Current accounts

Details	Farah \$	Hana \$	Details	Farah \$	Hana \$

- (c) Prepare the statement of financial position at 30 April 2015.

[7]

Oct/Nov 2014 – 22

- 5 Darius and Edgar are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is allowed at the rate of 5% per annum. Edgar is entitled to a salary of \$12000 per annum. The following balances were extracted from the books on 31 July 2014.

	\$	
Leasehold buildings (cost)	75 000	
Motor vehicles (cost)	40 000	
Fixtures and fittings (cost)	25 000	
Provisions for depreciation:		
Leasehold buildings	18 000	
Motor vehicles	10 000	
Fixtures and fittings	15 000	
Trade payables	55 900	
Trade receivables	39 500	
Provision for doubtful debts	1 900	
8% Bank loan (repayable 31 March 2015)	40 000	
Bank interest paid	1 600	
Bank	31 400	Dr
Capital accounts:		
Darius	40 000	
Edgar	40 000	
Current accounts at 1 August 2013:		
Darius	500	Cr
Edgar	900	Cr
Drawings:		
Darius	12 000	
Edgar	12 000	
Purchases	148 300	
Revenue	256 000	
Returns inwards	5 200	
Inventory at 1 August 2013	25 800	
Heat and light	7 600	
Other operating expenses	6 350	
Wages and salaries	28 950	
Motor vehicle expenses	11 000	
Rent receivable	3 500	
Rent payable	12 000	

Additional information at 31 July 2014

- 1 Inventory was valued at \$34 100.
- 2 Other operating expenses prepaid \$1800.
- 3 Rent receivable of \$1500 was outstanding.
- 4 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) an appropriate amount is to be charged on the leasehold buildings which are held on a 25 year lease

- (ii) motor vehicles at the rate of 30% per annum using the diminishing (reducing) balance method
 - (iii) fixtures and fittings at the rate of 10% per annum using the straight-line method.
- 5 Trade receivables of \$4500 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.
- 6 On 31 January 2014 the partners had agreed to allow Edgar to increase his capital by \$20 000. Edgar paid a cheque into the partnership bank account on that date.

REQUIRED

- (a) Prepare the income statement and appropriation account for the year ended 31 July 2014.
- (b) Prepare the current accounts for the year ended 31 July 2014.

Current accounts

Details	Darius \$	Edgar \$	Details	Darius \$	Edgar \$

[4]

- (c) Prepare the statement of financial position at 31 July 2014.

May/June 2014 – 21

- 5 Chan and Fong are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 5% per annum and is charged on drawings at the rate of 5% per annum. Fong receives a salary of \$10 000 per annum. The following balances were extracted from the books on 30 April 2014.

	\$
Revenue	480 500
Inventory at 1 May 2013	47 700
Purchases	209 000
Returns from customers	11 800
Returns to suppliers	10 500
Land and buildings (cost)	250 000
Motor vehicles (cost)	45 000
Fixtures and fittings (cost)	28 000
Provisions for depreciation:	
Motor vehicles	25 000
Fixtures and fittings	12 000
Office expenses	36 500
Motor vehicle expenses	13 600
Selling expenses	30 800
Wages and salaries	80 000
Heat and light	4 750
Bank loan interest paid	9 000
Capital accounts:	
Chan	60 000
Fong	40 000
Current accounts:	
Chan	1 500 Cr
Fong	4 000 Cr
Drawings:	
Chan	6 000
Fong	10 000
8% Loan repayable 30 March 2016	200 000
Trade receivables	55 000
Provision for doubtful debts	2 100
Trade payables	36 050
Bank	34 500 Dr

Additional information

- 1 Inventory at 30 April 2014, \$38 350.
- 2 The motor vehicle expenses are to be apportioned one quarter to collecting goods for resale and three quarters to delivery of goods to customers.
- 3 At 30 April 2014:
 - (i) Heat and light, \$750, was accrued
 - (ii) Office expenses, \$4000, were prepaid.
- 4 Half of Fong's \$10 000 salary had been paid to him and posted to the wages and salaries account.
- 5 Fixtures and fittings costing \$2000 purchased by cheque on 20 April 2014 had not been recorded in the books.

- 6 Depreciation is to be charged on all non-current assets owned at the end of the year:
 - (i) Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
 - (ii) Fixtures and fittings at the rate of 10% using the straight-line method.
- 7 Trade receivables contains a debt of \$7500, which is considered irrecoverable. The provision for doubtful debts is to be maintained at 6%.

REQUIRED

- (a) Prepare the income statement and appropriation account for the year ended 30 April 2014.
- (b) Prepare the current accounts for the year ended 30 April 2014.

Current accounts

Details	Chan \$	Fong \$	Details	Chan \$	Fong \$

[4]

- (c) Prepare the statement of financial position at 30 April 2014.

Oct/Nov 2013 – 22

- 5 Cain and Les are in partnership providing book-keeping and general administration services to small businesses. They share profits and losses in the ratio of 3:2 respectively. Interest on drawings is charged at 4%, while interest on capital is allowed at the rate of 5% per annum. Les receives an annual salary of \$16 000.

The following balances were extracted from their books on 30 September 2013:

	\$
Capital accounts 1 October 2012	
Cain	90 000
Les	60 000
Current accounts 1 October 2012	
Cain	700 Cr
Les	15 500 Dr
Drawings	
Cain	12 000
Les	15 000
Premises at cost	118 000
Office equipment at cost	60 000
Motor vehicles at cost	22 000
Provision for depreciation	
Premises	7 080
Office equipment	21 600
Motor vehicles	7 200
Fees (Revenue)	103 769
Staff salaries	14 170
General expenses	23 460
Heat and light	4 760
Communication expenses	7 680
Motor vehicle expenses	3 650
Discounts allowed	3 400
Discounts received	1 400
Bank loan interest paid	3 000
8% Bank loan (repayable 30 June 2019)	40 000
Trade payables	1 960
Trade receivables	10 720
Provision for doubtful debts	520
Bank	20 889 Dr

Additional information

- 1 Commission received, \$2400, had been credited to the communication expenses account in error.
- 2 Heat and light, \$150, were outstanding and general expenses \$1010 were prepaid on 30 September 2013.
- 3 Bank charges, \$123, had not been recorded in the books.
- 4 Motor vehicle expenses, \$2000, had been recorded in the motor vehicles account.
- 5 The provision for doubtful debts is to be maintained at 5% of trade receivables.

- 6 Depreciation is charged on premises and office equipment at the rate of 6% and 12% respectively using the straight line method.
- 7 Motor vehicles are depreciated at the rate of 20% per annum using the diminishing (reducing) balance method.
- 8 On 1 October 2012 Cain reduced his capital account balance by \$10 000. This sum was to be left in the business as an interest free loan, to be repaid on 31 March 2018.

REQUIRED

- (a) Prepare the income statement and appropriation account for the year ended 30 September 2013. [20]
- (b) Prepare the current accounts for the year ended 30 September 2013. [7]
- (c) Prepare the balance sheet (statement of financial position) at 30 September 2013. [13]

[Total: 40]

Oct/Nov 2013 – 21

- 5 Genet and Vass are in partnership. The following balances were extracted from their books on 31 January 2013.

	\$
Capital accounts 1 February 2012	
Genet	60 000
Vass	40 000
Current accounts 1 February 2012	
Genet	2 400 Cr
Vass	3 600 Dr
Drawings	
Genet	9 000
Vass	10 000
Inventory 1 February 2012	12 400
Purchases	66 200
Returns to suppliers	1 230
Revenue	148 200
Import duty	2 846
Transport costs	4 330
General expenses	16 822
Wages	9 600
Insurance premiums	10 400
Marketing expenses	12 200
Discounts received	2 428
Trade receivables	8 110
Trade payables	10 180
Loan interest paid	1 000
Storage expenses	9 612
Provision for doubtful debts	600
Leasehold property (cost)	80 000
8% Bank loan repayable 1 May 2018	15 000
Storage equipment (cost)	26 000
Motor vehicles (cost)	40 000
Provisions for depreciation:	
Leasehold property	12 000
Storage equipment	9 360
Motor vehicles	19 520
Bank	1 202 Cr

Additional information

- Inventory was valued at \$14 230 on 31 January 2013.
- Insurance premiums were paid up to 28 February 2013.
- General expenses, \$322, were owing at the year end.
- A bad debt, \$110, is to be written off.
- The costs of bringing goods into the business amounts to 80% of the transport costs.
- New storage equipment, \$6000, was purchased during the year. This had been recorded in the storage expenses account in error.

- 7 The provision for doubtful debts is to be maintained at 5% of trade receivables.
- 8 A full year's depreciation charge is made on non-current assets in the year of purchase, but no charge is made in the year of sale. Depreciation is charged as follows:
- 1 Leasehold at \$2000 per annum.
 - 2 Storage equipment at 12% using the straight-line method of depreciation.
 - 3 Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method.
- 9 The partnership agreement states:
- Interest on capital is allowed at 4% per annum.
- Vass is to receive an annual salary of \$5000.
- Profits and losses are to be shared in the ratio of their capital.

REQUIRED

- (a) Prepare the income statement and appropriation account for the year ended 31 January 2013. [24]
- (b) Draw up the current accounts of the partners for the year ended 31 January 2013. [5]
- (c) Prepare the balance sheet (statement of financial position) at 31 January 2013. [11]

[Total: 40]

May/June 2012

- 5 Su and Li are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 5% per annum. Su is entitled to a salary of \$15 000 per annum. The following balances were extracted from the books on 30 April 2012:

	\$
Land and buildings (cost)	200 000
Equipment (cost)	48 000
Fixtures and fittings (cost)	35 000
Provisions for depreciation:	
Land and buildings	14 000
Equipment	12 000
Fixtures and fittings	26 000
Revenue	380 000
Inventory at 1 May 2011	53 750
Purchases	170 000
Returns from customers	11 100
Returns to suppliers	8 900
Carriage outwards	6 290
Administration expenses	25 720
Marketing expenses	17 800
Wages and salaries	69 530
Communication expenses	8 900
Loan interest paid	3 600
Building works	24 000
6% Loan repayable 31 December 2020	80 000
Trade receivables	58 000
Provision for doubtful debts	2 500
Trade payables	20 340
Bank deposit	5 000
Bank	9 150 Cr
Capital accounts:	
Su	120 000
Li	100 000
Current accounts:	
Su	500 Cr
Li	2 700 Dr
Drawings:	
Su	20 000
Li	14 000

Additional information

- 1 Inventory at 30 April 2012, \$38 500.
- 2 The \$15 000 salary paid to Su had been posted to the wages and salaries account and not to her drawings account.
- 3 Building works consisted of an extension to the building, \$20 000, and repairs to the existing air conditioning, \$4000.
- 4 At 30 April 2012 communication expenses, \$890, were prepaid and marketing expenses, \$4000, were accrued.

- 5 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
- (i) Buildings at the rate of 2% per annum on cost. No depreciation is charged on land. On 1 April 2011 the land was valued at \$75 000.
 - (ii) Equipment at the rate of 20% per annum using the diminishing (reducing) balance method.
 - (iii) Fixtures and fittings at the rate of 10% using the straight-line method.
- 6 Trade receivables contain a debt of \$3000 which is considered irrecoverable.
- 7 The provision for doubtful debts is to be maintained at 6% of remaining trade receivables.

REQUIRED

- (a) Prepare the income statement and appropriation account of Su and Li for the year ended 30 April 2012. [22]
- (b) Prepare the balance sheet of Su and Li at 30 April 2012. [18]

The current accounts details may be included within the balance sheet or in account format outside the balance sheet.

[Total: 40]

May/June 2011

- 5 Fu, Li and Yang are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 2:2:1.

Interest on capital is allowed at the rate of 4% per annum and interest is charged on drawings at the rate of 5% per annum on the balances at 30 April 2011.

The following balances were extracted from the books on 30 April 2011.

	\$	
Capital accounts		
Fu	40 000	
Li	35 000	
Yang	25 000	
Current accounts		
Fu	2 500	Cr
Li	1 500	Cr
Yang	1 000	Dr
Drawings		
Fu	10 000	
Li	10 000	
Yang	12 000	
Premises	44 750	
Motor vehicles (cost)	16 000	
Fixtures and fittings (cost)	30 000	
Provisions for depreciation		
Motor vehicles	3 200	
Fixtures and fittings	17 500	
Trade payables	54 700	
Trade receivables	45 000	
Provision for doubtful debts	1 500	
Bank	7 560	Dr
Purchases	111 200	
Revenue (sales)	209 500	
Returns outward	4 750	
Inventory at 1 May 2010	30 650	
Salaries and wages	42 100	
Heat and light	3 890	
General expenses	16 750	
Discount received	5 300	
Marketing expenses	12 050	
Rent	7 500	

Additional information at 30 April 2011:

- 1 Inventory was valued at \$28 100.
- 2 General expenses, \$4 200, were prepaid.
- 3 Rent, \$2 500, was accrued.

4 Depreciation is to be charged as follows:

Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

Fixtures and fittings at the rate of 10% per annum on cost, using the straight line method.

5 The provision for doubtful debts is to be maintained at 5% of trade receivables.

6 On 30 April 2011 the partners agreed to allow Yang to reduce his capital balance by \$10 000. The sum was transferred to his current account on that date. The transfer took place after calculating the interest on capital for the year.

REQUIRED

(a) Prepare the income statement and appropriation account of Fu, Li and Yang for the year ended 30 April 2011. [24]

(b) Prepare the statement of financial position (balance sheet) of Fu, Li and Yang at 30 April 2011.

The current accounts details may be included within the statement of financial position (balance sheet) or in ledger account format. [16]

[Total: 40]

Oct/Nov 2009

- 5 Paul and Judi are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 3 : 2, after allowing interest on capital at the rate of 4 % per annum. The following balances were extracted from the books on 30 September 2009.

	\$
Capital accounts	
Paul	30 000
Judi	20 000
Current accounts	
Paul	2 300 Cr
Judi	650 Dr
Drawings	
Paul	11 000
Judi	10 000
Purchases	139 750
Sales	210 000
Returns inward	4 500
Stock at 1 October 2008	12 650
Staff wages	18 000
General expenses	9 650
Rent receivable	6 000
Advertising expenses	10 000
Rent	17 500
Fixtures and fittings (cost)	24 000
Provision for depreciation of fixtures and fittings	12 600
Creditors	8 900
Debtors	16 000
Provision for doubtful debts	550
Bank	16 650 Dr

Additional information

- 1 Stock at 30 September 2009 was valued at \$15 400.
- 2 Paul withdrew goods costing \$4000 from the partnership business during the year. This had not been recorded in the books.
- 3 At 30 September 2009:
 - Advertising expenses, \$2850, were prepaid.
 - Rent receivable, \$2000, was due.
- 4 Depreciation is charged on fixtures and fittings at 15 % per annum on cost using the straight line method.
- 5 Additional fixtures and fittings, \$4000, were purchased on 31 January 2009. These are included in the balance at 30 September 2009. No other changes in fixed assets occurred during the year. Depreciation is calculated from the date of purchase.
- 6 The provision for doubtful debts is to be maintained at 5 % of debtors.

REQUIRED

- (a) Prepare the trading and profit and loss and appropriation accounts of Paul and Judi for the year ended 30 September 2009. [19]
- (b) Prepare the balance sheet of Paul and Judi at 30 September 2009. [12]

The current accounts details may be included within the balance sheet or in account format outside the balance sheet.

[Total: 31]

May/June 2009

4 The information below relates to the partnership of Bell and Hayward.

	\$
Capital 1 May 2008	
Bell	40 000
Hayward	20 000
Current accounts 1 May 2008	
Bell	Nil
Hayward	1 500 Dr
Drawings for the year ended 30 April 2009	
Bell	6 000
Hayward	20 000

The partnership agreement includes the following terms:

- 1 Interest on capital is allowed at 6% per annum.
- 2 Hayward receives a salary of \$12 000.
- 3 Interest on drawings is charged at 4% per annum on total drawings for the year.
- 4 Profits and losses are shared equally.

Additional capital, \$10 000, was introduced by Bell on 1 August 2008.

Net profit for the year ended 30 April 2009 was \$20 500.

REQUIRED

(a) State two differences between a partnership and a limited company.

1:

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2:

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(b) Prepare the appropriation account for the year ended 30 April 2009.

Bell and Hayward
Appropriation Account for the year ended 30 April 2009

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- (c) Prepare the current account of Hayward for the year ended 30 April 2009. Bring down the balance on 1 May 2009.

Hayward
Current account

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[4]

May/June 2008

- 5 East and West are in partnership sharing profits in the ratio 2 : 1 respectively. The following trial balance was extracted from the books on 31 May 2008.

East and West		\$	\$
Trial Balance at 31 May 2008			
	\$		\$
Purchases	207 620		
Carriage on purchases	2 160		
Purchases returns			1 470
Sales			411 320
Sales returns	7 340		
Wages and salaries	93 700		
Motor expenses	14 600		
General expenses	41 640		
Land and buildings at cost	72 000		
Fixtures and fittings at cost	38 000		
Motor vehicles at cost	21 000		
Provision for depreciation of fixtures and fittings			14 000
Provision for depreciation of motor vehicles			15 750
Debtors	38 500		
Creditors			19 240
Stock at 1 June 2007	15 200		
Cash at bank	1 420		
Capital accounts 1 June 2007			
East			60 000
West			30 000
Current accounts 1 June 2007			
East			10 600
West			6 900
Drawings East	9 050		
West	7 050		
	<u>569 280</u>		<u>569 280</u>

Additional information:

- 1 Stock at 31 May 2008 was valued at \$16 100.
- 2 At 31 May 2008:
 - (i) Wages and salaries, \$7835, were accrued.
 - (ii) Motor expenses, \$800, were prepaid.
- 3 Repairs, \$2000, which have not added value to property, have been recorded in the land and buildings account in error.
- 4 Fixtures and fittings are to be depreciated using the straight line method over five years. The residual value is estimated at \$3000.
- 5 Motor vehicles are depreciated using the diminishing (reducing) balance method at 50% per annum.

- 6 A provision for doubtful debts of 2 % of debtors at 31 May 2008 is to be created.
- 7 Interest is allowed on capital at 5 % per annum. West is entitled to a partnership salary of \$3500.

REQUIRED

- (a) Prepare the trading, profit and loss and appropriation accounts of East and West for the year ended 31 May 2008. [21]
- (b) Prepare the balance sheet of East and West at 31 May 2008. The partners' current accounts may be shown in account format or within the balance sheet. [19]

[Total: 40]

Oct/Nov 2007

- 6 Caster and Wheel are in partnership sharing profits in the ratio 3 : 2 respectively. The following trial balance was extracted from the books on 30 September 2007:

Caster and Wheel		\$	\$
Trial Balance at 30 September 2007			
		\$	\$
Purchases		119 600	
Sales			227 300
Wages and salaries		34 380	
Rent, rates and insurance		17 660	
General expenses		21 350	
Land and buildings at cost		52 100	
Fixtures and fittings at cost		21 500	
Provision for depreciation of fixtures and fittings			12 900
Debtors		18 500	
Creditors			9 140
Stock at 1 October 2006		10 300	
Cash at bank		2 480	
Capital accounts 1 October 2006			
Caster			33 000
Wheel			22 000
Current accounts 1 October 2006			
Caster			14 300
Wheel			12 600
Drawings			
Caster	17 130		
Wheel	16 240		
	<u>331 240</u>		<u>331 240</u>

Additional information:

- 1 Stock at 30 September 2007 was valued at \$9900.
- 2 At 30 September 2007:
 - (i) Wages and salaries, \$3530, were accrued.
 - (ii) Insurance, \$1120, was prepaid.
- 3 An invoice for \$1620 for goods bought on credit during September 2007 was received on 30 September 2007. This has not been recorded.
- 4 Fixtures and fittings are to be depreciated at 20% per annum on cost.
- 5 A provision for doubtful debts of 3% of debtors at 30 September 2007 is to be created.

REQUIRED

- (a) Prepare the trading, profit and loss and appropriation accounts of Caster and Wheel for the year ended 30 September 2007. [18]
- (b) Prepare the balance sheet of Caster and Wheel at 30 September 2007. [17]

[Total: 35]

May/June 2006

- 5 Wall and Fence are in partnership sharing profits and losses in the ratio 2 : 1 respectively. The following trial balance was extracted from the books of the partnership on 30 April 2006:

	Dr \$	Cr \$
Sales		264 300
Purchases	121 200	
Rent, rates and insurance	14 600	
Wages and salaries	43 700	
Motor expenses	22 900	
Land and buildings at cost	110 600	
Motor vehicles at cost	48 000	
Provision for depreciation - motor vehicles		19 200
Stock at 1 May 2005	9 600	
Debtors	29 000	
Creditors		8 700
Bank	9 400	
Capital accounts 1 May 2005		
- Wall		80 000
- Fence		40 000
Current accounts 1 May 2005		
- Wall		12 600
- Fence		13 300
Drawings		
- Wall	12 800	
- Fence	16 300	
	<u>438 100</u>	<u>438 100</u>

Additional information:

- 1 Stock at 30 April 2006 was valued at \$10 100.
- 2 Wages and salaries of \$3700 were accrued at 30 April 2006.
- 3 A provision for doubtful debts of 2 % of debtors at 30 April 2006 is to be created.
- 4 Motor vehicles are to be depreciated by 40 % per annum using the diminishing (reducing) balance method. Depreciation is not charged on land and buildings.
- 5 Fence is entitled to a partnership salary of \$10 600 per annum.
- 6 Interest on capital is allowed at 5 % per annum.

REQUIRED

- (a) Prepare the partnership Trading and Profit and Loss Accounts and Appropriation Account for the year ended 30 April 2006. [18]
- (b) Prepare the partnership Balance Sheet as at 30 April 2006. [17]

- (b) Prepare the Profit and Loss Account for the partnership for the year ended 30 April 2005.

Profit and Loss Account for the year ended 30 April 2005

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- (c) Prepare the Appropriation Account for the partnership for the year ended 30 April 2005

Appropriation Account for the year ended 30 April 2005

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(d) Draw up the capital account of each partner at 30 April 2005.

Asif Capital account

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Iqbal Capital account

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..... [8]

[Total: 20]

May/June 2004

- 5 Sue Lim and Vanessa Jackson are in partnership providing secretarial services. They share profits and losses in the ratio 3:2 respectively.

The following trial balance was extracted from the books of the partnership on 31 December 2003.

Sue Lim and Vanessa Jackson
Trial Balance as at 31 December 2003

	Dr	Cr
	\$	\$
Fees (income)		125 300
Rent	26 000	
Staff salaries	18 600	
Sundry expenses	34 400	
Bad debts	1 600	
Provision for doubtful debts 1 January 2003		330
Bank	90	
Office equipment	28 000	
Provision for depreciation for office equipment		14 000
Debtors	18 300	
Creditors		900
Capital accounts 1 January 2003		
Sue Lim		20 000
Vanessa Jackson		10 000
Current accounts 1 January 2003		
Sue Lim		5 600
Vanessa Jackson		3 720
Drawings		
Sue Lim	28 720	
Vanessa Jackson	24 140	
	179 850	179 850

Additional information

- 1 Rent paid in advance on 31 December 2003 amounted to \$2000.
- 2 Staff salaries totalling \$790 were owing at 31 December 2003.
- 3 Office equipment is depreciated at 50% per annum using the diminishing (reducing) balance method.
- 4 The provision for doubtful debts is to be adjusted to 5% of debtors.
- 5 Vanessa Jackson is entitled to a partnership salary of \$6000 for the year.

REQUIRED

- (a) Prepare the Profit and Loss Account and Appropriation Account of Sue Lim and Vanessa Jackson for the year ended 31 December 2003. [17]
- (b) Prepare the partnership Balance Sheet as at 31 December 2003. [18]

[Total: 35]

Company Accounts

Are partnerships and sole traders the only type of business organizations we see in our daily life? Some of you might think so. But we are missing another type of business organization that is in place amidst us. Such a business organization is called **Limited Companies** or **Limited Liability Companies**.

Limited Companies: Purpose and Types

These organizations are called so because the liability of the owners of such organizations is limited to the extent of their investment. Unlike a sole trader or partnership, the owners and the business are a separate identity in the eyes of the law and thus, the owners cannot be sued for the actions of the company. Such organizations are owned by shareholders who buy shares of the company as proof of ownership. There are two types of such companies:

1. **Private Limited Company:** This type of limited company issues its shares privately to friends, family members and employees only.
2. **Public Limited Company:** This type of limited company is permitted to issue shares publicly to anyone who can buy them and thus, does not have a maximum number of shareholders.

One very important thing to understand when studying the working of limited companies is that in such business organizations, the owners do not run the day to day operations of the business. They appoint **Directors** which manage the company for them and make all decisions. This is also sometimes referred to as the Diversity of Ownership from Control.

Dividends: Purpose & Types

These are payments made to owners of a company as a reward for investing in the company. These are made from the profits of the company after all expenses have been deducted from revenue. It has the following types:

1. **Interim Dividend:** These are issued during the financial period.
2. **Final Dividend:** These are issued at the end of the financial period.
3. **Proposed Dividend:** These are announced by directors but not yet issued. They are considered as a liability.

Shares: Purpose & Types

As stated before, shares are ownership certificates awarded to shareholders as proof that they own a part of the company. However, there are two types of shares that a shareholder might buy:

1. Preference Shares: Such shares are entitled to a fixed rate of dividend which is always given to its shareholders before ordinary shareholders receive anything. Although this gives them an advantage of having the first hand over profits and their dividends not varying from year to year, it does take away their right to vote at **AGM – Annual General Meeting** where shareholders meet every year in order to choose the directors of the company.

These shares have two further categories:

- **Cumulative Preference Shares:** In the case where the company does not make enough profit to pay the full dividend on these shares, the amount of dividend unpaid will be carried forward to the next year and will be due on the company to be paid to its shareholder in the following year.
- **Non- Cumulative Preference Shares:** In the case where the company does not make enough profit to pay the full dividend on these shares, the amount of dividend unpaid will not be carried forward to the next year and the company will not be required to pay them in the following year.

2. Ordinary Shares: Such shares are entitled to dividends after the preference shareholders have received this. The amount is not fixed and varies from year to year depending on the director's goals and the company's performance.

Types of Capital:

When considering the financial statements of a limited company, there are various types of capital shown in it from the three above sources:

- 1. Authorized Share Capital:** This is the total of the share capital that the company is allowed to issue to its shareholders. This type is no longer require to be shown in the Statement of Financial Position.
- 2. Issued Share Capital:** This is the total of the share capital that the company has already issued to its shareholders.
- 3. Called up Capital:** This is part of issued capital which the company has asked shareholders to deposit to the company. When issuing shares, full payment is not always asked for and usually come in installments.
- 4. Paid up Capital:** This is part of Called up Capital that the shareholders have paid.

Sources of Capital: Types & Differences

Unlike other business organizations, Limited Companies rely on three key sources which serve as and form capital of the business. These sources are:

1. **Ordinary Shares**
2. **Preference Shares**
3. **Debentures**

Differences		
<u>Ordinary Shares</u>	<u>Preference Shares</u>	<u>Debentures</u>
Owned by shareholders.	Owned by shareholders.	Long-term Loan to a company. Also known as "Loan stock".
Are paid dividends.	Are paid dividends.	Are paid Interest.
Owners of the company.	Creditor of the company.	Creditor of the company.
Can vote at AGM.	Cannot vote at AGM.	Cannot vote at AGM.
No fixed rate of dividend.	Fixed rate of dividend.	Fixed rate of interest.
Cannot accumulate dividends.	Can/Cannot accumulate dividends depending on type.	Cannot accumulate interest; has to be paid.
Last one to get paid back on liquidation.	Get paid back after debentures on liquidation.	First one to get paid upon liquidation.
Paid dividends after preference shareholders.	Paid dividend from profits after deducting interest.	First to receive interest as it is treated as an expense.

Reserves: Purpose & Types

This refers to profits that are not apportioned as dividends to shareholders and instead, are kept in the business. This is done in order to fulfill any of the following objectives:

- To increase working capital.
- To pay future dividends.
- To fund business expansion and growth of operations.
- To keep for times when the business might suffer a loss.

There are two types of Reserves:

1. **Revenue Reserves:** These occur as a result of undistributed profit being kept in the business. These represent increases in company's wealth and are kept to distribute as profits to shareholders.
2. **Capital Shares:** These occur not as a result of undistributed profit, but occur on the revaluation of capital assets and sum received from the issuance of share (also known as **Share Premium**). These are also known as Un-Distributable Reserves.

Statement of Changes in Equity:

Just like there is an appropriation account when making financial statements of Partnership businesses, we need to create a Statement Of Changes In Equity when making Financial Statements of Limited Companies. Its purpose is to show the appropriation of Company Profits between shareholders and reserves of the company. It is as follows:

SHAH LIMITED				
Statement of Changes in Equity				
For the year ended 31 Dec ____.				
	Share Capital	General Reserve	Retained Profit	Total
	\$	\$	\$	\$
Balance at start	XXX	XXX	XXX	XXX
Profit for the year	--	--	XX	XX
Transfer to General Reserve		XXX	(XXX)	--
Dividend Paid (Interim)	--	--	(X)	(X)
Dividend Paid (Final)	--	--	(XX)	(XX)
Balance at end	XXX	XXX	XXX	XXX

Changes to Statement of Financial Position:

The only change one has to make when putting up the Statement of Financial Position of a Limited Company are in the Finance By section which are as follows:

Capital, Reserves & Non Current Liability	<u>\$</u>	\$	\$
Issued Share Capital:			
Ordinary Share Capital		XXX	
Preference Share Capital		<u>XXX</u>	XXX
Retained Profit at the end of year			XXX
General Reserve			XXX
Debentures			<u>XXX</u>
			<u>XXX</u>

May/June 2015 – 21

- 3 Warle Limited provided the following information after the calculation of the profit for the year ended 30 April 2015.

	\$
Profit for the year ended 30 April 2015	86 000
Authorised share capital:	
\$1 Ordinary shares	100 000
Called up share capital:	
\$1 Ordinary shares	100 000
Interim dividend paid	3 000
General reserve	20 000
Retained profits 1 May 2014	14 000

Additional information

The directors have:

- 1 transferred \$50 000 to the general reserve
- 2 paid a final ordinary shares dividend of \$0.15 per share.

(c) State **two** differences between preference shares and debentures.

- 1
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- 2
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- [4]

(d) State **two** possible reasons why the directors of Warle Limited have transferred \$50 000 to the general reserve.

- 1
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- 2
- [2]

(e) State **two** reasons why large companies prepare their published financial statements in accordance with International Accounting Standards (IAS).

- 1
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- 2
- [2]

[Total: 19]

3 Cam Limited provided the following information.

	\$
At 1 October 2015	
Issued share capital \$1 Ordinary shares	70 000
General reserve	40 000
Debentures (Repayable 2025)	50 000
Retained profits	92 000
For the year ended 30 September 2016	
Profit for the year	75 000
Interim dividend paid on ordinary shares	7 000

Additional information

- On 1 November 2015 an additional 30 000 ordinary shares of \$1 each were issued.
- On 30 September 2016 the directors:
transferred \$80 000 to the general reserve,
paid a final ordinary dividend of \$0.20 per share on all issued shares.

REQUIRED

(a) Complete the statement of changes in equity for the year ended 30 September 2016.

Cam Limited
Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital \$	General Reserve \$	Retained Profits \$	Total \$
Balance at 1 October 2015	70 000	40 000	92 000	202 000
Share issue				
Profit for the year				
Transfer to general reserve				
Dividend paid (interim)				
Dividend paid (final)				
Balance at 30 September 2016				

[8]

May/June 2010

- 5 SGC Ltd is a trading company. The following balances were extracted from the books on 30 April 2010.

	\$
Inventory (stock) at 1 May 2009	48 500
Raw materials (Purchases)	178 000
Raw materials (Purchase) returns	9 000
Carriage inwards	16 500
Revenue (Sales)	370 000
Office expenses	19 750
Office salaries	59 300
Property (Land and buildings) at cost	250 000
Computer equipment (cost)	80 000
Office fixtures and fittings (cost)	40 000
Provision for depreciation of computer equipment	28 000
Provision for depreciation of office fixtures and fittings	15 000
Other operating (Sundry) expenses	9 800
Advertising and marketing costs	24 000
Finance costs (Debenture interest) paid	3 000
Authorised and issued share capital	
100 000 \$0.50 ordinary shares	50 000
200 000 \$1.00 8% preference shares	200 000
Non-current liabilities (12% debentures repayable 31 December 2020)	50 000
General reserve	40 000
Profit and loss account 1 May 2009	1 300
Trade receivables (debtors)	42 000
Provision for doubtful debts	1 500
Trade payables (creditors)	35 500
Cash (Bank)	3 450 Dr

Additional information:

- 1 Inventory (stock) at 30 April 2010 was \$57 000.
- 2 At 30 April 2010
 - Office expenses, \$450, were prepaid.
 - Office salaries, \$1800, were accrued.
- 3 Depreciation is to be charged on:
 - computer equipment at 25% per annum using the diminishing (reducing) balance method;
 - office fixtures and fittings using the straight-line method at 20% on cost.
- 4 The provision for doubtful debts is to be maintained at 5% of trade receivables (debtors).
- 5 On 30 April 2010 the directors of SGC Ltd
 - Transferred \$20 000 to the general reserve.
 - Paid the full dividend on the preference shares.
 - Paid an ordinary share dividend of \$0.10 per share.

REQUIRED

- (a) Prepare the income statement (trading and profit and loss account and the appropriation account) of SGC Ltd for the year ended 30 April 2010. [22]
- (b) Prepare the balance sheet of SGC Ltd at 30 April 2010. [18]

[Total: 40]

Single Entry & Incomplete Records

In normal questions, in order to calculate profit of a business, we would require the drafting of the Income Statement, but in Incomplete Records, because some information is usually missing, we apply the straight formula:

$$\text{Profit/Loss} = \text{Closing Capital} - \text{Opening Capital} - \text{Additional Investment} + \text{Drawings}$$

Opening Capital equals to all assets less liabilities, present at the start of the accounting year while **Closing Capital** equals to all assets less liabilities, present at the end of the accounting period.

Finding Sales and Purchases:

At times, when the question does not provide us with the total sales or purchases of a business, we might be confused as how to calculate them. Always remember, that **Total Sales** equals **Credit Sales** as well as **Cash Sales**.

Credit Sales are those sales that are made to customers on credit. **Cash Sales** are those sales that are made to customers and paid for at the same time.

Although Credit Sales can easily be found by drawing up the SLCA, we can use a simple formula to save time:

$$\text{Credit Sales} = \text{Closing T. Receivables} - \text{Opening T. Receivables} + \text{Payment from Debtors} \\ + \text{Bad Debts} + \text{Return Inwards} + \text{Discount Allowed}$$

Same as in the case of Sales, **Total Purchases** comprises of Credit as well as Cash Purchases. The same formula can be changed above to find purchases:

$$\text{Credit Purchases} = \text{Closing T. Payables} - \text{Opening T. Payables} + \text{Payment to Creditors} + \text{Bad Debts} + \text{Return Outwards} + \text{Discount Received}$$

Finding Income and Expenses:

Sometimes, it is possible to get paid in advance for an income which we were to receive next year. It is also possible that we might pay our cook two months in advance. As per the matching concept, neither the income we received in advance nor the two months advance salary are to be included in the financial year. Therefore, when dealing with Incomplete Records, it is necessary to find the correct amount of an expense and revenue and not what was incurred.

Finding Income is easier by simply drawing up the T-account, instead of deriving a formula:

Income Account					
Jan 1	Accrued b/d	XXX	Jan 1	Prepaid b/d	XXX
Dec 31	Income Statement	XX		Bank	XX
Dec 31	Prepaid c/d	X	Dec 31	Accrued c/d	X
		XXX			XXX

Just like in the case of income, we can draw up an expense account:

Expense Account					
Jan 1	Prepaid b/d	XXX	Jan 1	Accrued b/d	XXX
	Bank	XX	Dec 31	Income Statement	XX
Dec 31	Accrued c/d	X	Dec 31	Prepaid c/d	X
		XXX			XXX

May/June 2014 – 22

- 3 Basir is the owner of the Korner Café. He does not maintain full double entry books, but has provided the following information for the year ended 30 September 2014.

	Bank account	
	\$	\$
Balance b/d	4 000	Rent of café 5 500
Takings banked	43 200	Payments to credit suppliers 17 800
		Operating expenses 13 600
		Fixtures and fittings 450
		Bank loan interest 250
		Balance c/d 9 600
	47 200	47 200
Balance b/d	9 600	

Additional information

- 1 All takings were in cash and were banked on the same day with the exception of:

	\$
Staff wages	14 900
Drawings	8 000
Cash purchases	950

- 2 Balances at: 1 October 2013 30 September 2014

	\$	\$
Trade payables	1 150	1 430
Inventory	350	720
Rent of café prepaid	500	–
Rent of café accrued	–	1 000
7% Bank loan	5 000	5 000
Bank loan interest accrued	–	100
Fixtures and fittings (at valuation)	2 250	2 200

REQUIRED

- (a) State **two** advantages of maintaining full double entry records.

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..... [2]

(b) Calculate the total purchases for the year ended 30 September 2014.

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..... [5]

(c) Calculate the revenue for the year ended 30 September 2014.

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..... [3]

October/November 2012 – 22

- 3 Leong commenced business on 1 October 2011 with a capital of \$6000. Leong has not maintained a full set of accounting records. The following information is available on 30 September 2012:

	\$
Trade receivables	6 500
Trade payables	8 100
Inventory	11 600
Prepaid expenses	350
Bank deposit	2 600
Motor van	7 700
Accrued expenses	900
7% Bank loan repayable 1 May 2018	9 000
Cash	50

Additional information at 30 September 2012:

- 1 Trade receivables include a sum of \$500 which should be written off as a bad debt.
- 2 Interest on the bank deposit account, \$100, had not been credited to the account by the bank.

REQUIRED

- (a) State **two** benefits to Leong of maintaining a full set of double entry accounts.

- 1
- 2 [2]

- (c) During the year, Leong took \$8800 drawings from the business. Calculate the profit for the year ended 30 September 2012.

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..... [4]

May/June 2011

- 3 Tanvir does not keep a full set of double entry accounts.

The following information is available for the year ended 30 April 2011.

Summarised Bank account

	\$		\$
Receipts from customers	60 500	Balance b/d	100
Sale of non-current asset	750	Payments to suppliers	34 900
		Wages	15 000
		Lighting and heating	2 500
		Drawings	5 000
Balance c/d	<u>10 250</u>	Purchase of non-current asset	<u>6 000</u>
	<u>71 500</u>	General expenses	<u>71 500</u>

Additional information:

	1 May 2010	30 April 2011
	\$	\$
Inventory	5 250	11 000
Trade receivables	9 750	8 400
Trade payables	10 500	9 300
Non-current assets (book value)	40 000	42 000
Lighting and heating	600 Prepaid	250 Accrued
6% Bank loan repayable 30 April 2016	20 000	20 000
Capital	25 000	?

The non-current asset sold during the year had a book value of \$1 000.

REQUIRED

(a) Calculate for the year ended 30 April 2011:

(i) Sales

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..... [3]

(ii) Purchases

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..... [3]

(ii) Calculate the consultancy fees for the year ended 31 March 2010.

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..... [3]

(b) Prepare the income statement (profit and loss account) for the year ended 31 March 2010.

Indira
Income Statement (Profit and Loss Account) for the year ended 31 March 2010

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..... [7]

(c) Indira does not keep a full set of double entry accounts. State **two** advantages to Indira of maintaining a full set of double entry accounts.

(i)
..... [2]

(ii)
..... [2]

Oct/Nov 2008

- 2 Tina West, a trader, uses books of prime entry. She does not operate a full double entry system. The following information is extracted from her business records for the year ended 31 October 2008:

	\$
Debtors' control account balance 1 November 2007	33 200
Debtors' control account balance 31 October 2008	48 600
Receipts from debtors	135 000
Receipts from cash sales	56 000
Bad debt written off	5 500
Discount allowed	7 200

REQUIRED

- (a) Calculate the total sales for the year ended 31 October 2008. Show all workings.

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[7]

Tina West has a gross profit to sales ratio of 40 % and net profit to sales ratio of 5 %.

- (b) Calculate Tina West's gross profit and net profit.

Gross profit

.....[2]

Net profit

.....[2]

(d) (i) Calculate the working capital of Johann Schmidt at 1 May 2005 and 30 April 2006.

Working capital at 1 May 2005

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[1]

Working capital at 30 April 2006

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[1]

ii) Comment on the change or otherwise in each of the following items between 1 May 2005 and 30 April 2006.

Working capital

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Long-term funding

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Fixed assets

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[9]

[Total: 25]

Oct/Nov 2005

2 Kirsty Stoner lost many financial records in a robbery but is able to provide the following information.

	1 October 2004
	\$
Fixed assets after depreciation	48 600
Current assets	20 300
Current liabilities	12 900

	30 September 2005
	\$
Fixed assets before depreciation for the year	53 200
Current assets	19 600
Current liabilities	21 300

Additional information

- (i) Kirsty took \$13 700 drawings during the year ended 30 September 2005.
- (ii) She depreciates fixed assets by 25% on the end of year balance.
- (iii) The provision for doubtful debts is to be increased by \$200 at 30 September 2005.

REQUIRED

(a) Prepare the Statement of Affairs (this may be in the form of a Balance Sheet) for Kirsty Stoner at 1 October 2004.

Statement of Affairs as at 1 October 2004

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- (b) Prepare the Statement of Affairs (this may be in the form of a Balance Sheet) for Kirsty Stoner, showing the net profit, or net loss, at 30 September 2005.

Statement of Affairs as at 30 September 2005

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- [7]
- (c) Kirsty has decided to take out a long-term business loan for \$5000. The money is to be added to the bank account (dr balance). Identify the immediate effects that this would have on the following items by ticking the appropriate boxes.

The first item has been completed as an example.

	Increase	Decrease	No change
(i) Long-term liabilities	✓		
(ii) Current assets			
(iii) Profit/loss			
(iv) Working capital			
(v) Turnover			

[4]

[Total: 13]

Oct/Nov 2004

Income & Expenditure Account

Non-Profit Making Organizations are such businesses that's main aim is to provide recreational facilities to its members, charities and other welfare activities rather than to make a profit. Accounting for such organizations is also known as **Club Accounting** because almost all clubs that are not for profit organizations tend to apply such methods.

Receipts & Payments Account:

In Club Accounting, this account specifically exists for the sole purpose of providing a summary of the cash/bank inflows and outflows for the period. It includes all capital and receipts income and expenditures. Also provides closing cash/bank balances.

Income & Expenditure Account:

In Club Accounting, this account replaces the Income Statement. Just like what it replaces, the main purpose of the Income & Expenditure Account is to match the payments of the period with the receipts earned from the same period. It only records revenue receipts and expenditures.

DIFFERENCE	
Receipts & Payments Account	Income & Expenditure Account
<ul style="list-style-type: none"> • It is a Cash/Bank summary. 	<ul style="list-style-type: none"> • It is a Surplus/Deficit summary.
<ul style="list-style-type: none"> • It includes all types of receipts and expenditures. 	<ul style="list-style-type: none"> • It only include Revenue income and expenditure.
<ul style="list-style-type: none"> • It reveals cash/bank balance 	<ul style="list-style-type: none"> • It reveals surplus/deficit

- **Surplus** is the term used in place of Profit when receipts exceeds payments.
- **Deficit** is the term used in place of Loss when payments exceed receipts.

Subscriptions: Purpose & Treatment

One may be thinking as to how will a non-profit organization expect to pay its expenses and charge its members if it is to not make profit. This is done through **Subscriptions** which is the main source of income for a non-trading organization. It is a fixed payment made by the members each year to the organization. Just like any Income account, a Subscription account also has Arrears and Prepayments:

- **Subscription in Arrears:** This refers to subscription that was due to a member but has not yet been received. It is an asset for the organization.
- **Subscription in Advance:** This refers to subscription that was not due but a member paid the organization in advance. It is a liability for the business

The format for the Subscription account is the same as an Income account. But instead of transferring the amount due for the year in the Income Statement, we transfer it to Income & Expenditure account.

Other sources of Income for the organization include:

- **Entrance Fees:** This is a one-time payment by members when they are admitted to the club. It is also credited to Income & Expenditure account.
- **Bar Profit:** Some clubs tend to operate bars to provide drinks for their members. The profit earned from such sales is also credit as Income to the Income & Expenditure account.
- **Donation:** These are treated as Income by the organization and credited to the Income & Expenditure account if not stated as capital receipts.
- **Legacy:** It is treated as a Capital Receipt and is shown in the Statement of Financial Position.

Income & Expenditure Account:

May/June 2015 – 22

3 The following information is available for the Axton Chess Club.

Receipts and Payments Account for the year ended 31 March 2015

	\$		\$
Balance b/d 1 April 2014	230	Rent of clubroom	2000
Subscriptions	3260	Treasurer's salary	250
Competition entry fees received	1580	Purchase of fixtures and equipment	1100
Donations	350	Competition prizes	750
Balance c/d 31 March 2015	<u>1930</u>	Travelling expenses	1900
	<u>7350</u>	Other operating expenses	<u>1350</u>
			7350
		Balance b/d 1 April 2015	1930

Additional information

1 Balances at:

	1 April 2014	31 March 2015
	\$	\$
Subscriptions in advance	–	450
Subscriptions in arrears	530	750
Fixtures and equipment (valuation)	4000	4400
Rent of clubroom prepaid	–	50
Rent of clubroom accrued	70	–
Other operating expenses accrued	190	20
Accumulated fund	4500	?

- 2 \$280 of the subscriptions in arrears on 1 April 2014 were subsequently received.
- 3 Subscriptions not paid after 12 months were considered irrecoverable.

REQUIRED

- (a) Prepare the subscriptions account for the year ended 31 March 2015, showing the transfer to the income and expenditure account. Balance the account and bring down the balances on 1 April 2015.

Subscriptions account

Date	Details	\$	Date	Details	\$

[5]

- (b) Prepare the income and expenditure account for the year ended 31 March 2015.
- (c) Prepare the statement of financial position at 31 March 2015.

Oct/Nov 2013 – 22

3 The receipts and payments account of Brown Lane Rovers Football Club for the year ended 30 June 2013 was as follows.

	\$		\$
Balance b/d	4 543	Match expenses	3 680
Subscriptions	7 200	New kits and equipment	4 656
Sale of old kits and equipment	1 008	General expenses	6 913
Match day revenue	1 233	Purchase of refreshments	2 078
Donation income	940	Groundsman's wages	1 940
Sale of refreshments	6 834	Balance c/d	2 491
	21 758		21 758

Additional information

1	1 July 2012	30 June 2013
	\$	\$
Subscriptions paid in advance	–	540
Subscriptions in arrears	240	–
Inventory of refreshments	250	300
Creditors (refreshment suppliers)	1 034	1 140
Kits and equipment at valuation	5 000	8 104

2 The kits and equipment sold during the year were valued at \$1230 on 1 July 2012.

REQUIRED

(a) Calculate the depreciation on the kits and equipment for the year ended 30 June 2013.

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..... [5]

(b) Calculate the profit or loss on the sale of the old kits and equipment.

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..... [3]

- (e) Prepare the income and expenditure account for the year ended 30 June 2013.

Brown Lane Rovers Football Club
Income and Expenditure account for the year ended 30 June 2013

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- (f) State **one** difference between an income and expenditure account and a receipts and payments account.

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[Total: 23]

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Oct/Nov 2008

3 The treasurer of Avalon Social Club did not keep proper accounting records. The following information was available at 31 October 2008:

1 Subscriptions paid in advance by members at 1 November 2007 amounted to \$210. The balance of subscriptions in arrears was \$130.

2 Receipts during the year ended 31 October 2008:

	\$
Subscriptions - for the year ended 31 October 2007	130 (in arrears)
- for the year ended 31 October 2008	1490
- for the year ended 31 October 2009	90 (in advance)
Sale of refreshments	4970

3 Payments during the year ended 31 October 2008:

	\$
Purchase of refreshments	3630
Rent and rates	1400
Insurance	300
Sundry expenses	1300

Additional information:

	1 November 2007	31 October 2008
	\$	\$
Stock of refreshments	340	290
Balance at bank	740 Dr	790 Dr

All receipts and payments were made through the bank account.

REQUIRED

(a) Calculate the accumulated fund at 1 November 2007.

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(b) Prepare the subscriptions account for the year ended 31 October 2008.

Avalon Social Club
Subscriptions account

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[5]

(c) Calculate the gross profit made on the sale of refreshments.

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(d) Prepare the income and expenditure account for the year ended 31 October 2008.

Avalon Social Club
Income and Expenditure Account for the year ended 31 October 2008

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[4]

(e) Explain how the matching/accruals concept should be used in calculating subscriptions for the year.

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[Total: 17]

(b) Calculate the profit made on the sale of refreshments.

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[2]

(c) Prepare the Receipts and Payments Account for the year ended 30 April 2006.

Receipts and Payments Account for the year ended 30 April 2006

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[7]

(d) Explain why the figure for subscriptions in the Receipts and Payments Account might be different from the subscriptions figure in the Income and Expenditure Account.

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[4]

[Total: 18]

(b) Calculate the profit made on the sale of refreshments.

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(c) Calculate the subscriptions for the year ended 31 July 2004.

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(d) Identify **two** differences between a Receipts and Payments Account and an Income and Expenditure Account.

(i) Difference 1

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(ii) Difference 2

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..... [6]

[Total: 19]